



Audit Report



OIG-04-039 (Interim Report)

GENERAL MANAGEMENT: Management of the Treasury Building and Annex Repair and Restoration Program Needs to Be Strengthened

August 9, 2004

Office of
Inspector General

Department of the Treasury

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Abbreviations

| | |
|---------|--|
| A&E | Architect and Engineering |
| ASM/CFO | Assistant Secretary for Management and Chief Financial Officer |
| DO | Departmental Offices |
| FY | Fiscal Year |

Contents

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| GAO | Government Accountability Office |
| GSA | General Services Administration |
| H.R. | House Report |
| OFM | Office of Financial Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PDS | Prospectus Development Study |
| P.L. | Public Law |
| TBARR | Treasury Building and Annex Repair and Restoration |
| Treasury | Department of the Treasury |

*The Department of the Treasury
Office of Inspector General*

August 9, 2004

Jesus H. Delgado-Jenkins
Acting Assistant Secretary for Management

The purpose of this interim report is to convey our observations from our ongoing audit of the Treasury Building and Annex Repair and Restoration (TBARR) Project. In brief, we found that (1) the TBARR Program was not adequately planned at its inception; (2) the original scope of the Main Treasury building renovation was amended numerous times resulting in delays and increased costs; (3) ineffective management of employee moves to and from "swing space" during construction resulted in further delays and unnecessary costs; and (4) the TBARR Project Office accounting records, reconciliations, and reports are deficient. We note, however, that since our audit began in February 2004, there has been increased involvement by the Department of the Treasury's (Treasury) senior leadership to address some of the past problems that caused delays and unnecessary costs. We are making 4 recommendations in this report to further improve the management and accounting of the TBARR Program going forward, and to prevent similar deficiencies in the future.

In the Office of Management's July 22, 2004, written response to the OIG's draft interim report, management agreed with the findings and recommendations in our report, and provided their corrective actions taken or planned to implement the recommendations. We believe the Office of Management's planned actions are responsive to the intent of the recommendations.

It should also be noted that while the Office of Management agreed with the findings and recommendations contained in the report, it provided us additional comments, which it believed, addressed some of the issues we identified in our report. The complete text

of the Office of Management's response including exhibits is provided as Appendix 3.

At this time, we still plan to issue our final audit report within the 8-month timeframe mandated by House Report (H.R.) 108-401. In our final report, we will address: (1) compliance with applicable procurement laws and regulations, and the Architectural Barriers Act of 1968, as amended; (2) the scope, requirements, and cost reasonableness of the project, as well as the process for managing change orders to the original scope and design; and (3) the effectiveness, efficiency, and economy of contractor operations. However, it is important to note that the conditions discussed in this report, combined with the lack of complete and reliable TBARR Program records, have caused delays in our audit. Details on our objectives, scope and methodology are provided in Appendix 1.

Pursuant to H.R. 108-401, we will be providing copies of this interim report to the Senate and House Committees on Appropriations.

TBARR Program Purpose and Funding

After a June 1996 roof fire resulted in major damage to the Main Treasury building, Treasury decided to modernize the building. The TBARR Program was established in August 1998 for the stated purpose to (1) repair and restore the Main Treasury building to correct the damage caused by the roof fire, (2) restore the historic fabric of the building, and (3) modernize the building and its systems to comply with current codes and standards. At the same time, the TBARR Program Office was established within the Office of Management to procure related services, oversee the design and construction activities, and coordinate employee moves during the construction.

Starting with emergency funding received in Fiscal Year 1996 for the fire damage, Treasury has received funding each year since, in accordance with no-year and multi-year spending plans. Through Fiscal Year 2004, Congress appropriated a total of \$225 million for the TBARR Program. The Fiscal Year 2004 appropriation prohibits Treasury from obligating \$7 million of the \$25 million until either (1) completion of our audit or (2) approval in writing by the House and Senate Committees on Appropriations. The details of TBARR

annual appropriations and related rescissions are provided in Appendix 2. From Fiscal Years 1996 through 2003, Treasury expended \$159.3 million for the TBARR Program. Expenditures during Fiscal Year 2004 totaled \$3.1 million as of May 18, 2004. We were also provided with an FY 2004 TBARR Commitment/Obligation Report that reflects that \$22.5 million has been recorded by the TBARR Project Office.

To date, no TBARR funds have been budgeted for the complete renovation the Treasury Annex building. We were told that TBARR funds were used for moving certain offices from the Main Treasury building to the Annex. But, we found no evidence that renovation needed for the Annex have taken place to date.

An October 2001 contractor report estimated that \$13.2 million would be needed for this purpose. Adjusted for inflation and including associated relocation and other costs, we were told that renovation of the Annex would require between \$20 million to \$25 million. According to the TBARR Director, Treasury plans to ask for funds to renovate the Annex as part of its Fiscal Year 2006 budget request.

TBARR funds will be used for upgrades to the Main Treasury Building's information technology infrastructure. These upgrades, estimated to cost \$16 million, are managed through Treasury's Office of the Chief Information Officer, not the TBARR Project Office.

TBARR Program Chronology and Status

Between Fiscal Years 1996 and 1998, little work was accomplished because Treasury did not have experienced staff to manage and award contracts for the project. Early in 1998, Congress began to criticize Treasury for slow project progress. In an attempt to move the project along, Treasury hired two experienced General Service Administration (GSA) employees to serve as the TBARR Director and the Director for Project Management, respectively. Five months later, in December 1998, contracts were awarded for restoring, cleaning, and repairing the exterior façade, including replacement of all windows. The exterior

and window replacement work was selected because it would show visible progress, could be readily separated from the rest of the program, represented a significant cost, and could be contracted for in a short period of time.

Also in December 1998, Treasury awarded the Architect and Engineering (A&E) contract for studies and designs to renovate the interior of the Main Treasury building. In January 1999, Treasury awarded the Construction Management contract for the interior renovation. Construction began in August 1999 with the start of the replacement of the major utility infrastructure.

The renovation design plan provided that the interior building renovation would be carried out in 4 phases and the building was divided into quadrants for that purpose. Renovation of all floors in each quadrant was to be substantially completed before work was to start in the next quadrant. To accomplish the renovation, the occupants of each quadrant had to be temporarily relocated. Treasury leased space outside of Main Treasury, referred to as "swing space," for these temporary moves.

As TBARR proceeded, delays and increasing costs were incurred related to (1) program and design changes, (2) unforeseen conditions discovered during construction, and (3) employee moves. The projected TBARR costs increased from an estimated \$152.1 million¹ in Fiscal Year 1997 to an estimated \$241.4 million through Fiscal Year 2005, an increase of \$89.3 million, or 59 percent. Renovation of the four building quadrants was initially projected to be completed in December 2003. September 2005 is now the target date. Work is currently in Phase 3, which is expected to be completed in June 2004. Phase 4 is scheduled to start in July 2004, although some preparatory utility work has already begun. According to the TBARR Director, the scope of the TBARR Program has been scaled back and Phase 4 has been further subdivided due to the uncertainty of continued TBARR funding.

Also impacting Phase 4 was the provision in H.R. 108-401 that

¹ The original budget developed in Fiscal Year 1997 was \$152.1, based on a project plan developed at that time. After cost studies, building condition assessments and more detail project planning continued, the budget was revised to \$192.9 million in 1999. The TBARR Director considers the \$192.9 million as the baseline budget for the project.

\$7 million could not be obligated until either our audit was completed or approval was given in writing by the Appropriations Committees. In this regard, the TBARR Director asserted that unless the \$7 million is received by August 2004, Treasury will need to terminate the construction contract to avoid exceeding available funding. According to the TBARR Director, the entire Phase 4 quadrant of the building will remain uninhabitable in the interim. In this regard, the preparatory work already done for Phase 4 included removal of steam pipes and other work that effectively shut off heat to the quadrant until renovation is completed.

The TBARR Director also stated that, if work is stopped, reconstituting the A&E and Construction Management team with their extensive project knowledge may not be possible. The remaining work would also have to be awarded as a new contract. The TBARR Director estimated that would delay the quadrant renovation from the current anticipated start date in July 2004, to a start date in June 2005, and add \$30 million to project costs.

Findings and Recommendations

Finding 1 Inadequate Project Planning at Inception

In May 1998, before the TBARR Project Office was established, Treasury and GSA discussed the renovation project regarding the upgrades to the climate control, fire sprinklers, and electrical systems. Initially, Treasury requested the services of a GSA employee who was later hired as the TBARR Director to assist Treasury's Procurement Division. Treasury also requested services from GSA's design office to review the contract for the design of the exterior renovation of the building. GSA performed these services for Treasury on a reimbursable basis.

Treasury had contemplated using GSA to manage the renovation of the Main Treasury building. Instead, a decision was made to hire two of GSA's most experienced project executives to manage the project directly for Treasury by using outside contractors. When hired in mid-1998, the TBARR Director was directed to start the

project by the end of the year. We were told and based on documentation provided to us that because of the urgency and mounting Congressional criticism, in September 1998, Treasury requested proposals for repairs to the interior and for interior A&E studies.

If GSA had managed the project, among the services GSA would have provided would have been a Prospectus Development Study (PDS). According to GSA's PDS Guide published in December 1991, the PDS is a capital project scope and planning document which provides a design program, an implementation strategy, and a budget assessment. It is the primary means GSA uses to establish the scope and budget for major new construction and alteration projects it manages. Used as a planning document, a PDS clearly defines project requirements and, among other things, provides information for Congressional authorization. Once approved, the PDS provides the basis of the design Architect and Engineer's scope of work. The PDS's implementation strategy also offers initial management direction for the project's execution. It generally takes 6 months to complete the PDS, and costs approximately \$100,000, according to the TBARR Director.

It can be expected that during a multi-year project like TBARR, there will be changes in the top leadership of Treasury as the project progresses. In this regard, since the beginning of TBARR, there have been four Secretaries of the Treasury, four Deputy Secretaries, and four Assistant Secretaries for Management and Chief Financial Officer (ASM/CFO). There have also been lengthy periods when the Deputy Secretary's position was vacant, and the ASM/CFO position was held by acting officials. Hence, sound project planning up front as provided by something like a PDS is essential to ensure continuity and accountability for such a large project.

Had Treasury initially used a planning tool such as the PDS to manage the project, many issues that have "sprung up" resulting in significant increases to initial cost estimates and changes to the program schedule would likely have been identified sooner. More importantly, a planning tool like the PDS would have also provided the TBARR Project Office with a blueprint to manage the project.

Additional Management Comments. In the July 22, 2004, written response to the OIG's draft interim report, the Acting Assistant Secretary for Management stated that management prepared plans for the repair and renovation of the building. Some of the plans were necessarily brief so that repairs could begin on the fire damaged building as soon as possible, especially since approximately 20 percent of the building was rendered uninhabitable after the fire. These preliminary studies were provided to the Congressional Appropriations Committees on February 5, 1998, and were the basis of the approved TBARR appropriations. Management's position is that they developed an adequate initial program plan. Management also recognizes that the extent of the plan could have been broadened but concludes that using the GSA PDS process would not have significantly improved project insight resulting in large cost avoidances in the project to date.

OIG Response. We did review the initial planning documents that the Office of Management prepared. Our concern was not so much who prepared the planning documents, but that they were not complete or timely. For example, contracts were awarded in August 1999, while studies were still in progress. Because of the magnitude of the project, we believe that the planning should have been complete before renovations began. In addition, the fact that more studies were done and the cost estimates increased from \$152 million to \$192 million within the first 2 years of the project indicates that more thorough studies should have been completed initially.

Recommendation

1. In the event funding for additional renovations are authorized, the Assistant Secretary for Management and Chief Financial Officer should ensure that the renovation project is adequately planned in accordance with sound guidance, such as that used by GSA. Management should also ensure that the Office of Management and Budget and the Congress is fully informed of the scope and total estimated cost of the renovation, before construction begins and as unanticipated changes occur.

Management Response. Management agrees with the recommendation. For any future major or significant authorized renovation work, for example, a renovation of the Annex, management will use GSA's guidelines or an equivalent. Management is developing a funding plan for engineering studies for repairs to the Annex Building. No decision has been made yet on the FY 2006 budget request.

OIG Comment. The actions proposed by the Acting Assistant Secretary for Management satisfy the intent of our recommendation.

Finding 2 Cost Increases Due to Program and Design Changes

At the time of our audit, documentation for key decisions made throughout the life of the TBARR Program was not made available to us. Although requested, we were told that there were no written authorizations and approvals for many key decisions that extended the project completion date and added to its costs. Without this documentation, we are unable to validate that major program and design changes were adequately approved, authorized, and necessary.

As a standard for internal control in the Federal Government, certain control activities must be in place to help ensure management's directives are carried out. These activities include *Proper Execution of Transactions and Events*--transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Control activities should also include *Appropriate Documentation of Transactions*--all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.²

Because the project was not well planned and other decisions made by management were not planned, numerous program

² *Internal Control Standards for the Federal Government*, U.S. Government Accountability Office (GAO).

changes occurred which increased the costs. For example, we were told that a decision was made that the building should be reconfigured to have more open space, with modular furniture and cubicles, rather than individually closed offices as provided in the initial design. This decision was made well after the original design had been developed. However, at the time of our audit, the TBARR Director was unable to provide written authorization for this change. That change cost approximately \$4 million to \$5 million.³ Subsequent to our review, we were provided with documentation (i.e. e-mails) demonstrating the decision for the open space concept and decision. While we believe that the decision for the open space concept was approved by a high-level official, we found no evidence regarding the costs and associated impact for the decision.

Another example of a change to the original design plan was to add a deli, called the "Vault," costing approximately \$1.8 million. There was no written documentation supporting the approval by senior management for the deli and it was not in any previous plans.

It should also be noted that there were other major changes involving matters of security in response to September 11, 2001, that increased program costs. Documentation supporting the necessity for these security measures and approvals was more complete.

Additional Management Comments. The Office of Management addressed two issues in its response with regard to the open space and the deli. With respect to the open space, the Office of Management provided us with documentation that spanned 5 ½ months (from July 16, 2001, to January 4, 2002). These documents included statements such as: "Open Plan Offices.doc. > > is what we think we heard from this morning's meeting and tour with the Secretary" (e-mail dated July 16, 2001) and "I want to make sure that we solicit input from the staff and attempt to implement their suggestions so long as we do not dilute the Secretary's vision and/or run up tens of thousands of dollars in cost over-runs due to delays" (e-mail dated August 31, 2001).

³ The estimated additional cost to the TBARR Program was provided by the TBARR Director. Although asked for, we were not provided documentation supporting this amount.

With respect to the deli, management believes there is documentation to support its decision to put in the deli. Specifically, management stated that the Deputy Assistant Secretary for Administration approved the change for the deli. As documentation of this approval, the Office of Management provided in its response a routing slip with the proposed layout, and contract modification. The routing slip included the name of the Deputy Assistant Secretary for Administration with "N/A" next to the name.

OIG Comment. With regard to the open space, a fully informed decision cannot be made without all the information necessary to make it. Complete information would have included design changes as well as costs (both in terms of dollars and time). This cost information was absent from any documentation provided to us or the "decision maker." With respect to the deli, we do not believe that a routing slip with "N/A" next to the "decision maker's" name evidences approval.

Recommendation

1. The Assistant Secretary for Management and Chief Financial Officer should ensure that significant management decisions impacting scope, project schedule, and costs of the TBARR Program are approved and the approvals documented.

Management Response. The Office of Management concurred with the recommendation and will ensure that approvals of significant management decisions impacting scope, project schedule, and costs in the TBARR project will be more clearly documented.

OIG Comment. The actions proposed by the Office of Management satisfy the intent of our recommendation.

Finding 3

Cost Increases Due to Inefficient Employee Moves

Another major reason causing project delays and increased costs involved moving building occupants to and from "swing space" as renovation progressed. There were several instances of space

planning delays, as well as delays by occupants in vacating Main Treasury and re-occupying renovated spaces during Phases 1 and 2 of the project. The Assistant Secretary for Management/Chief Financial Officer (ASM/CFO) at the time approved a plan to move employees into "swing space" as the project progressed. However, the ASM/CFO was unable to gain support of the building occupants for the efficient movement of employees into the "swing space." Instances were also cited where Program Offices jockeyed for what was perceived to be more desirable locations when moved back to Main Treasury, thereby causing additional delays. The ASM/CFO and TBARR Project Office was apparently unable to effectively resolve these issues in a timely manner. Subsequently, we were told that the move delays cost approximately \$1 million per month in additional lease/rental costs. According to the TBARR Director, total costs due to these delays in moving were between \$15 million to \$20 million. It should be noted, however, that the TBARR Project Office did not maintain auditable records supporting the extent of delays and impact to project costs. Therefore, we are unable to validate these costs.

As previously discussed, since TBARR's inception, there has been turnover in the senior leadership of Treasury. Until recently, we have found little evidence of top-level commitment or involvement in the TBARR Program. This was confirmed by the TBARR Director. Also, we were told that there was no senior official functioning as the project "champion" who could bring management focus on program schedules and budgets, therefore, the TBARR Director did not receive adequate support and made most decisions himself.

Treasury recognized that there could be similar space issues and cost related impacts, as discussed above, for Phases 3 and 4. As a result, on March 24, 2004, the Deputy Secretary issued a memorandum to Treasury officials regarding the office moves associated with Phases 3 and 4 of the renovation. In the memorandum, the Deputy Secretary stressed the importance of meeting the timetable, and established a short deadline for addressing concerns with space arrangements. Furthermore, the memorandum noted that the Secretary has committed Treasury to a December 2005 deadline to complete the renovation. The Deputy Secretary's involvement seems to have improved

cooperation for the efficient movement of employees to “swing space.”

Recommendation

1. The Assistant Secretary for Management and Chief Financial Officer should ensure that employee moves to and from “swing space” are accomplished expeditiously as outlined in the Deputy Secretary’s March 2004 memorandum. In this regard, the TBARR Director should be instructed to immediately notify the ASM/CFO of any slippages.

Management Response. In accordance with the recommendation, the Office of Management stated that the TBARR Director is keeping the Assistant Secretary for Management apprised of any slippages in the TBARR schedule. The TBARR Director, Assistant Secretary for Management and the Deputy Secretary continue to work together to resolve any issues or concerns impacting the TBARR project.

OIG Comment. We believe the Office of Management’s current and planned actions are responsive to the intent of our recommendation.

Finding 4

Deficient Accounting Reconciliations

The TBARR Project Office did not timely identify, research, or correct differences and errors between its records and the official TBARR Program accounting records maintained by the Office of Financial Management (OFM). As a result, TBARR management does not have reliable information on the status of the project funds and discrepancies recorded on its records may not be detected and corrected in a timely manner.

The Standards for Internal Control in the Federal Government, *Accurate and Timely Recording of Transactions and Events*, states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of

a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The TBARR Project Office maintains unofficial accounting records, (cuff records) that it used to accumulate TBARR Program funding and obligations. Among other things, these records were used to report financial information regarding the TBARR Program to senior management and the Office of Management and Budget (OMB).

When we asked about reconciliations between the cuff records and the official accounting records, we were initially told by the TBARR Project Office Management Analyst that reconciliations were completed through the end of Fiscal Year 2003. However, when we performed our independent review of the TBARR Project Office cuff records with OFM official records, we found differences. Also, we found that TBARR Project Office computer spreadsheets contained math errors. We brought this matter to the Management Analyst's attention and she acknowledged the errors in the cuff records and stated they would be corrected.

After several subsequent inquiries, we ascertained that the FY 2003 records had not been reconciled. The Management Analyst informed us that she scanned the OFM record and looked for certain items, in other words, the Management Analyst directed her "verification" to the largest amounts. Differences between the TBARR Project Office records and OFM records may be valid. However, because the TBARR Project Office did not document specific explanations for the differences, we considered the TBARR records unsubstantiated. Without a documented reconciliation of the TBARR Project Office records, we cannot attest to the accuracy of the records.

As a further illustration of the need for the TBARR Project Office to reconcile accounting information timely and properly, we compared TBARR obligated balances by object class shown in a report generated from its cuff records entitled *FY 2003 Commitment/Obligations Report* with OFM's *Spending Document Detail Report for FY 2003*. As shown in the following table, there

were differences between the TBARR and OFM records for the various object classes. The differences totaled over \$2 million.

Table 1: Unreconciled Differences – TBARR Program Fiscal Year 2003 Commitments, Obligations, and Expenditures

| Object Class | Per OFM | Per TBARR Project Office | Unreconciled Difference |
|--|---------------|--------------------------|-------------------------|
| Personnel Compensation | \$1,111,109 | \$1,254,687 | \$143,578 |
| Personnel Benefits | 247,085 | 249,758 | 2,673 |
| Benefits for Former Personnel | 25,000 | 0 | 25,000 |
| Travel & Transportation | 0 | 1,035 | 1,035 |
| Transportation of Things | 122 | 0 | 122 |
| Rent, Communication, & Utilities | 2,253,600 | 2,689,602 | 436,002 |
| Other Services | 2,285,076 | 1,762,363 | 522,713 |
| Supplies and Material | 31,238 | 32,699 | 1,461 |
| Equipment | 2,438,487 | 1,370,867 | 1,067,620 |
| Lands and Structures | 27,991,679.48 | 27,417,082.76 | 574,597 |
| | | | |
| | | | |
| Total of Unreconciled Differences | | | 2,774,801 |

Source: OFM FY 2003 Spending Document Detail Report; TBARR Project Office FY 2003 Commitment/Obligations Report

We also noted 6 instances where OFM recorded obligations totaling approximately \$304,000 for one contract but the obligations were recorded for a different contract in the TBARR Project Office cuff records. The Management Analyst advised that these obligations were erroneously recorded in the TBARR cuff records.

We did not review the TBARR Project Office's reconciliations prior to Fiscal Year 2003. According to the Management Analyst, the reconciliations were handled in the same manner as the one we reviewed. Subsequent to our review, we were told that the TBARR Project Office reconciled its records to OFM for Fiscal Year 2003.

Additional Management Comments. In its response to our interim report, management provided us additional information suggesting it used reliable financial information.

OIG Response. At the time of our audit, we found unexplained differences and errors with the TBARR Project Office's financial records. In addition, we identified at least three instances where the financial data in the cuff records was provided to the Office of

Management and Budget and senior Treasury officials. Furthermore, we did not see any indication that the official financial reporting from OFM records was the basis for all decision making. Since management received this interim draft report, and after the FY 2003 reconciliation was completed, management indicated that the amount remaining to be corrected was approximately \$1,300. As a result, going forward with the newly instituted controls, we believe that the process for identifying differences by TBARR and OFM will be more timely and accurate.

Recommendation

1. The Assistant Secretary for Management and Chief Financial Officer should instruct the TBARR Director to ensure that periodic and complete reconciliations between OFM accounting records and TBARR Project Office records from project inception and going forward are timely performed and reviewed by a supervisor. Identified differences should be researched and the appropriate adjustments made on a timely basis. In this regard, the Office of Financial Management should provide accounting assistance to the TBARR Project Office as necessary to ensure adequate reconciliations are accomplished.

Management Response. The Office of Management accepts the recommendation. The Assistant Secretary has directed the TBARR Director to ensure that periodic and complete reconciliations take place between OFM and TBARR records. The reconciliations are now occurring monthly. In order to facilitate this ongoing reconciliation, effective July 26, 2004, an accountant has been detailed to the TBARR Project Office.

OIG Comment. The actions planned by the Office of Management are responsive to the intent of our recommendation.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss this report, you may contact me at (202) 927-5400 or Thomas Byrnes, Director,

Procurement Audits, at (202) 927-5904. Major contributors to this report are listed in Appendix 4.

/s/

Marla A. Freedman
Assistant Inspector General for Audit

We are performing this audit of the TBARR Program pursuant to H.R. 108-401. In that report, we were directed to audit all Treasury Building renovation and restoration contracts since Fiscal Year 1998. The audit objectives include: (1) a review of compliance with all applicable procurement laws, rules, and regulations, and the Architectural Barriers Act of 1968, as amended; (2) a review of the scope, requirements, and cost reasonableness of the project, as well as the process for managing change orders to the original scope and design; and (3) a review of the effectiveness, efficiency, and economy of contractor operations.

We began our audit fieldwork in February 2004 at Treasury's Departmental Offices (DO) and work is still in progress to fully address the above objectives. As part of the fieldwork completed as of May 2004, which is the basis for this interim report, we toured the Main Treasury building and the "swing space" under lease located at 1440 New York Avenue, N.W., Washington, D.C. We interviewed key Treasury DO personnel involved in the TBARR Program, including officials and staff with the TBARR Project Office, Curator's Office, Procurement Services Division, Facilities Management Division, and OFM. We also interviewed a former DO Contracting Officer and contractor personnel.

Further, at our request, the TBARR Project Office prepared a timeline of key events and management decisions affecting the TBARR Program design and schedule. We reviewed available internal correspondence, including e-mails, documenting the key events and management decisions on the timeline. That documentation was incomplete, and we brought this to management's attention during periodic status meetings on the audit. As a result, more documentation was provided but there were still key events and management decisions on the timeline that are undocumented. We also noted that the timeline did not reflect certain key events and management decisions, such as the decision to provide a deli that was not in the original design plan.

We also reviewed external correspondence to OMB and the Congress regarding the TBARR Program. Furthermore, we reviewed "lessons learned" and other internal reports prepared by

the TBARR Project Office for the Deputy Secretary between February 2004 and May 2004.

To assess the adequacy of the TBARR Project Office's cuff records used to manage the project, we reviewed financial reports it maintained and reconciliations to Treasury's official accounting records, principally for Fiscal Year 2003. We also obtained and reviewed relevant official accounting records from OFM.

With respect to the first objective, we are currently reviewing the TBARR Program contract files using a compliance checklist we developed. The universe of contracts awarded since 1998 consists of 14 open and 8 closed contracts. We will review a sample of these contracts and provide the results of our work in our final report.

With respect to our second objective, we have reviewed the original cost estimates, revised budgets, and building studies. Furthermore, we prepared summary spreadsheets of the modifications, amendments, and change orders for each contract issued since 1998 through March 2004 to capture the purpose and dollar/schedule impact of each modification, amendment and change order. As of March 2004, there were a total of 505 modifications, amendments, and change orders for the 14 contracts. We obtained and we are currently reviewing available documentation regarding program and design changes. The results of our review will be included in the final report.

With respect to the third objective, we are currently developing a methodology to address the objective. The results of our review will be included in the final report.

We are conducting our audit, and prepared this interim report, in accordance with generally accepted government auditing standards.

The following table shows the annual appropriations authorized by the Congress for the TBARR Program, adjusted for rescissions.

Table 2: TBARR Program Appropriations

| Fiscal Year | Description | Amount |
|--------------------|---|----------------------|
| 1996 | Appropriation (P.L. 103-329) | \$11,500,000 |
| 1996 | Appropriation (P.L. 104-52) | 21,491,000 |
| 1997 | Appropriation (P.L. 104-208) | 28,213,000 |
| 1997 | Transfer to USSS (P.L. 104-208) | (9,754,659) |
| 1998 | Appropriation (P.L. 105-61) | 10,484,000 |
| 1999 | Appropriation (P.L. 105-277) | 27,000,000 |
| 2000 | Appropriation (P.L. 106-58) | 23,000,000 |
| 2000 | Rescission (P.L. 106-113) ¹ | (300,000) |
| 2001 | Appropriation (P.L. 106-554) | 31,000,000 |
| 2001 | Rescission (P.L. 106-554) | (68,200) |
| 2002 | Appropriation (P.L. 107-67) | 28,932,000 |
| 2003 | Appropriation (P.L. 108-7) | 28,932,000 |
| 2003 | Rescission (P.L. 108-7) | (188,058) |
| 2004 | Appropriation (P.L. 108-199) ² | 25,000,000 |
| 2004 | Rescission (P.L. 108-199) | (147,500) |
| Totals | | \$225,093,583 |

Source: Nonexpenditure Transfer Authorizations, Standard Form 1151 and Department of Treasury's Appropriations Warrants, FMS Form 6200.

¹ A rescission is the cancellation of budget authority previously provided by Congress.

² Treasury is prohibited from obligating \$7 million of the \$25 million appropriation until (1) completion of our audit or (2) approval in writing by the House and Senate Committees on Appropriations.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

JUL 22 2004

MEMORANDUM FOR DENNIS SCHINDEL
ACTING INSPECTOR GENERAL

MARLA FREEDMAN
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM:

Nicholas Williams
For Jesus H. Delgado-Jenkins
Acting Assistant Secretary for Management

SUBJECT:

Recent Efforts to Better Manage the TBARR Program Need to
Continue and Be Strengthened (OIG Draft Report)

Please see the attached response to the Office of the Inspector General's Draft Interim
Report on the TBARR Program dated June 21, 2004 (as revised July 19, 2004).

If you have any questions, please let me know.

Attachments

Introduction

This is the Office of Management's response to the Office of the Inspector General's Draft Interim Report entitled "General Management: Recent Efforts to Better Manage the Treasury Building and Annex Repair and Restoration Program Need to Continue and be Strengthened" dated June 21, 2004. This response will address the Report Findings individually. The response includes the actions we have taken or plan to take; target dates for action, where applicable, and reasons for disagreements with the draft Report Findings or recommendation as required by Treasury Directive 40-01.

The Office of Management, in general, accepts the recommendations made in the Report. However, this response will present the Office's concerns about some of the items contained in the Report. Some general observations follow. Specific comments will be addressed in the response to each of the Findings.

The Office of Management believes that the Treasury Building and Annex Repair and Restoration (TBARR) contract procurement files are complete and accurate for all obligations for contract actions issued to the TBARR contractors, and are located in the TBARR procurement offices. In addition, unofficial financial "cuff" records are maintained for the entire program reflecting obligations and planned obligations for budget forecasting and control. These are now reconciled with the official Office of Financial Management (OFM) accounting records monthly, quarterly, and annually to verify obligations and collect data on obligations for project costs generated outside the TBARR program office. Other program files are filed by contract or subject matter and are located in the TBARR Project Management office file room and in the Director's office.

Management is developing a funding plan for engineering studies for repairs to the Annex Building. No decision has been made yet on the FY 2006 budget request.

Management took steps immediately following the June 1996 fire to secure alternate space for its displaced employees and to begin clean up and planning for repair and restoration of the main Treasury building. Initial funding to begin remediation from the fire was received through a reprogramming of funds in June 1996. By February 1998, TBARR had prepared preliminary documents that laid out a plan for the renovation of the Treasury building. Construction began in December 1998, with a contract to repair the exterior façade of the building. Following extensive engineering studies and designs in early 1999, interior construction began in August with replacement of the major air conditioning and electrical equipment utility infrastructure systems. TBARR continues to repair and renovate the building with Phase 3 on target for completion and re-occupancy in August 2004. Phase 4 construction has begun. The Report (page 6) states that, "September 2005 is now the target date." The Office of Management notes that September 2005 is the date for beginning the reoccupancy of Phase 4 of the renovation. The TBARR project is expected to be completed on December 31, 2005.

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The Office of Management also notes that Phase 4 renovations began on time in July 2004. The delay in project start date and increased funding noted on page 9 of the Report only refers to a speculative contract shut down.

The concerns related to TBARR planning, change orders, delays and accounting are addressed below.

Finding 1: Inadequate Project Planning at Inception

This Finding presents some of the initial history associated with the TBARR program. The Finding compares Management's program to the General Services Administration's (GSA) process that involves the creation of a Prospectus Development Study (PDS). The Report accurately states that the PDS provides an outline of the project scope, implementation plan, and budget, and is used by GSA to obtain Congressional authorization.

Management did prepare plans for the repair and renovation of the building. Some of these plans were necessarily brief so that repairs could begin on the fire damaged building as soon as possible, especially since approximately 20 percent of the building was rendered uninhabitable after the fire. These preliminary studies were provided to the Congressional Appropriations Committees February 5, 1998, and were the basis of the approved TBARR appropriations.

The Architecture and Engineering contract awarded in December 1998 for the interior construction provided for initial studies to develop an approved scope of work based on engineering and architectural analysis, and a cost estimate for the project. This resulted in a revised budget estimate and final scope of work and project plan for developing the TBARR program. Additional funding of \$40.8 million was approved through the FY 2000 budget process.

The additional funding of \$ 40.8 million also was approved by the Treasury Investment Review Board and the Assistant Secretary for Management and CFO. The \$40.8 million was an increase to the previous funding plan estimate of \$152.1 million made in 1998. These two funding estimates together created the TBARR base budget of \$192.9 million. This funding plan was accepted by the Congressional Appropriations Committees during budget hearings for Fiscal Year 2000. The preliminary plan, approved as part of the budget, addressed the essential elements required for accomplishing repairs and restoration of the building, upgrading its infrastructure, correction of building code deficiencies, and making the building comply with the requirements of the Architectural Barriers Act of 1968 (ABA).

This budget is the definitive base budget for the TBARR program, based on building condition assessments (e.g., site visits and extensive building investigation studies) noted in the above paragraph. The budget also established a program to correct the building code and ABA deficiencies and modernize the aged and failing building structure and infrastructure systems.

Management acknowledges that it did not develop a PDS as GSA may have done. However, Management also notes that a PDS was not required for the Treasury project or for other federal agencies seeking authorization for capital improvement programs. The PDS is internal to the GSA project delivery process. Management did develop an overall plan for the repair and renovation of the building. This plan addressed the same primary elements of a PDS and was presented to Congress on February 5, 1998.

The Finding states that a planning tool such as the PDS would have avoided many issues that have resulted in cost increases and schedule impacts. Many of the delays and cost increases were caused by unforeseen conditions in the course of construction. Management took all reasonable actions to address the unforeseen conditions. In particular, investigative surveys and material testing were performed as part of the design development process in 1999. Furthermore a contingency fund was established to address what could be considered a reasonable level of anticipated unforeseen conditions. Unfortunately the extent of the actual unforeseen conditions (primarily structural deterioration and hazardous material) surpassed Management's planning level. Until demolition began in the construction phase of the project, the full extent of structural deficiencies and hazardous material could not be ascertained. Moreover, the need to renovate the building while it was occupied, the extent of hazardous materials in the building, and the advanced degree of deterioration found in parts of the building added to the complexity of the renovation project and would not have been ameliorated by developing a PDS.

Management does not believe that the GSA-prescribed PDS process would have avoided the following kinds of cost and schedule impacts resulting from program redirection or additions:

- Decision to employ an "open space" environment and employees reaction;
- Department of Homeland Security reorganization impact from late December 2002 through early April 2003;
- Security impacts of 9/11 , e.g., building security upgrades, new building access control system, and North Courtyard Building security upgrades;
- IT technology advances;
- Terrorist financing initiatives;
- Significant turnover in senior leadership; and
- Many other program changes arising during a long term program spanning multiple administrations.

Management's position is that it developed an adequate initial program plan. Management also recognizes that the extent of the plan could have been broadened but concludes that using the GSA PDS process would not have significantly improved project insight resulting in large cost avoidance in the project to date. In addition, Management would like to note that it did not have the requisite skills among its employees for a project of this scale. Building renovation is not a core Treasury function. Management hired a TBARR Director and other staff to manage this project.

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The need to renovate the building while it was occupied, the extent of hazardous materials in the building, and the advanced degree of deterioration found in parts of the building added to the complexity of the renovation project and would not have been ameliorated by developing a PDS.

Management agrees with the recommendation for Finding 1 and will use GSA's guidelines or an equivalent for any future major or significant authorized renovation work, for example, a renovation of the Annex.

Finding 2: Cost Increases Due to Program and Design Changes

The Finding states that there is a lack of written documentation of key decisions including signed authorizations and approvals, particularly for the decisions that extended the completion date.

The Report acknowledges that there is enough documentation to determine that the decision to rebuild using an open office space plan was made by a high level official.

Treasury has an active internal controls program that agrees with the internal control statements cited in the Report. Management believes that the TBARR project has followed these principles. The TBARR project was authorized and executed only by persons acting within the scope of their authority. The TBARR Program Director's Position Description and TBARR Organization Approval document dated August 21, 1998 and Functional Statement dated August 25, 1998, clearly granted broad authorization to implement the TBARR program to the TBARR Director. This authority includes the ability to approve and authorize the program work and expenditure of funds with which to accomplish its goals.

These actions are documented (approved and authorized) through the procurement process. The TBARR Director (or designated alternate) approved the procurement requisitions which obligated funds and initiated the actions. Documentation to support the reasons and costs are found in the official contract files for each action. Major changes to project budgets were presented and approved through the budget process and the ASM's approval of the budget.

The program changes were required by many events. They included differing site conditions encountered as demolition began, for example, deteriorated building conditions and hazardous material abatement. Other events impacting the TBARR project include responses to external events such as 9/11 and the creation of the Department of Homeland Security (DHS), international events (G7 and G8 conferences), Administration initiatives that impact building occupancy, changing Departmental focus (follow-up to the DHS divestiture and start-up of the Terrorist Financing and Intelligence organization) and changing technical standards in information technology.

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A Departmental decision to close the cafeteria in the Annex and replace it with the current facility in the Treasury building was made after the TBARR project began. The Deputy Assistant Secretary for Administration approved the change and the TBARR Director authorized the change following an oral presentation on the café/deli. The TBARR office has the transmittal coversheet, proposed layout and contract modification which did not persuade the Inspector General that the café/deli was approved by senior management.

Management agrees with the recommendation in Finding 2, and will ensure that approvals of significant management decisions impacting scope, project schedule, and costs in the TBARR project will be more clearly documented.

However, Management would like to note that GSA, using the PDS process, also faces a significant number of changes in project scope. The GSA Report entitled, 'Construction Excellence – Special Report' dated December 1998, states that between 33 and 43 percent of the cost growth on major new construction and repair and alteration projects results from customer changes after the design development has been completed. GSA attributes the number of changes to the lack of mutual understanding and commitment which leads to the customer changing the scope as the project progresses. The GSA Special Report also states that many GSA projects experience cost overruns and time delays that can be attributed to design deficiencies. The GSA Special Report suggests that many of these design deficiencies can be attributed to the required construction document preparation and procurement guidelines. GSA predicts that about 23 percent of project cost growth results from design deficiencies. Design deficiencies were increased in the TBARR case by the lack of access to the existing space granted to the design team during the project design development phase. Factors contributing to the lack of access center around the challenges of destructive testing and investigation in an occupied building, potential health consequences of disturbing hazardous material such as asbestos and lead paint in occupied areas, interruption of important Treasury business, and locating deteriorated building conditions in concealed areas requiring extensive demolition. GSA also predicts that they will experience an average of 29 percent cost growth due to "unforeseen conditions." Finally, the GSA Special Report finds that it experienced a 28 percent growth in management and cost control which resulted in change orders.

The FY 2002 TBARR budget increase of \$40.8 million resulted from detailed design investigations and studies which established the first fully developed, definitive base line budget for the TBARR project of \$192.9 million. When this baseline is used for computation, the TBARR change order rate is 11 percent. Based on a base budget of \$192.9 million, TBARR project cost growth is approximately 25 percent.

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Finding 3: Cost Increases Due to Inefficient Employee Moves

The Finding states that another major reason for project delays and increased costs involved moving the building occupants to and from “swing space” as renovation progressed.

Management agrees that space planning delays and delayed occupant moves contributed to project schedule delays and cost growth. However, the necessity of renovating the building while occupied increased the number and complexity of the moves required. Renovating an occupied building also necessitated moving some groups multiple times while the work of the Treasury needed to continue.

TBARR was responsible for minimizing the impact of its construction program on the work of the Treasury, particularly the Departmental Offices. Various critical work activities including annual reports to various Congressional recipients, budget submissions to OMB and Congress, international conferences, and many others required coordination between the TBARR need to move employees so construction could proceed and the policy offices’ work. This caused delays as the program occupancy schedules were often revised to accommodate the requirements of the various policy offices.

Following the attacks of September 11, 2001, Treasury faced increased demands on its enforcement bureaus and offices responsible for terrorist financing and asset forfeiture, and was part of the largest reorganization of the federal government in many years. The creation of DHS included moving most of Treasury’s enforcement bureaus to either DHS or the Department of Justice.

This divestiture created a massive workload for the Office of Management. The Management Office was responsible for ensuring the orderly transfer of personnel including a large number of its own support staff. The Office of Management found itself trying to do more work with substantially fewer resources. The Assistant Secretary for Management recognized an opportunity to modernize operations within Management, streamlining processes to accommodate a reduced staff and improve efficiencies. The period from late December 2002 through April 2003 delayed TBARR’s work as Management worked through the changes, and determined a new mission focus.

These changes impacted TBARR by changing the number and types of offices that would be housed in the building. The resulting rework of the space plans delayed the project several months while dealing with the changes to the occupancy plans for both swing space as well as final space assignments. This also affected leased facilities as Management developed a strategy for downsizing of leased space and re-stacking of occupants within the Treasury space inventory.

In addition, Secretary O’Neill’s decision to house employees in open space created employee morale problems. Several petitions, signed by hundreds of DO staff members, implored the Secretary to reverse his decision. Secretary O’Neill believed that an open office plan encouraged collaboration, communication, and teamwork.

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The sentiments of the Treasury employees indicated a high level of expectation that private offices were required to adequately conduct the demanding and sensitive affairs of the Treasury Department. In addition, employees expressed concern that the lack of private offices and small conference rooms would mean they would have to actively seek out privacy when needed. While the Treasury employees' petitions were being addressed, TBARR was unable to complete space plans and build out, waiting for a resolution. The change to an open space plan necessitated extensive revisions to the office layouts which in turn required new layout approvals by all the impacted offices. The amount of employee dissatisfaction coupled with the need for their management to approve new open space layouts further delayed the project.

Finally, there was a great deal of turnover in top management at the Department during the course of the TBARR project. The effect was to leave TBARR without a strong politically appointed advocate for much of the project. The TBARR Program currently has strong advocates in Treasury's Deputy Secretary and the Acting Assistant Secretary for Management and CFO. The Deputy Secretary's memorandum of March 24, 2004, cited in the Audit Report, has been very effective in resolving the space planning and occupancy issues in Phase 3 and working toward achieving an approved Phase 4 plan. Briefings are regularly conducted for the ASM and DAS (Organization and Change Management) addressing all TBARR concerns, including schedules and budget.

In accordance with the recommendation in Finding 3, the TBARR Director is keeping the Assistant Secretary for Management apprised of any slippages in the TBARR schedule. The TBARR Director, Assistant Secretary for Management and the Deputy Secretary continue to work together to resolve any issues or concerns impacting the TBARR project.

Finding 4: Deficient Accounting Reconciliations

Finding 4 addresses the reconciliation of the records maintained in the TBARR Project Office to official accounting records maintained by OFM. The Report states that "TBARR management does not have reliable information on the status of the project funds." Management disagrees. The Assistant Secretary for Management and TBARR Director rely on the official reporting from OFM to make operational decisions and to obligate program funds. The use of financial "cuff" records to project program costs during a fiscal year is an accepted management practice. TBARR funds are *not* obligated without concurrence from OFM on the availability of funds. TBARR financial cuff records are used to ensure that projected program costs are in line with the appropriation and to make budget estimates.

OFM adheres to the Standards for Internal Control in Federal Government and records events and transactions accurately and timely. This is done from the initiation of the event, through its authorization, to its final classification in the official accounting records.

The Report states that the TBARR cuff records were not reconciled. Since receiving the Interim Report, TBARR and OFM have focused efforts and increased attention to reconcile their records. It is also important to note, that the TBARR staff reconciled verbally with OFM and focused this reconciliation on the largest dollar amounts. The TBARR Management Analyst also properly accounted for the data reported in different fiscal years and knew how to interpret reports produced by Treasury's accounting systems. Management acknowledges that this type of verbal, undocumented reconciliation is inadequate and has taken steps to conduct formal documented reconciliations on a monthly basis.

The Report presents Table 1 as an example of unreconciled differences at the end of FY 2003. It is important to note that the Report acknowledges these differences *may be valid*. TBARR and OFM staffs are completing a reconciliation of the differences between the program office and the financial management data. The differences are due to budget projections vs. actual expenditures, timing issues, and data inaccuracies. The amount remaining to be corrected is approximately \$1,300. The Offices expect to have resolved these differences (i.e., have a difference of \$0) very soon. (Documentation is available upon request.) Monthly reconciliations are being performed monthly going forward.

Finally, as the Report states, there were errors in the TBARR Project Office spreadsheets. Management has taken steps to correct these formula errors and will make a diligent effort to ensure that these records are maintained more accurately. Moreover, Management believes its official records, maintained by OFM, are accurate.

Management accepts the recommendation in Finding 4. The Assistant Secretary has directed the TBARR Director to ensure that periodic and complete reconciliations take place between OFM and TBARR records. The reconciliations are now occurring monthly. In order to facilitate this ongoing reconciliation, effective July 26, 2004 an accountant will be detailed to the TBARR Project Office.

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