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BUREAU OF THE CENSUS

Local Census Offices Were Successfully Opened, but Some Lessons Can Be Learned from Decennial Leasing Operations

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EXECUTIVE SUMMARY

The U.S. Constitution requires that every 10 years a count of the population, a decennial census, be conducted in order to reapportion the U.S. House of Representatives. The decennial census is also used to allocate federal funds and provide essential demographic, social, and economic data about the nation. In addition, the state governments use decennial census data to redistrict their legislatures.

A large infrastructure is required to conduct the national population count. For the year 2000 decennial, over 1,000 census offices are involved in data collection and processing. This review focuses on the 520 local offices, of which 130 are early-opening local census offices (ELCOs) and 390 are local census offices (LCOs). These offices represent the largest proportion of the space that the bureau has acquired, totaling over 3.9 million (rentable) square feet throughout the nation. Each ELCO and LCO must meet the bureau's specifications and be outfitted with telecommunications, security and office equipment, furniture, and supplies. The purpose of our review was to determine whether the acquisition of space, equipment and supplies, and other lease-related procurement actions of the Decennial Census Field Office Acquisitions Program, were carried out properly, effectively, and on time.

Due to the fast pace of the lease acquisition program and to ensure that our initial observations were provided in time to have an impact on the program, we issued an interim memorandum to the Census Bureau's Deputy Director and Chief Operating Officer on May 7, 1999. Our interim observations, as well as our overall review findings, concern the 2000 decennial but some also highlight lessons learned and issues that may prove to be relevant for the year 2010 decennial.

Census/GSA partnership delivered office space but the bureau needs to make a final evaluation of the leasing program when it is complete

The Census Bureau and GSA formed a partnership—Joint Venture 2000—as a means to provide the bureau with leased space equipped to conduct the 2000 decennial. The partnership obtained leases, oversaw the build-out construction of offices, arranged for security and for data and voice telecommunications, and provided office equipment and supplies. While LCO office openings were targeted to be completed in three waves ending September 1, 1999, sufficient time was available to complete leasing and preparation of offices that did not meet the schedule. By mid-November, all 520 local census offices were operational.

The leasing effort was able to be completed despite two complicating factors: (1) the late finalization of plans resulting from the bureau's need to lease more space than anticipated when a ruling by the Supreme Court limited the use of sampling to non-reapportionment activities, and (2) a strong economy that created a difficult real estate market in which to obtain some short-term, small office leases as well as the tradespeople and technicians necessary to prepare the space. Both Census and GSA had to undertake an intensive, sustained effort to deliver the more than 1,000 offices nationwide that are now serving as the infrastructure for the decennial census (see page 6).

While there were some difficulties in a few regions, Census and GSA worked reasonably well together to complete this extensive project. The partners have improved communications and working relations since Phase I office openings in late 1998. However, the partnership has been a complex and occasionally cumbersome effort, subject to some strains between the agencies. Although the bureau made an initial assessment of the partnership in the first phase, the bureau also needs to assess its overall costs, benefits, and results soon after the 2000 decennial is completed to help determine whether a similar partnership between the bureau and GSA should be used for the 2010 decennial (see page 9).

There are some lessons to be learned from the bureau's real estate operations

There are lessons to be learned from the leasing activities for this decennial. The bureau's real estate operations could be improved by ensuring that the area of the market search for space for each ELCO and LCO—the delineated area—is broad enough to ensure adequate competition (see page 14). Specifically, we found in decennial 2000:

- Some leases from the initial phase of local office openings were awarded without adequate competition. This was largely because a number of the delineated areas were narrowly drawn, limiting the number of lessors who could bid on the leases. As a result, at those sites, the lease offers were more expensive than anticipated, and Census lost valuable time in again trying to find more affordable space. However, the bureau made a concerted effort to broaden its delineated areas in the second phase of the leasing operations, in which it acquired leased space for 390 LCOs.

- Greater attention to and standardization of file management across regions would aid management oversight and promote better internal record-keeping and retention of records.

The bureau needs to improve planning for decennial leasing and office preparations

The bureau was late in finalizing its programmatic plans. According to the bureau, this was largely due to the necessity of waiting for resolution of the sampling controversy by the Supreme Court. But the bureau developed incomplete requirements based on those plans, and sometimes made changes that disrupted operations. This can be demonstrated in the area of telecommunications: (see page 23).

C Planning for the telecommunications system should have been better coordinated and more focused on the overall requirements. Significant changes to the requirements had to be made to add additional lines for job recruiting activity, a more complex call routing subsystem, and voice mail. These changes increased telecommunications costs and delayed the planned opening and operation of some ELCOs and LCOs.

The bureau needs to expand its use of formal business case analyses

The bureau used formal business case analyses to guide its decisions for the leasing and related operations. While the analyses were sometimes incomplete, their use as management tools represented a significant improvement in the bureau's effort to strengthen its management process (see page 26).

The bureau's interagency agreement with GSA for the space leasing project still needs to be signed

The Census Bureau and GSA developed the Joint Venture 2000 partnership through a memorandum of understanding whereby GSA was to acquire office space and provide telecommunication lines, furniture, supplies, and office equipment based on requirements specified by the bureau. While the partnership seemed to work reasonably well, we found some shortcomings in the memorandum of understanding between the bureau and GSA (see page 28).

C The agreement for Phase II of the leasing operations still needs to be signed, especially since it covers the close-out and property disposition services for the leased offices.

C The draft Census Bureau partnership agreement does not cover the responsibilities of brokers, the extent of their authority, estimated cost for their use, and the responsibilities of the bureau or GSA in managing them. This should have been discussed in the MOU to avoid misunderstandings or unwarranted costs.

Census could have made greater use of build-out financing

Most of the ELCOs and LCOs must undergo interior alterations (or a "build-out") to configure those offices to bureau specifications. The lessor is given the option in negotiations of either including the build-out cost in the rent or receiving a lump sum payment from GSA upon completion of the build-out effort and before bureau occupancy. While the lump-sum payment is generally more advantageous to the government, the bureau made relatively few up-front payments of build-out costs early in the campaign in order to save resources for the most difficult real estate markets at the end. When we first reported this observation to the bureau in April 1999, the Census Bureau had a targeted amount of $8 million to use for up-front build-out expenses. We emphasized, and the bureau agreed, that full commitment of build-out funds could aid in contract negotiations, eliminate the lessors' approximate 12 percent finance costs (which the lessor then recovered through the contract), encourage more timely alterations, and maximize cost savings. In the final series of lease agreements, the bureau, through a prompt directive to the field, took considerably greater advantage of build-out financing and spent a total of approximately $10 million on it. This enabled the bureau to save over $980,000, including over $476,000 in funds put to better use since April 1999 (see page 31).

In its response to our draft report, the Census Bureau concurred with all of the recommendations. Most recommendations, with the exception of recommendation 9, point to the 2010 decennial, and we are in agreement with the bureau that it should capture the lessons learned from the 2000 decennial, build on its successes, and make the recommended improvements where necessary. In that regard, the bureau stated that it plans to initiate an independent evaluation of the partnership with GSA, and it will use the findings from that evaluation as the primary planning tool for the 2010 space and leasing program. Census also said that it concurred with recommendation 9, which called for finalization of the memorandum of understanding between the bureau and GSA for the current decennial, but the bureau did not say that it would conclude such an agreement. We still believe that such an agreement is important to protect the department's interests, especially for the remaining closeout and disposition of property phase. We reiterate our recommendation that the MOU be finalized between the bureau and GSA as soon as possible.

INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, the Office of Inspector General conducted an inspection of the Decennial Census Field Office Acquisitions Program, focusing on the Bureau of the Census's efforts to lease office space around the nation for the 2000 decennial. We also reviewed certain aspects of the bureau's acquisition of equipment and supplies needed to operate these offices and conduct the census.

Inspections are special reviews that the OIG undertakes to provide agency managers with information about operations, including current and foreseeable problems. Inspections are also performed to detect and prevent fraud, waste, and abuse and to encourage effective, efficient, and economical operations. By highlighting problems, the OIG intends to help managers move quickly to address those identified during the inspection and avoid their recurrence. Inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

We conducted our inspection from January 12 through August 9, 1999, with subsequent updates with bureau managers through February 2000. The inspection was performed in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. At the conclusion of the inspection, we discussed our observations and recommendations with the bureau's Deputy Director and Chief Operating Officer, the Special Assistant for Field Logistics Operations, and the National Program Manager of the Decennial Census Field Office Acquisitions Program. On May 7, 1999, we provided the Census Bureau with an interim memo on our observations, including some that required immediate attention. Our recommendations in this review concern the 2000 decennial but some also highlight lessons learned and issues that may prove to be relevant for the year 2010 decennial.

PURPOSE AND SCOPE

The purpose of our review was to determine whether the Census Bureau's acquisition of space and outfitting of offices by the Decennial Census Field Office Acquisitions Program were being carried out properly and would be completed on time. The challenges associated with entering into hundreds of short-term leases for real property across the U.S. and with procuring office equipment and furniture, within a short time-frame, were great. Such a large effort also exposed the bureau to potential fraud, waste, and abuse and therefore constituted areas of inquiry for our review. Our overall objective was to evaluate the bureau's stewardship of government funds and resources in support of the 2000 decennial leasing effort.

The scope of our inspection included reviewing and assessing the bureau's overall lease-acquisition strategy, including (1) space requirement estimates, property requests, and project schedules to determine if, overall, these would result in adequate leased space delivered on time, (2) the adequacy of and reasonableness of the costs that Census paid for leased space and other acquisition activities, (3) the adequacy of the acquisition of telecommunications and services, security equipment and services, and office furniture, and (4) the efficiency, effectiveness, and fairness in contracting for the space-related items. Our review focused on the leasing and operational preparation of 520 local offices (130 early-opening local census offices—ELCOs—and 390 local census offices—LCOs) which accounted for most of the rentable square footage. We did not review the leasing of the 13 Regional Census Centers (RCCs) because they were already up and running at the time of our field work. We did not visit the 13 Regional Accuracy and Coverage Evaluation Offices, but we monitored the lease acquisition and office preparation process through interviews with headquarters staff and by following progress recorded in both Census and GSA Internet-based logistics tracking systems. Nor did we include the 494 smaller census field offices and block canvassing field offices, the three Data Capture Centers, or the National Processing Center in the scope of our review.

Census has 12 regional offices located in Atlanta, Boston, Charlotte, Chicago, Dallas, Denver, Detroit, Kansas City (Missouri), Los Angeles, New York, Philadelphia, and Seattle. To conduct the 2000 decennial, the bureau opened RCCs in each of these regions and in Puerto Rico. As part of our review, we inspected local office leasing operations handled in six RCCs: Boston, Chicago, Detroit, Kansas City, New York, and Philadelphia, including onsite visits to 14 ELCOs in the Chicago, Detroit, Kansas City, and New York regions. In most cases, we had access to the bureau's detailed leasing files and reviewed the methodology of the leasing operations.

Our review also included an analysis of the bureau's interagency agreement with the General Services Administration (GSA), known as the Joint Venture 2000 Partnership, and of the bureau's overall acquisition and procurement processes for the leasing operations, whether conducted through the GSA partnership or by the bureau's direct procurement actions. In conducting our review, we examined correspondence and other documents to determine if the Census/GSA relationship proceeded effectively enough to award the LCO leases on time and within reasonable costs. In doing so, we analyzed a sample of real property leases for temporary office space, lease and purchase actions for office equipment, and the interagency agreements with GSA for supplies and support services. We also conducted interviews with members of the Census Bureau/GSA "core team," Census regional directors and leasing specialists and other staff in six RCCs and visited staff in 14 ELCOs in four regions: Chicago, Detroit, Kansas City, and New York. We also interviewed a human relations consultant hired by the partnership.

BACKGROUND

The U.S. Constitution requires that a population count be conducted every 10 years for the purpose of apportioning the seats in the House of Representatives among the states. The Bureau of the Census's decennial census, which is the nation's largest statistical data-gathering program, is also used to allocate federal funding, and provide essential demographic, economic and social data for businesses, researchers, educators, governments, and private citizens. In addition, numerous states use decennial census data to redistrict their state legislatures.

To satisfy both the Congress and the Administration, the Census Bureau initially issued a dual-track operational plan for the decennial, with one track employing sampling and the other track using traditional census-taking methods, commonly referred to as "full enumeration." The bureau had wanted to employ statistical sampling of non-respondents for all purposes: apportionment, legislative redistricting, and the allocation of federal funding. It had supported the sampling strategy in the hope of improving the accuracy of the decennial count while also reducing systematic undercounts. However, in January of 1999, the Supreme Court ruled that the bureau could not employ statistical sampling for the apportionment of congressional seats among the states. This decision did not preclude the use of a sampling process for other purposes, such as state redistricting and allocation of federal funding. After the Supreme Court ruling, the bureau issued a final operational plan utilizing both a traditional count and post-enumeration sampling for an accuracy check. The Department's decision to use both Census-taking methods affected leasing operations since the decision meant that the bureau would need to hire more enumerators, acquire additional space to house and manage them, and provide separate space for quality control involving sampling.

At the time of our review, the bureau had already begun the process of opening and operating a national network of 1,044 temporary offices from which employees would collect and process the data for the 2000 decennial. Establishing this office network required the leasing of office space, the leasing and purchasing of furniture and equipment, the installation of computer hardware and software, and the establishment of voice and data line telecommunications. As of February 23, 1999, the bureau finalized its requirements, in accordance with the Supreme Court ruling to follow the traditional, "full enumeration," operational plan but also conduct post-enumeration sampling for an accuracy check.

For the first time since the 1970 decennial, Census partnered with GSA to lease space and acquire telecommunications services, and much of the required office equipment and supplies, for its decennial offices. The bureau and GSA entered into an agreement, the Joint Venture 2000 partnership, through which the bureau utilized GSA's Public Buildings Service for space acquisition, its Federal Technology Service to obtain telecommunication services, and its Federal Supply Service to obtain supplies and furniture.

Before 1970, Census obtained leased space on its own. In 1970, it enlisted the services of GSA for the first time but was critical of the quality of some of the space GSA had obtained. Some offices were reportedly low-grade or in unsafe neighborhoods, although this was due partly to the uneven quality of available space at that time. As a result of that experience, the bureau decided to conduct its own space acquisition for the 1980 and 1990 decennials. Due to delays in the 2000 decennial budgetary allocations connected with the long-standing sampling debate, the bureau was behind schedule in leasing preparations compared with previous decennials. As a result, the bureau's Deputy Director suggested on February 17, 1998, that the bureau form a partnership with GSA for the 2000 decennial.

This partnership was formed and performance measures developed with the involvement of the National Performance Review.[1] The partners hoped that by utilizing their own expertise, greater efficiencies would result and advantages would accrue to both agencies. The bureau would be able to focus more on its mission in conducting the decennial, and GSA would be able to demonstrate its service orientation to a major government client with special needs. The basic division of labor was for GSA to provide space, telecommunications, supplies, and some office equipment, while the Census Bureau was to provide lease requirements, specifications, procurement justifications (as required), some oversight and approval of key decisions, and funding for the direct cost of these goods and services, plus GSA's fees.

The bureau developed a plan to open offices sequentially and have them perform major decennial functions from June 1, 1998, to December 31, 2000 (see the chart on page 6). The plan called for opening 520 ELCOs and LCOs nationwide as opposed to the 476 that would have been needed had sampling been used to complete the decennial. These offices were to have been delivered in two phases, with 130 ELCOs opened by the end of FY 1998 (Phase I), and 390 LCOs opened by the end of FY 1999 (Phase II). The first phase was operated as a trial run to ensure that the Census/GSA partnership would produce adequate leased space for the required 130 ELCOs within reasonable time and cost objectives. The bureau determined that the first phase was a success and continued the Joint Venture 2000 arrangement with GSA by authorizing the second phase of leasing. The bureau's office structure for the full enumeration plan called for 1,044 offices, including the following:

- <u>13 Regional Census Centers</u>—12 in the continental United States as well as one in Puerto Rico—have been open since March 1998. Through a network of Census field offices, the RCCs manage all census field data collection operations, such as listing addresses, coordinating the Local Update of Census Addresses program, producing and updating maps, working with

[1]The National Performance Review, now renamed the National Partnership for Reinventing Government, is the administration's task force intended to reform major government functions through such initiatives as better customer service, employee empowerment, partnerships, interagency cooperation, and "reinvention."

local participants to provide redistricting data to the states, and recruiting temporary field staff.[2] Each RCC requires a support staff of approximately 135 employees and 14,000 to 26,000 usable square feet of space.

- 494 Census Field Offices (CFOs) were opened by March 1999 and after completing their functions, were closed by August, 1999. These offices conducted local recruiting and performed address listing and the subsequent clerical review of address lists. These offices required about 500 usable square feet for four employees.

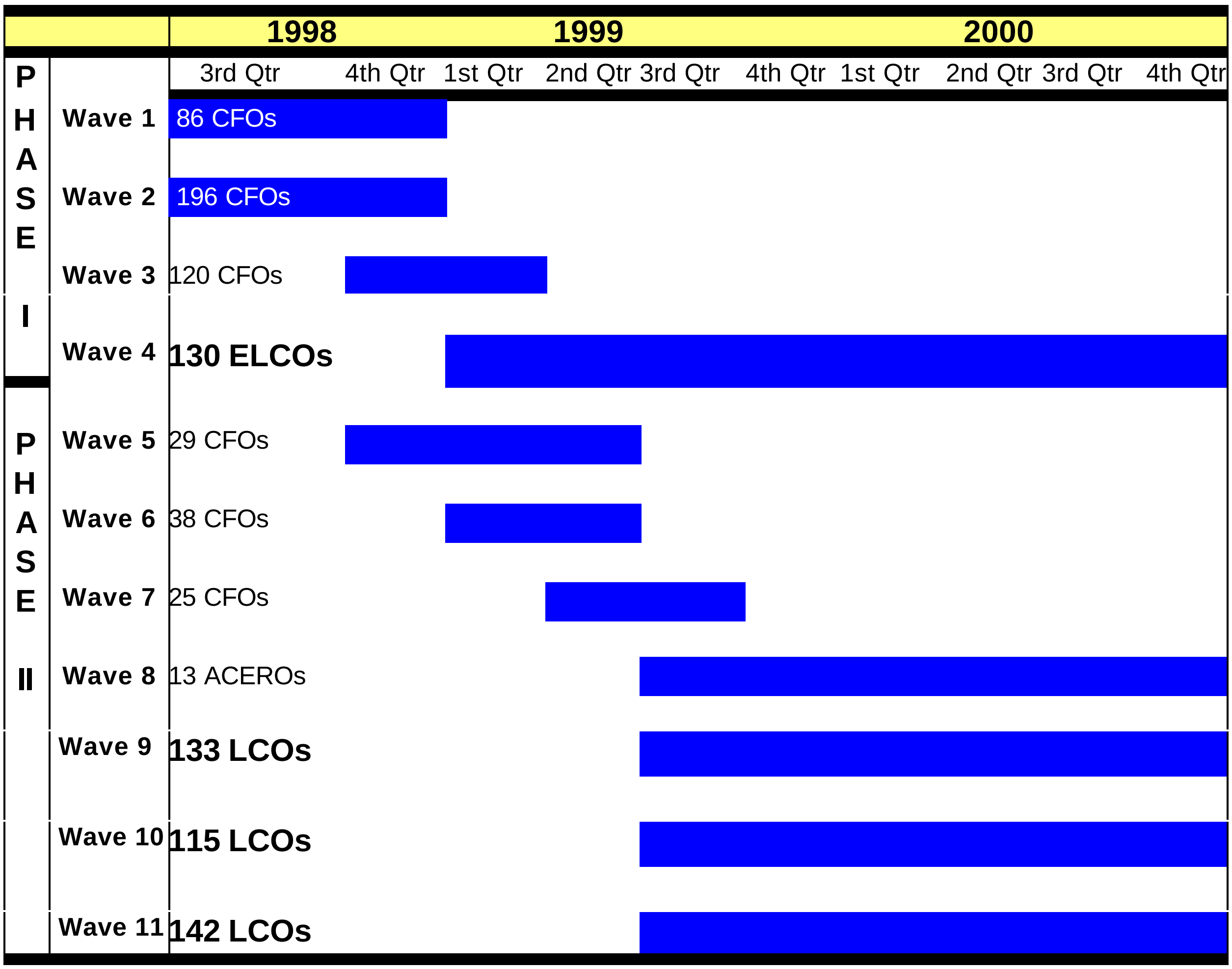
- 520 Local Census Offices were scheduled to be opened, in successive waves, beginning in October 1998. Each LCO office, with an average staff of 44, required between 7,000 and 8,500 usable square feet. The first group of 130 Early Local Census Offices, delivered in Phase I, were initially smaller—consisting of approximately 6,000 square feet of usable space and had to be expanded during Phase II. Phase II saw the scheduled opening of an additional 390 of the larger LCOs beginning in September 1999. LCOs produce enumerator maps and assignments and conduct local recruiting, block canvassing, outreach and promotion, group quarters and service-based enumeration, update leave and enumeration activities, non-response follow-up and address verifications.

- 13 Regional Accuracy and Coverage Evaluation Offices (ACEROs) were added on to 13 LCOs by September 1999. In addition, the 130 existing ELCOs had to be expanded to add functionally separate space for the Accuracy and Coverage Evaluation survey, which functions as a sampling quality check on the decennial.

- One National Processing Center and three new Data Capture Centers were opened by September 1999. These centers will check in mail returns and electronically collate questionnaire data. The National Processing Center, in addition to functioning as a Data Capture Center, also processes address lists and questionnaire data.

[2]These functions are authorized by Public Law 94-171, the Redistricting Data Program. See also Bureau of the Census, "Census 2000 Operational Plan," February 23, 1999.

Decennial 2000 Office Occupancy by Quarter



Our review, as noted previously, focused on the largest category of the bureau's leased space, the 520 ELCOs and LCOs, totaling over 3.9 million square feet of usable space spread throughout the United States and costing $133,986,874 in FY 1999-2000. As shown in the chart above, the procurement of these 520 ELCOs and LCOs was organized into two phases and four waves (waves 4, 9, 10, and 11) within those phases.

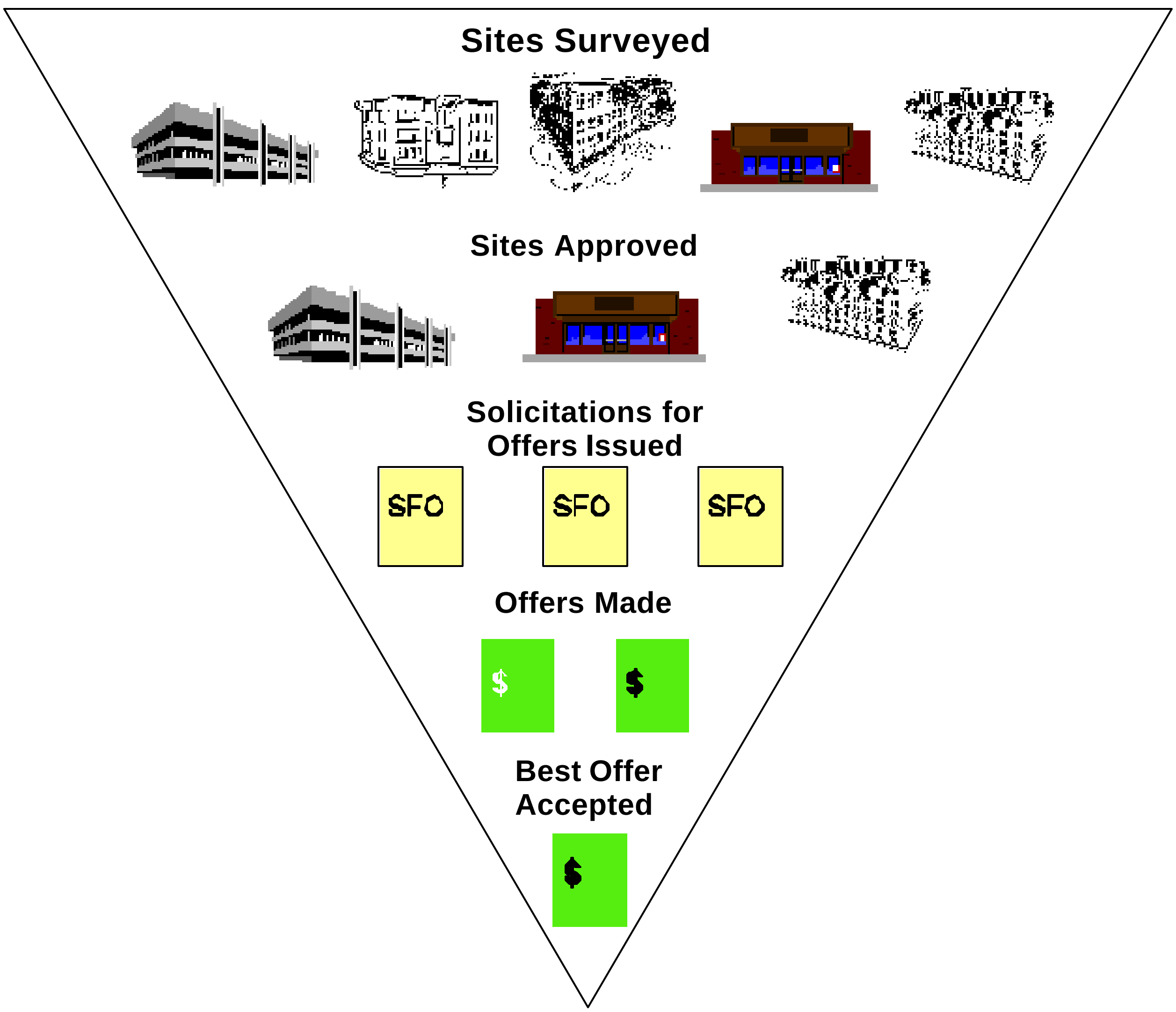
<u>The Acquisition Process</u>

Upon initiating the Phase II LCO leasing operations, the bureau attempted to standardize the site survey process in the hopes of consistently obtaining leased space at reasonable prices. GSA first determined the availability of government-owned or already leased space which could be used for a census office.

When government-controlled space was not available, GSA and the bureau jointly identified available privately owned space and went about acquiring it.

To promote competition, this process called for conducting market surveys of potential sites, with the most favorable sites receiving a solicitation from GSA to make an offer to the government—a Solicitation for Offer (SFO). This process can be visualized as a funnel in which the selection of options for office space is progressively narrowed (see figure 1).

Figure 1 - The Acquisition Funnel



Generally, the more options that Census has in each stage of the acquisition process—such as the more sites surveyed, the identification of many eligible sites, or the more SFOs sent out—the more offers generated, and, hence, the more alternatives available for the bureau at competitive prices. Site surveys constitute an especially important stage because surveying a large number of sites allows the bureau and GSA to better pinpoint the most desirable properties, and to better choose those sites that should receive SFOs. If a number of quality offers are generated, the bureau is then in a good position to state its preferences and to allow GSA to bargain for and obtain preferred space at a good price.

OBSERVATIONS AND CONCLUSIONS

I. Census/GSA Partnership Delivered Office Space but the Bureau Needs to Make a Final Evaluation of the Leasing Program When It Is Complete

All 520 ELCO and LCO Census offices were successfully opened. Working under guidelines set by the bureau and with the aid of the bureau's own leasing specialists, the Census/GSA partnership succeeded in leasing, overseeing the build-out of offices, arranging for data and voice telecommunications and security systems, and providing office equipment and supplies. This was done reasonably on schedule although there were glitches and slippages, as can be expected in an undertaking of this magnitude. Lessons learned from Phase I leasing helped the bureau tackle the later phase of leasing and office preparation. Despite slippages and some later reports of office quality problems, we found that offices of good or at least reasonable quality were opened in sufficient time to not jeopardize operations. However, the Census/GSA collaboration, given the scope of the effort, was not easy. We are recommending that the bureau evaluate the overall results of its collaboration with GSA shortly after the 2000 decennial offices are closed, to help make an early decision on whether the bureau wishes to employ a similar leasing strategy for the 2010 decennial.

<u>Offices Opened in Time for Operations</u>

The partnership clearly learned important lessons from Phase I and adapted its operations for Phase II. As the Director of the Census Bureau testified in early 2000,[3] the partnership had to secure these decennial office leases while the nation experienced a strong economy. It was more difficult to obtain short-term, small office leases in a tight real estate market. More time and effort, therefore, had to be spent both by the bureau and GSA staff in locating sites and negotiating leases. The office preparation process was harder to manage in a period when carpenters, electricians, plumbers, and telephone and computer technicians were also in short supply due to the construction boom. However, none of these difficult conditions proved insurmountable.

Census learned from the experience of Phase I that the partnership's resources were stretched thin in efforts to open all 130 ELCOs by October 1, 1998. Thus, it knew that it would not be able to open the remaining 390 offices by a single target date. The partnership planned to open the 390 LCOs in three successive waves with initial target dates of July 1, August 1, and September 1, 1999, with some

[3] Prepared Testimony of Dr. Kenneth Prewitt, Director, U.S. Bureau of the Census, at the U.S. House of Representatives Committee on Government Reform, Subcommittee on the Census, Hearing on Preparations for the Decennial Census, February 8, 2000.

leeway after those dates for the completion of late offices. Although 17 Phase I offices were not open by October 1, 1998, only 12 Phase II offices did not meet the September 1, 1999 target date. In other words, in Phase I, 13 percent of LCOs did not meet the target date, while in Phase II, only 3 percent were not opened by the three scheduled dates.

The New York region, with its overheated real estate market, had some of the most difficult problems in securing adequate space, delaying the start of build-out and telecommunications installations. The Seattle region had delays due to the phone installation contractors. Other dense metropolitan regions—Boston, Los Angeles and Chicago—had similar but less daunting challenges. By June 15, 1999, 18 out of the remaining 390 offices had serious "red-flag" problems and were in danger of the lease not being secured or the office not being able to open. The problems included such things as disputes over the terms of the lease, deals falling through, the search for alternative space, or unavailable contractors. By July 15, the red-flags had been reduced to 9, but cautionary "yellow flags" concerning potentially disruptive details of LCO preparation were on the upswing from 17 in mid-June to 35 in mid-July. More than half of the red-flags (5 out of 9) were in one region—New York.[4] Nonetheless, by mid-November, with the exception of the LCO in Glendale, California, which had delays connected with the city permitting process, all 520 local census offices nationwide were operational.

During October and November, 1999, the bureau did not need a full staff and was hiring "skeleton crews" for each LCO—an LCO manager, 3 assistant managers for recruiting, administration, and field operations, respectively, and an administrative assistant—who set up their offices and launched personnel recruiting drives. If an office was not open in October or early November, the staff was able to use nearby LCOs to do recruiting work. The full office staff of 44 temporary workers was not needed at each LCO until December, so a sufficient time margin was available to bring on line those offices that were not yet operational by the target opening date. These margins were August–September for waves 9 and 10 with target opening dates of July 1 or August 1, 1999, and October–mid-November for the final wave 11 with a September 1, 1999, target date.

While outside the scope of this review, we note that in the period from June 1, 1998, to March 1, 1999, the partnership also opened 494 census field offices and block canvas field offices. These were considerably smaller store-front style spaces, reportedly not nearly as difficult for the partnership to lease. In addition, as a result of the bureau's new operational plan for a traditional count with a sampling quality check, each of the original 130 ELCOs needed approximately 1000 more square feet

[4]Not all of the New York offices turned out to be adequate and problems persist. In late February, the bureau was reportedly attempting to correct persistent problems at the Harlem LCO with trash, rodents, plumbing leaks, a malfunctioning sprinkler system, and frequent lack of running water. The bureau is considering a move if necessary.

of space for an additional room with a separate entrance for Accuracy and Coverage Evaluation activities and more storage space. Combined with the need for the 13 new ACEROs, the expanded ELCOs constituted an additional 143 expansion projects for the partnership to complete in addition to the 1015 offices already planned and in various stages of leasing. At the end of February 2000, only 4 of the expansion projects had not been completed.

The Seattle Region had the most difficulty nationwide with the inefficiency of its telecommunications contractors. Telecommunication installation in the nation's Pacific Northwest was often delayed because of the long distances installers or repair personnel had to travel. A total of 17,000 telephone lines nationwide were installed and are operational.

In our visits to 14 ELCOs, we found that the offices provided pleasant and well-designed space with acceptable layout and apparently good workflow, although one ELCO was a bit crowded. There were acceptable lavatory facilities in 12 of the14 offices, but one office had frequent problems with the residential-grade toilets that had been installed, and another ELCO had the lavatories inconveniently located. We found a functional mix of permanent and disposable furniture, operating security systems, and acceptable public access or parking space at all offices. Staff were attending to all the above problems. We also found safety concerns, given the location of one ELCO in a high-crime area, some computer problems still being worked on, a high noise level in one Chicago LCO, and, at all ELCOs visited, problems with telephone systems (see page 22).

A Working Partnership

Each regional Census/GSA partnership had to be forged at the local level, where staff adjusted their roles to those of their partners and to the specific requirements, obstacles, and work pressures faced in getting the offices open. Overall, the partnership with GSA appeared to be working and improved as the initial group of offices were secured. The Field Division actively monitored the dynamics and effectiveness of the partnership at the regional level, and took steps to improve working relations between the bureau and GSA in a few regions in Phase II. A consultant[5] identified both strengths and weaknesses in the leasing process, thereby enabling the Joint Venture 2000 national core team to clarify roles in Phase II and strengthen collaboration in those regions that were having difficulties. Given the intensity and demands of their task, there were a few understandable strains, discussed below, but Census and GSA staffs were able to get the job done according to the bureau's stringent requirements and within an acceptable schedule.

[5]Monroe-Cook & Associates, "Presentation Report: Qualitative Evaluation of Joint Venture 2000 Communications Perspective," September 1998.

Although each regional partnership was subject to the same demanding timetable, in many regions communications and cooperation were quite good, but in some regions the strains of the acquisition process affected the level of communication and the willingness of the partners to act as a team. Team members also developed contrasting perspectives on the partnership, which contributed to tensions in some regions during Phase I and less so in Phase II. Census Bureau leasing specialists and project managers, for example, sometimes believed that GSA often emphasized getting the job done at the expense of "getting it done right." GSA staff and managers, on the other hand, tended to believe that bureau staff often emphasized procedure and doing more searching than necessary at the expense of getting the job done efficiently. They were under pressure to get their Census work done quickly, because, as they put it, the bureau was "not our only client." In a few regions, bureau staff and managers felt that GSA was treating them as just another client, not as the "prime customer" as GSA had promised. In part, these misperceptions between GSA and the bureau resulted from Census needs and requirements not being communicated by GSA managers down to their street-level staff, a flaw that was largely corrected in Phase II.

The partnership management team devised a division of labor that was incorporated in the MOU but the matter of oversight was not addressed. From a consultant's partnership surveys[6] and our interviews, we learned that bureau staff in a number of regions and in both phases expressed varying degrees of dissatisfaction with such matters as their limited participation in market surveys and the amount of information shared between Census and GSA. GSA managers and staff, however, occasionally felt constrained both by the many bureau requirements—such as the need for a good location in relation to population, public access, and, if possible, a modern infrastructure that would support computers—and the bureau staff's double-checking. In Phase II, these tensions and communications problems were considerably alleviated by weekly partnership team meetings allowing each side to feel far more comfortable with their partner's mode of operation.

Overall, tensions varied across regions, but tended to be higher in those activities where Census and GSA regional team members had overlapping responsibilities (see appendix, page 36). We found that differences arose between the bureau and GSA's Public Building Service on tasks that required the most collaboration, such as market surveys or the evaluation of offers from potential lessors. Bureau staff often questioned whether (1) the market survey included enough good choices, (2) offers were coming in at a favorable or reasonable price, and (3) GSA was obtaining the best deal for the bureau. In one region, GSA management replaced a project director to keep the relationship with the bureau flexible and communications open. In most regions however, teams were able to work things out,

[6]Surveys conducted by Alternative Solutions, Inc., a partnership contractor, were cited in "Securing Space and Services to Support Field Operations: A Business Case Analysis," *U.S. Bureau of the Census,* November 1998.

maintain good working relationships, and overcome the largely surmountable difficulties that accompany high-pressure collaborative work of this kind and reflect normal frustrations with an unwieldy partnership tasked with completing a large project on a fixed schedule.

The bureau should assess the benefits and costs of its partnership with GSA

The question remains whether a similar partnership between the bureau and GSA, or a modified arrangement, should be used to secure leased space for the 2010 decennial. Although the bureau made an initial assessment of the partnership,[7] before retaining GSA as its partner and agent in Phase II, the overall costs, benefits, and results of the partnership still need to be assessed either by the bureau or by an independent party soon after the 2000 decennial is completed.

In responding to our draft report, the Census Bureau concurs with our recommendation that an evaluation of the Census/GSA partnership model should be performed. The Bureau intends to initiate such an evaluation by an independent party after the completed closing of the LCOs in the fall of 2000 and to use the findings from the evaluation as the primary planning tool for the 2010 space and leasing program. The bureau agrees with our assessment that the partnership learned important lessons from Phase I of the agreement and successfully adapted its operations for Phase II.

[7] Alternative Solutions, Inc. positively characterized the partnership in Phase I. This was cited in the Business Case Analysis, *U.S. Bureau of the Census*, November 1998. See also Monroe-Cook & Associates, "Evaluation of Joint Venture 2000," September 1998.

II. There Are Some Lessons to Be Learned from the Bureau's Real Estate Operations

While the Census/GSA partnership did succeed in getting all of the LCOs open before the end of November, there are some "lessons learned" and best practices that can be applied during the 2010 decennial. For example, during the initial phases of the ELCO/LCO leasing program, the bureau sometimes limited its ability to obtain leased space by defining ELCO delineated boundaries too narrowly. However, we found that Phase II leasing efforts were significantly improved because the bureau expanded the size of the geographical areas it considered for obtaining leased space. In addition, we noted that RCC leasing-related file management should be improved.

A. The bureau initially drew lease delineated areas too narrowly

A number of leases from the initial phase of local office openings were awarded without adequate competition. This lack of competition resulted primarily from the fact that many of the delineated areas for specific leases were narrowly drawn, thereby limiting the number of lessors who could bid on the leases. As a result, at a number of sites, the leases were more expensive than anticipated, and the Census Bureau had to expand its delineated areas and begin the lease acquisition process again. This lost valuable time.

Delineated areas refer to the specified geographic area within which the government will consider renting office space. It was the Census Bureau's responsibility to define the delineated area for each local census office for GSA. GSA and, in some regions, bureau personnel conducted market surveys within the delineated area to identify potential lessors. Once potential offerors were identified, a solicitation was prepared by GSA, citing the delineated area identified that is then issued only to the identified potential offerors. Once received, formal offers were then negotiated until one site was chosen for the ELCO or LCO, representing what was supposed to be the best overall value to the government.[8]

The delineated areas were developed by the bureau based on the combination of several factors such as population density and dispersal, public access, and logistical considerations (which were especially important in geographically large, thinly populated congressional districts). The bureau had a stated goal of placing at least one ELCO or LCO in each congressional district and the ELCO/LCO coverage areas often correlate closely with existing congressional districts. Nevertheless, Census had sound protocols for setting ELCO/LCO boundaries and these boundaries did not always match those of

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[8] Normally, the federal government would advertise its lease requirements for a given delineated area before the issuance of a solicitation to maximize interest among potential lessors. In the case of the decennial, however, the bureau and GSA opted to rely on market surveys because of the large number and relatively small size of offices to be leased.

congressional districts. The ELCO/LCO coverage area boundaries were modified by interim estimates of population and households so that ELCO and LCO offices could be centrally located, where possible.

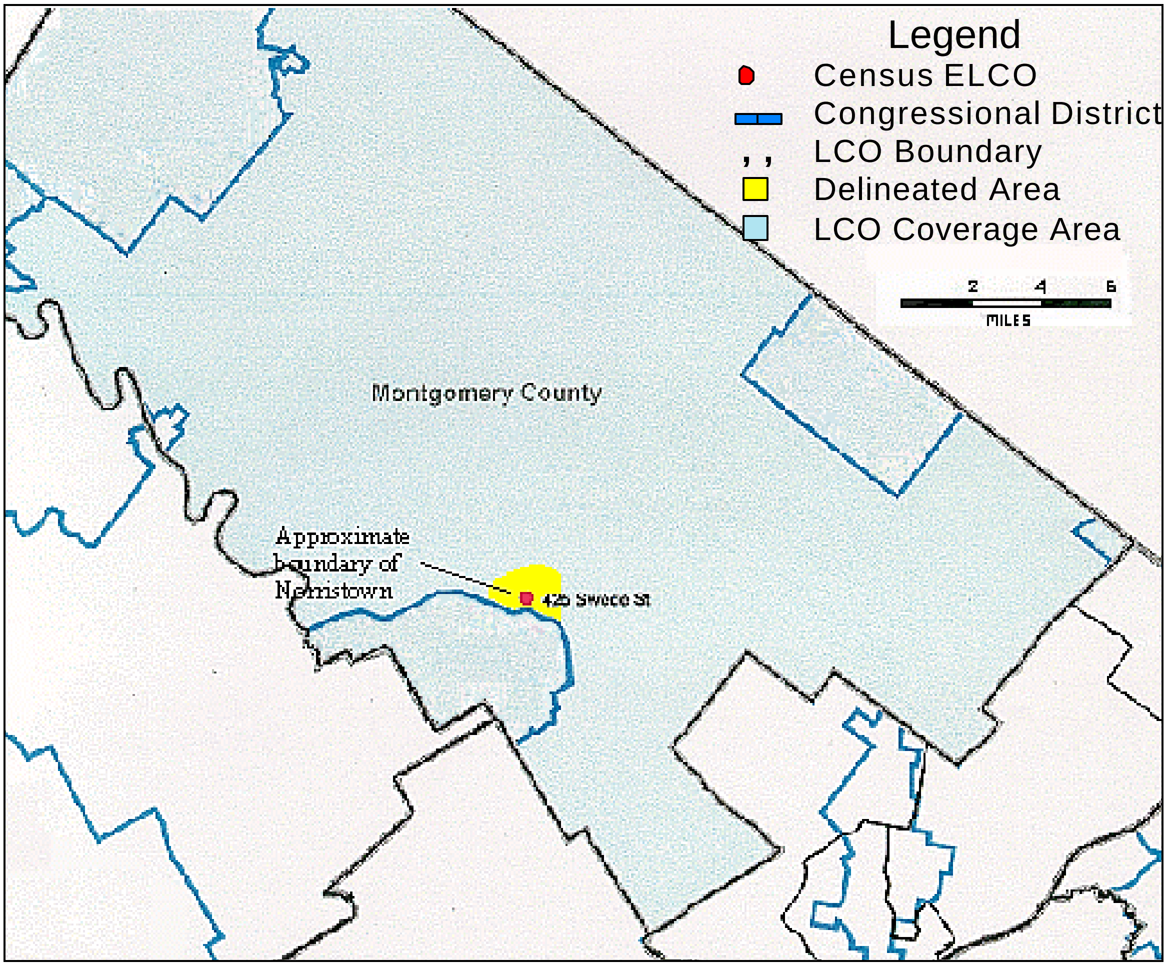
In planning Phase I ELCOs, several regional offices drew some delineated areas too narrowly in an attempt to precisely place offices. This created problems, initially, in the effort to secure office space at a reasonable cost and within acceptable time frames. For instance, the ELCO in Norristown, Pennsylvania, an outlying suburb of Philadelphia, had only one lessor submit an offer because the delineated area was limited to the municipal boundaries of Norristown (see figure 2). Norristown is only one of several municipalities within the area where the ELCO could have been placed.

The Norristown lease is expensive for the area. The landlord originally quoted $29.50/square foot, more than 13 percent over the highest average class A office space in Philadelphia.[9] The $29.50/square foot quote included unlimited heating, ventilation and air conditioning (HVAC) and unlimited use of the 6,600 square foot (usable) space. The bureau—through GSA—entered into negotiations and rejected this offer as too high. However, the landlord persisted through hard bargaining and charged additional costs for overtime HVAC and daytime janitorial services.

The bureau and GSA estimate that the lease as signed will cost approximately $27.60/square foot, but if the office sees heavy overtime usage, the cost could be considerably higher. For instance, overtime HVAC of $20/hour for only 10 hours each week would add an overtime utility cost of $10,400, or approximately $1.50 square foot in additional rent for the 24-month lease. Nonetheless, the bureau agreed to the lease because the Norristown ELCO was already behind schedule, and the bureau was reluctant to take the additional time needed to expand the delineated area and start over.

[9] Society of Industrial and Office Realtors, *Comparative Statistics of Industrial and Office Real Estate Markets*, 1998, page 290. This is the same data that the bureau used in developing its baseline leasing budget and Phase II leasing study.

Figure 4: Delineated Area Within the Norristown, Pennsylvania, LCO Boundaries



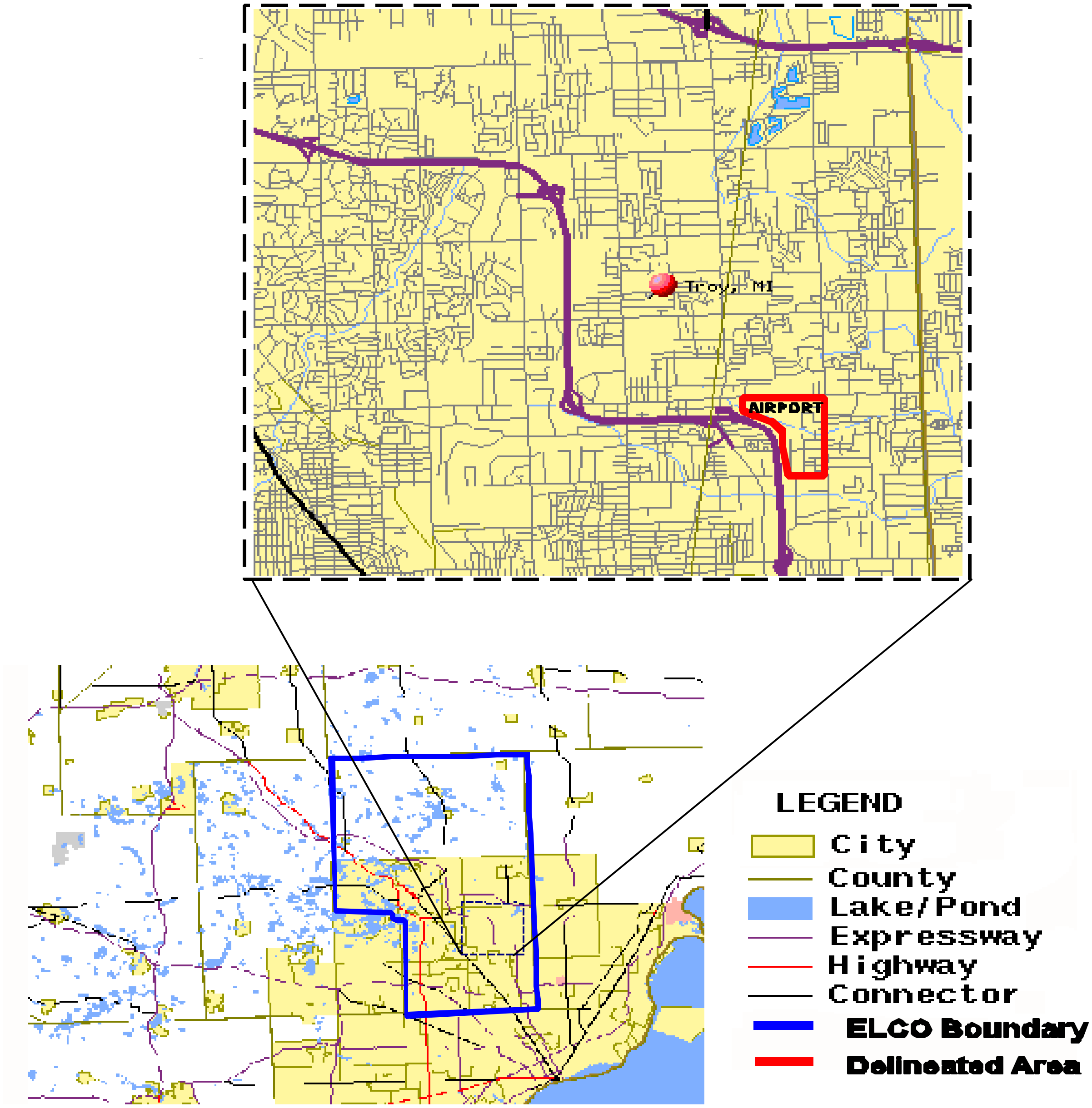
Another example is the small delineated area specified for the ELCO in Troy, Michigan, a northern suburb of the city of Detroit (see figure 3). Regional bureau personnel in Detroit believed that one particular light industrial center was well situated for the office in terms of population distribution and logistical placement. They assumed that at least one of the landlords in this industrial center would make space available for the ELCO. The delineated area was therefore drawn to encompass this particular business center which covered only one third of a square mile. The area also included a small municipal airport, further reducing the number of potential landlords.

However, when GSA and the bureau contacted potential lessors, none were interested in leasing to the government. A lease was later signed on another property located outside the original delineated area, but only after a significant delay.[10] The office did not open on schedule. In fact, the Troy ELCO was the last ELCO in the nation to begin operations. The impact of this was that temporary bureau employees were not hired in time and key operations were delayed, including block canvassing. During our inspection, we observed temporary decennial workers who had been bused in 255 miles from Cincinnati, Ohio, because of the shortage of local workers.

As a result of narrowly defined delineated areas during Phase I, the bureau's options of available lease space were limited, resulting in higher costs—as was the case with the Norristown ELCO. In other cases, such as the Troy ELCO, the bureau had to expand the delineated areas and repeat its effort to acquire space, which compressed the available lead time before the offices were due to open. This led to higher costs and delays in operations in Phase I.

[10]Class A Detroit office space outside the central business district ranges in cost from $18/square foot to $24/square foot. The Troy ELCO was leased at an annual rate of approximately $18.50/sf. See the Society of Industrial and Office Realtors, *Comparative Statistics of Industrial and Office Real Estate Markets*, 1998, page 230.

Figure 3 - Troy Michigan ELCO Boundary and the Original Delineated Area



We noted a concerted effort by Census to broaden its delineated areas in Phase II of the leasing operations for the acquisition of leased space for 390 LCOs. Rather than describing narrow areas—sometimes with a block-by-block description—entire groups of municipalities have been used as delineated areas for many Phase II LCOs. The result has been greater competition and relatively greater access to space while maintaining the required leasing schedule.[11]

We recommend that in the 2010 decennial, the bureau draw its delineated areas as broadly as possible to increase competition between potential offerors for LCO lease space. This greater competition should not only reduce the bureau's overall lease costs, but should also ensure that it has alternative space available when unforeseen difficulties prevent a lease award.

The Census Bureau, in responding to our draft report, agreed with our recommendation to draw delineated areas as broadly as possible in the 2010 decennial. The bureau states that it will make additional efforts in 2010 to address the issue of adequate competition in the lease acquisition process, based, in part, on the Census 2000 experience. The bureau commented that initially smaller boundaries were draw in Phase I with the intention of expanding these boundaries where necessary. The bureau noted, however, that with the accelerated schedule and the late start of the actual space acquisition process, GSA did not have time in Phase I to conduct additional market surveys as the delineated areas were expanded—a problem that was corrected in Phase II by drawing larger boundaries from the outset.

B. The lease project needs to improve file management

Department of Commerce bureaus are required to maintain adequate and easily retrievable documentation of their essential transactions.[12] The bureau's leasing files, however, varied in quality between regions and were often not complete. Complete and organized files were necessary for the bureau to (1) maintain oversight and management of the leasing and build-out process, (2) ensure and document a fair and transparent process of competition, (3) record transactions between the bureau and GSA, and (4) fulfill its responsibilities as a lessee. Pressures to acquire leased space, however, tended to push staff to set aside the work of maintaining files. Although both partners must keep their own files, the Census Bureau tended to rely on GSA since GSA is obliged to keep the complete

[11]Unfortunately, some of these gains have not been realized due to delays in installing telecommunications services.

[12]U.S. Department of Commerce, Department Administrative Order (DAO) 205-1, Section 4.01.

original contractual files. Census headquarters did not insist on a standard method of maintaining the files and did not develop standards for file contents until Phase II.

The bureau's working files need not be identical to GSA's, but they should be adequate for the bureau to maintain proper oversight of the leasing process and to manage its responsibilities as the tenant of leased properties. To maintain oversight of the leasing and build-out process, the bureau should have on hand and keep essential documents, such as abstracts of Solicitations for Offers (SFOs), abstracts of offers, copies of the leases and amendments to leases, floor plans, as well as necessary documents relating to the installation of high-speed data circuit lines, the telephone system, security system, build-out plans, construction progress, and delivery of furniture and supplies. According to the Joint Venture 2000 definition of roles in the LCO space acquisition process (see page 36), the bureau had specific responsibilities to conduct market survey inspections, assess security requirements, collect crime statistics, prepare architectural drawings, approve SFOs, and approve the final offer. Documentation of these agreements and activities is necessary for the bureau to manage the leasing process, resolve disputes, and oversee GSA's activities on behalf of the bureau.

The completeness and the organization of files varied among the regions we visited. In some regions, the files concerning leased properties were largely complete with just a few items missing, but in other regions some key documents were missing from all folders. Most of these were working documents, but some documents, such as occupancy agreements, should be retained according to the applicable record schedule.[13] Some regions had organized series of folders and indexes, while other regions had workable but less structured systems of organization. Most regions' files were organized by office leased, but one region had files organized by functional document, such as leases or occupancy agreements.

The Phase II "kick-off" meeting included a number of useful checklists and tables assigning responsibility for the work on each LCO site. However, we found that the regional personnel were not always using these tools to guide their work nor keeping them as records. In the Chicago RCC, records were in good order, but in the other RCCs visited we found the following:

[13]The retention and disposal of types of documents common to several agencies is authorized by the General Records Schedule. For instance, routine procurement files should be destroyed 6 years and 3 months after final payment, while supply management files should be destroyed when 2 years old. See *General Records Schedule 3*, National Archives and Records Administration, transmittal No. 8, December 1998, pages 3-4. In addition, agencies must keep their own record schedules to cover the management of agency-specific documents.

- In the Philadelphia RCC, there were no delineated area maps or other description of the delineated areas in four out of 12 ELCO files. Maps indicating the delineated areas should have been included in the SFOs and retained in the files.

- In the Detroit RCC, efforts were made to make the files complete, but essential documents such as occupancy agreements and some survey information, requested from GSA, had not been received.

- In New York RCC, potential sites were hard to find, so few surveys had been done. Even so, the files held incomplete survey information. A leasing specialist informed us that the regional office had requested survey documents and occupancy agreements from GSA on a number of occasions, but not all the documents had been provided.

- In the Kansas City RCC, the files were orderly, highly organized, and essentially complete. Two occupancy agreements for government leased-space, however, had not been sent by GSA regional staff to the RCC prior to occupancy and had not been signed by the assistant regional census manager even though the bureau had already taken occupancy of the space.

- In the Boston RCC, the available files that we examined were meticulous, but contained only copies of the occupancy agreements and the leases. There were no surveys or correspondence included in the files that we reviewed. We were later informed that other files, the day-to-day working files, were not made available for our inspection.

The bureau cited a number of reasons for these inconsistencies. First, the bureau and GSA were primarily focused on securing leased space. The maintenance of files was not as obvious or critical as other documentation systems, such as the on-line Intranet schedule tracking or cost reporting system, even though the contents of the files may undergird those systems. Even through the headquarters Field Division emphasized the need to maintain files early in the leasing process, and sent a memo to Census regions mid-way in Phase II instructing them to clean up their files, some regions still found little time for routine file maintenance. Second, since bureau staffers were aware that complete files were kept by GSA, they did not always insist on obtaining copies of relevant documents for their own files. Finally, in some regions, either the bureau was slow to request copies of essential documents from GSA, or GSA was reportedly slow or failed to send requested copies.

When essential file documents or information are missing, the bureau lacks the detailed information necessary for management oversight and appropriate internal record-keeping. There may not be enough information in the files to either understand or resolve matters, especially in cases of disagreements between the bureau and GSA. In addition, the bureau may be failing to retain documents it is requested to maintain by either a general or Census-specific record retention schedule. Accurate records are essential in all phases of leasing, including the build-out, telecommunications and tenancy phases. Greater standardization of census leasing file management should be prescribed and overseen by the Field Division.

In responding to our draft report, the Census Bureau concurs with our recommendation to create a standardized system of file management for use in all Regional Census Centers in the 2010 decennial leasing operations and to ensure that staff comply with applicable record retention schedules. We trust that the bureau will also emphasize full compliance with such a standardized system of file management. The bureau also notes that the Field Division's regional space leasing staff are finalizing an action plan for the retention of the 2000 decennial lease files in accordance with record retention requirements and the 2010 evaluation and planning needs, and have begun work with the Regional Census Centers (RCCs) and GSA to do so.

III. The Bureau Needs to Improve Planning for Decennial Leasing and Office Preparations

The budget and programmatic uncertainty stemming from the sampling controversy made decennial planning more difficult and protracted. Once the Supreme Court's decision came in January 1999, the bureau was under considerable pressure to finalize plans and regain lost time. We found that in telecommunications, especially, Census developed less than complete requirements and then had to make necessary changes to plans, which sometimes disrupted operations and adversely affected the lease project's cost and schedule, or both. We also note that planning has been aided through the use of formal business case analyses.

A. Improved planning for telecommunications is needed

The bureau had to make significant changes to its requirements for the telecommunications system once it became apparent that the original plans and estimates of telephone usage were inadequate. In addition, because of budget uncertainty, spending for the telecommunications system was initially conservative and not sufficiently focused on overall system requirements. As a result, the bureau's telecommunications contractors had to install additional lines for job recruiting, a more complex call routing subsystem, and voice mail. These changes increased telecommunications costs and delayed the planned opening and operation of some ELCOs and LCOs.

Conducting the 2000 decennial requires the extensive use of sophisticated telecommunication systems. Telecommunications technology is necessary for data collection from the public, interoffice communication, recruiting, and computer data transfer among offices. Without well functioning telecommunications systems, the ELCOs and LCOs cannot operate effectively and adequately support the decennial. We found significant problems with the systems planning for voice telecommunications in the bureau's ELCOs and LCOs. We observed that the ELCOs did not have enough lines and system capacity to handle a large volume of calls. Two other commonly cited system problems (not user error) were dropped calls during transfer and unanswered calls routed to other phones in a seemingly random pattern.

The bureau made numerous incremental changes to the LCO telecommunications requirements, complicating telecommunications system design and installation. One example of changing requirements was a job recruiting line with an 800 number that was originally planned to service all potential recruits for temporary jobs. However, approximately 5 months after installation of the original system, bureau officials found that the high capacity line was inadequate because it could not handle the enlarged volume of calls. As a result, the bureau had to reroute all recruitment calls automatically to the nearest ELCO or LCO. This change caused other requirements to change. For instance, all ELCOs and

LCOs had to be fitted with voice mail to handle job line calls that came in after hours or when all their lines were busy.

Inadequate bureau planning was the principal cause of this problem. For example, to determine the capacity needed for the telecommunications system, the Decennial Recruiting Office had to estimate the number of temporary staff and the number of calls that the staff would be generating and receiving. The bureau required input from regional offices, the Decennial Field Operations Office, the Partnership Office, the PAMS/ADAMS Division, and at least six other bureau offices to determine how much capacity would be needed for the system. Unfortunately, the process for collecting the data was not well organized. The offices submitted their data to bureau planners at different times, often making changes afterwards. This rather undisciplined effort resulted in incorrect estimates.

Another important reason the requirements kept changing was budgetary uncertainty. Ongoing disagreements over decennial operations and funding between the Administration and the Congress led to delays in, and uncertainty regarding, the bureau's future budgetary allocations. As a result, the bureau tended to spend conservatively on its systems and to design the system to match its perceived budget, rather than to meet the estimated technical needs of the ELCOs/LCOs.

Finally, often inadequate coordination of installation services between the telecommunications vendors and GSA or bureau personnel resulted in many wasted hours of government employee time and increased contractor costs. During deployment of the system in the ELCOs, the bureau used more than 55 installation subcontractors of widely differing ability, causing installation delays and operational disruptions at some ELCOs. Many offices required a second or third visit from the vendor to correct problems with the phone system.

Other telecommunications problems were highlighted in the bureau's documents and include:

- ELCO staff reported difficulty in adapting to the new, more complex, telephone system—due to a lack of sufficient training and hands-on experience with the new system.

- The original system was badly configured and calls frequently could not be routed to the intended recipient, resulting in inefficient interoffice communications.

- The original contractor required a significant cost increase to provide voice mail in each LCO and was unable to provide two additional phone lines for each of the Accuracy and Coverage Evaluation offices needed under the finalized plan.

The cumulative effect of these problems was that the telecommunications system originally deployed in the ELCOs had to be completely replaced by a new system approximately 5 months after the first installation. The old system's configuration problems and insufficient capacity to meet the bureau's existing and continually expanding decennial 2000 requirements made it inadequate. The cost of the system that was replaced, including additional costs for wiring and servicing that system, was at least $7 million. The new system, a more capable model from the same manufacturer, appeared to meet the bureau's requirements. However, deployment delays and increased costs have also occurred with the new system. Managers in the bureau's Telecommunications Office estimated that as a result of the delays, 5 to10 percent of the LCOs' telecommunications were not operational according to schedule.

Clearly, the bureau needs to plan its telecommunications system requirements more thoroughly to minimize changes. Bureau officials have suggested that the changing telecommunications requirements stemmed from the Supreme Court's January 1999 ruling. While it is true that more phone capacity was needed for additional LCOs required by the ruling, the need for greater jobs line capacity and voice mail existed before the court decision, according to officials in the Department's Office of Telecommunications Management (OTM).

For the next decennial, the bureau should provide better centralized coordination of the many offices that supply information needed for planning its telecommunication system capacity requirements well in advance of the leasing of its field offices and be able to promptly inform planners of any changes in their needs. Additionally, the bureau should coordinate planning with the OTM and provide the OTM with a detailed plan for the 2010 telecommunications procurement and systems deployment before the systems are purchased so that it may analyze and provide advice to improve the overall plan. The bureau should also regularly update OTM as the systems procurement and deployment unfold in preparation for the 2010 decennial.

In responding to our draft report, the Census Bureau concurred with three of our recommendations: a) to ensure that lessons learned from the installation of telecommunications systems in the 2000 decennial are captured for the 2010 decennial; b) to ensure that there is early and centralized coordination and gathering of information on offices' capacity requirements for the 2010 decennial census; and c) to coordinate with and provide the Department's Office of Telecommunications Management (OTM) with a detailed plan for 2010 telecommunications procurement and systems deployment before any systems are purchased. The bureau noted that the decision to open the ELCOs one year earlier than scheduled had an adverse impact on the evaluation and planning for capacity requirements, and that the process of planning for the decennial 2000 telecommunication system would have benefitted from more centralized coordination and better communications between the headquarters offices, the RCCs, and the local offices.

B. The bureau should improve its use of formal business case analyses

To guide its process for making critical decisions related to the 2000 decennial, Census started using a systematic case approach—known as formal business case analysis—to guide its decision-making, help the bureau assess the results of Phase I, and move to Phase II. We found this trend to be a positive development and encourage the bureau to formalize and expand the use of such analyses to make formal justifications easier, improve accountability for managers and resources, and arrive at well-informed decisions. However, we also observed that the business case analysis process used in leasing and contractual decision-making were sometimes flawed because the analyses were not complete or the options studied were limited.

For example, when the bureau realized that it was having problems with its Phase I (ELCO) telecommunications, it drafted a business case analysis to lay out the problems with the system and the options available to correct them. The draft business case document listed the options of hiring different contractors to finish the deployment of LCO telecommunications systems and indicated that using two different contracting options would result in a higher quality system at a lower cost. The draft document appropriately laid out three options for addressing the telecommunications problems. However, the bureau never finalized the document and ultimately chose an option that—while not a great departure from the listed options—was not included in the draft document.

Insufficient planning was primarily responsible for the implementation of the original inadequate telecommunications system. In considering replacement of the system, the bureau should have accurately detailed all of the options available and then finalized its planning documents for Census management's review and to help ensure that managers have all relevant information available to them when making final decisions (see page 23).

In a second example, Census developed a business case for proceeding from Phase I to Phase II of the Joint Venture 2000 leasing partnership. This analysis provided considerable detail on the actual costs that the bureau was incurring in Phase I and forecast the expected cost of continuing with GSA into Phase II. However, the business case included flawed assumptions in its analysis to proceed to Phase II of the lease project. Specifically, the Phase II business case analysis used cost estimates for Class A office space by geographic region. In reality, the ideal space needed by Census was light industrial and strip mall-retail which is typically less expensive than Class A office space. As a result, the Phase II analysis overestimated costs, as well as the savings claimed in the leasing business case analysis. Nonetheless, we believe that the bureau benefitted from preparing the business case analysis in that it provided management with some useful market information on costs and potential availability of lease space.

In summary, although we found that the business case analyses that we reviewed had some flaws, we believe that their use as a management tool should improve the bureau's decision-making process. We recommend that the bureau expand its use of formal business case analyses to guide its managers' decisions.

In responding to our draft report, the Census Bureau concurred with our recommendation to expand the use of formal business case analyses as a management tool in the 2010 decennial. However, the bureau did not concur with our statement that the business case analysis used for Phase II of the 2000 decennial was flawed because cost estimates for Class A office space were used. It disagreed that estimates based on light industrial and strip mall retail space would have been appropriate. Although typically less expensive than Class A office space, the bureau said that light industrial and strip mall retail space was not widely used for it was often either not available or did not have the infrastructure in place for necessary voice and data communications lines and therefore required longer lead times for installation.

IV. Space Leasing Project Lacks an Adequate Interagency Agreement with GSA

The Census Bureau and GSA were to formalize their partnership agreement through a memorandum of understanding (MOU). The agreement was to spell out the roles, responsibilities and rights of each agency: the bureau was responsible for setting the broad specifications and requirements and providing the project funding; GSA was responsible for identifying and leasing space throughout the United States and arranging for the data and voice telecommunications, office furniture, and supplies.

The two agencies agreed that there would be a separate MOU for each of the two leasing phases. The Phase I MOU, dated February 17, 1998, was used to acquire temporary space for approximately 402 census field offices, 130 ELCOs, and the corresponding telecommunications, office furniture, and supplies. The Phase II MOU was to be used to authorize GSA to proceed with the leasing of the remaining 390 LCOs. The bureau and GSA signed the Phase II MOU on November 17, 1998, and began performance under it before receiving all of the required Commerce Department clearances. As a result, the Department advised the bureau in December 1998 that the agreement was not final. The Phase II MOU has since been revised several times. As of March 29, 2000, it had not been signed by GSA.

To manage a project as large as the 2000 decennial, a well-constructed MOU is necessary for each party to understand its rights and responsibilities under the partnership. Such an MOU should be formally constructed so that it provides clear guidance to the parties and minimizes potential disputes. We found that the Phase I MOU and the Phase II draft agreements were missing several key elements and the initial Phase II draft MOU included a citation that prevented agreement between the parties.

The partnership agreement lacked key elements

In examining the Joint Venture 2000 partnership agreement, we found that it did not adequately define the use of commercial brokers, nor did it cite a legal authority acceptable to both parties, to govern the treatment of funds and disposition of receipts.

<u>Use of commercial brokers</u>

The use of commercial brokers was provided for in the Phase I MOU. However, the exact responsibilities of these brokers, the extent of their authority, the estimated cost for their use, and which party (the bureau or GSA) is responsible for managing them were not discussed in the MOU.

While some of the details on the use of brokers could have been dealt with outside the MOU, we believe that the cost, authority, and oversight issues regarding brokers should have been in the MOU. The lack of detail concerning the use of commercial brokers can lead to misunderstandings and possibly to the government becoming subject to unauthorized obligations. The use of commercial brokers also adds to the cost of the leases through the addition of brokers' fees. This is true even where the landlord pays the commercial brokerage fees because such costs are included in the landlord's lease rate.

The MOU should have fully described the use of commercial brokers: under what circumstances they would be used; whether GSA, the bureau, or the lessor would be responsible for commissions; and the limits of their authority. We recommend that the bureau refrain from using commercial brokers in the 2010 decennial leasing operations until the terms of their use are worked out with GSA, if applicable, and with individual lessors.

The Census Bureau, noting that approximately 6 percent of the Census 2000 acquisitions involved the services of GSA contract real estate brokers, concurred with our recommendation that commercial brokers should not be used in the 2010 decennial leasing operations until the terms of their use are worked out in general policy and with individual lessors.

Census and GSA need to sign revised Phase II MOU

As we indicated above, the bureau and GSA signed a Phase II MOU on November 17, 1998, and began performance under it before receiving all of the required Commerce Department clearances. After the bureau was advised by the Department, in December 1998, that the agreement was not final, the Phase II MOU has since been revised several times. On September 30, 1999, the bureau sent the revised draft MOU for the ELCO/LCO lease program to GSA after it was approved by the Department's Office of General Counsel, the Chief Financial Officer, and other appropriate officials. However, GSA reviewed the draft and determined that under its specific authority it is exempted from adhering to the Economy Act. The Department's Office of General Counsel now agrees with GSA's position and needs to delete citation of the Economy Act in the draft MOU.

As of July 25, 2000, the Office of General Counsel had still not revised the MOU thus leaving the project ungoverned by an agreement between the parties. The Department should work closely with the bureau and with GSA to finalize an MOU, especially since the MOU covers the close-out and property disposition services for the leased offices. In the future, if the bureau enters into another agreement associated with the decennial leasing operations, or any other activity, it should make sure that the agreement receives appropriate approvals from the Department before the agreement is finalized and any work is started. This includes agreements that do not have money directly associated with them.

In its response to our draft report, the Census Bureau concurred with our recommendation to finalize a memorandum of understanding between the bureau and GSA. However, the bureau notes that despite the lack of a signed MOU for Phase II, all work has been accomplished, with the exception of office close-out and the disposition of property. The bureau makes no mention of rectifying the lack of any present formal agreement between the bureau and GSA. We believe that such an agreement is still needed and reiterate our recommendation for the finalization of an MOU in the current 2000 decennial, however late in the process.

V. The Bureau Could Have Made Greater Use of Build-Out Financing

Many of the census offices, once leased, must be "built out" to configure the office according to the Census Bureau's specifications. While each office has mostly open space, the following enclosed spaces are needed in each LCO: a manager's office, approximately 120 square feet (SF); a break room (200 SF); a multipurpose room (400 SF); a training room (650 SF); and a central storage room (750 SF). If an attached quality-control Accuracy and Coverage Evaluation office (200 SF) is part of the LCO, slab-to-slab walls and a separate entrance are also required. Such alterations include tearing down or putting up walls and doors, building ramps to ensure compliance with the Americans With Disabilities Act, and improving electrical systems.

During final lease negotiations, the lessor is given the option to include the cost of the build-out in the rent or to receive a lump sum payment for alterations of the leased space—payable upon completion of the build-out effort, but before occupancy. If the lessor chooses to finance the project through a commercial lender, the lessor's finance costs will be included in the rent charged to the government. While the bureau encouraged some up-front payment of build-out costs, thereby eliminating finance costs, this was emphasized far more in the later waves of the partnership's campaign.

During our review, we learned that the Phase II office acquisition budget included a targeted amount of $8 million for office build-out payments to lessors. This fund was to be used to finance lessor build-out costs in the form of up-front lump-sum payments or to otherwise encourage offers in tight markets. Up-front build-out payments have three distinct advantages in that they

- provide for the completion of the office build-outs at a lower cost to the government by eliminating the lessors' finance costs (approximately 12 percent per annum for construction loans), which would otherwise be included in the lease rate;
- encourage more offers from lessors (since construction loans are a disincentive for some lessors), thereby improving the competitive framework for the negotiation of these leases and GSA's bargaining position on the bureau's behalf;
- enable the build-outs to be done more quickly, given the tendency of landlords to delay beginning the build-out to lessen their own borrowing costs.

The bureau did not utilize the same proportion of build-out funds in earlier waves 1–9 as it did in waves 10–11. In wave 4, the wave in which the ELCO's were leased, the bureau expended only $697,419. Before April 1999, few of these targeted funds had been used because the bureau intended to retain these funds to use as added incentives in negotiations in what they correctly anticipated would be the most difficult markets. The leasing projects assumed to be most difficult were scheduled in the last waves—waves 10 and 11. However appropriate this strategy might have been, we were concerned that if the bureau waited too long to utilize these funds, it might not use a large part of this targeted amount and would thereby miss an opportunity to reduce its overall leasing costs.

In mid-April, we met with the bureau's Venture 2000 project managers to discuss maximizing potential savings by using all the targeted funds for lessor build-out costs. The bureau readily agreed and issued a memo on April 20, 1999, reminding its regional personnel and GSA of the availability of these funds for lease build-out in the final wave, wave 11. The memo directed the bureau's regional directors to use lump-sum payment for alterations "whenever requested by the offeror or when it will encourage the submission of responsive offers."[14]

In our May 7, 1999, interim memo to the bureau, we also recommended that the bureau personnel work with GSA to increase the use of such lessor payments during the final stage of space acquisition to help obtain better lease terms, timely alterations, and cost savings. The Census regional directors responded by committing a total of $5,635,763 in the final leasing stage, wave 11, for lump-sum payments for alterations, which brought total funds expended to $10,074,116 in Phase II, exceeding their targeted amount of $8 million. The total up-front build-out payments for both phases (ELCOs and LCOs) came to $10,771,535. Given that the finance costs for construction loans are characteristically about 12 percent per year, we calculate that the bureau, in making lump-sum alteration payments, has avoided internal finance costs of over $1.7 million and, considering that the Treasury must expend funds earlier to make these payments, has reduced its total outlays for contracts by at least $980,000.[15] Of the $5,635,763 expended for up-front build-out costs in wave 11, following our April request that the bureau maximize use of these funds, we estimate that the funds put to better use come to over $476,000 for the remaining 15 months of the lease term. This was accomplished, in part, by the prompt response of the bureau to our April discussion and the recommendation in the May 1999 interim memo. We recommend that the bureau study the impact and usefulness of providing lump sum financing in this decennial and consider expanding its use in the 2010 decennial.

[14] Decennial Logistics Planning Memorandum No. 99-D-28, April 20, 1999.

[15] Total finance costs avoided by the government include estimated 12 percent construction costs, minus the current 5.24 percent borrowing costs due to the sale of government securities. For the 15-month period we calculated borrowing costs at 5.01 percent for the first year and 5.53 percent for three months of a second year in Treasury constant maturity securities plus one-eighth of a percentage point for administrative costs. These earlier up-front expenditures by the bureau resulted in a net 6.76 percent savings per year to the federal government. However, the bureau has avoided internal costs to the decennial census of the entire estimated 12 percent per year because the Treasury's borrowing costs are rarely passed on to government agencies. See Federal Reserve Statistical Release, July 19, 1999; interest rates for July 15, 1999.

The Census Bureau concurred with our recommendation to evaluate the usefulness of providing up-front financing to lessors for build-out costs related to the 2000 decennial leasing and will give full consideration to expanding its use in the 2010 decennial. In response to our statement that "Census could have made greater use of build-out financing," the bureau noted that the opening of the 130 ELCOs made this kind of up-front financing very difficult because there were insufficient FY 1998 funds available for use of widespread, lump-sum payments for space alterations. Such funds were not specifically requested until FY 1999.

RECOMMENDATIONS

We recommend that the Director of the Bureau of the Census take appropriate steps to:

1. Conduct an evaluation of the Joint Venture 2000 partnership shortly after the conclusion of the 2000 decennial so that the bureau will have a timely, objective, and complete picture of the Census/GSA partnership model to use in planning for the 2010 decennial. The evaluation should include outcomes, benefits and costs, and notable management successes and problems or "lessons learned" in all phases (see page 9).

2. Draw delineated areas as broadly as possible in the space acquisition process for the 2010 decennial to increase competition between potential offerors of LCO lease space, to reduce the bureau's overall leasing costs and to ensure that it has alternative space available when unforeseen difficulties prevent a lease award (see page 14).

3. Create a standardized system of file management for use in all Regional Census Centers in the 2010 decennial leasing operations and ensure that Census leasing staff comply with applicable record retention schedules (see page 19).

4. Ensure that the lessons learned from the installation of the 2000 decennial telecommunications systems are recorded so that they may serve as a basis for planning and implementation in 2010 (see page 23).

5. Ensure that there is more centralized coordination between the offices that supply information needed for planning the bureau's space and capacity requirements for the 2010 decennial well in advance of the leasing of its field offices (see page 23).

6. Coordinate planning with Department's Office of Telecommunications Management (OTM) and provide the OTM with a detailed plan for the 2010 telecommunications procurement and systems deployment before any systems are purchased so that it may analyze and provide advice to improve the overall plan. Update that office regularly as the systems procurement and deployment unfold in preparation for the 2010 decennial (see page 23).

7. Expand the use of formal business case analyses as a management tool in the 2010 decennial to guide decision-making (see page 26).

8. If commercial brokers are used in the 2010 decennial leasing operations, ensure that the terms of their use, degree of responsibility, commissions structure, and limits of their authority are worked out in general policy and with individual lessors (see page 28).

9. Work closely with the Department and GSA to finalize a memorandum of understanding between the bureau and GSA. Ensure that any future agreements associated with this or future decennials receive appropriate approvals from the Department of Commerce before they are signed and any new work is started (see page 28).

10. Evaluate the usefulness of providing up-front financing to lessors for build-out costs related to the 2000 decennial leasing and consider expanding its use in 2010 (see page 31).

Appendix A

Major Steps In The Venture 2000 Leasing Acquisition Process

C GSA contacts current or former lessors and local real estate brokers and reviews current USG-owned property for availability.

C Census Bureau RCC or field staff conduct “windshield surveys” of vacant offices, obtain and forward addresses to GSA.

C GSA screens privately owned space possibilities according to the bureau’s requirements and schedules market survey inspections.

C Both GSA and the bureau conduct market surveys, assess security requirements, collect crime statistics and existing floor plans. If necessary, GSA draws new floor plans and calculates total square footage.

C The bureau approves or rejects sites for the Solicitation for Offers.

C The bureau prepares preliminary architectural drawings (for build out of walls, or door demolition or construction) and sends them to GSA for inclusion in the SFOs.

C Both GSA and the bureau customize SFOs according to specific markets; the bureau approves each SFO prior to issuance.

C GSA issues SFOs to potential offerors, reviews offers received, and shares SFOs and abstracts of offers with the bureau.

C GSA schedules the offer negotiations and conducts the negotiations either via telephone or in person. Bureau leasing specialists are included as observers but not as active participants.

C Best and final offers are requested, received, and evaluated by GSA. Abstracts of offers, including any exception to requirements, are shared with the bureau, which must concur with the award for it to be finalized.

C The bureau decides on security system requirements, GSA awards the lease, and a copy is provided to the bureau within 15 days.

- GSA leads preparation of the acquired space with build-out plans and progress, installation of T-1 data circuit lines, the telephone system, and delivery of furniture and supplies.

- The bureau and GSA both monitor construction progress and hold an acceptance inspection. GSA gives the bureau the keys to and possession of the space.

Appendix B

U.S. Census Bureau Response to the Draft Report

UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
U.S. Census Bureau
Washington, DC 20233-0001
OFFICE OF THE DIRECTOR

SEP 29 2000

MEMORANDUM FOR Jill Gross
Assistant Inspector General for Inspections
and Program Evaluations

Through: Robert J. Shapiro
Under Secretary for Economic Affairs

From: Kenneth Prewitt
Director

Kenneth Prewitt

Subject: *Local Census Offices Were Successfully Opened, But Some Lessons Can Be Learned From Decennial Leasing Operations*
Draft Inspection Report No. IPE-11573

This is in response to your July 27, 2000, memorandum transmitting the recommendations from the above-referenced draft inspection report.

1. *Conduct an evaluation of the Joint Venture 2000 partnership shortly after the conclusion of the 2000 decennial so that the bureau will have a timely, objective, and complete picture of the Census/GSA partnership model to use in planning for the 2010 decennial. The evaluation should include outcomes, benefits and costs, and notable management successes and problems or "lessons learned" in all phases (see page 9).*

The Census Bureau concurs: The Census/GSA Joint Venture 2000 partnership was established after the decision to open 130 Early Local Census Offices (ELCOs) one year earlier than planned. At that time, the Census Bureau had not yet hired and trained regional leasing staff. As noted by the Office of Inspector General (OIG), the partnership learned important lessons from Phase I of the agreement and successfully adapted its operations for Phase II. The Census Bureau plans to initiate an evaluation of the partnership by an independent party after the closing of the LCOs is completed in the fall of 2000. The findings from the evaluation will be used as the primary planning tool for the 2010 space and leasing program.

2. *Draw delineated areas as broadly as possible in the space acquisition process for the 2010 decennial to increase competition between potential offerors of LCO lease space, to reduce the bureau's overall leasing costs and to ensure that it has alternative space available when unforeseen difficulties prevent a lease award (see page 14).*

The Census Bureau concurs: The Census Bureau initially drew smaller delineated areas, expecting that, where necessary, the boundaries could be expanded to ensure adequate

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competition. However, the combination of an accelerated space requirements schedule for the ELCOs and the late start of the actual space acquisition process did not allow GSA time to conduct additional market surveys of potential properties as the delineated areas expanded. The Census Bureau was able to correct this problem in Phase II by increasing the size of the delineated areas for the LCOs earlier in the acquisition process. Additional efforts will be made in 2010 to address the issue of adequate competition in the lease acquisition process based, in part, on the Census Bureau's experience with Census 2000.

3. *Create a standardized system of file management for use in all Regional Census Centers in the 2010 decennial leasing operations and ensure that Census leasing staff comply with applicable record retention schedules (see page 19).*

The Census Bureau concurs: The Census Bureau agrees that adequate and readily accessible lease documents are needed to maintain oversight and management of the leasing and build-out process and records of transactions between the Census Bureau and GSA. Field Division established a standard method of maintaining lease files early in the space acquisition program. The requirements were disseminated to the regions in the spring of 1998 and reissued when additional leasing staff were hired for Phase II. Field Division's regional space leasing staff are finalizing an action plan for the retention of lease files, and have begun to work with the Regional Census Centers (RCCs) and GSA to retain all lease documents in accordance with record retention requirements and the 2010 evaluation and planning needs of the Census Bureau. Regional space leasing staff will also visit each RCC to review the lease files and reconcile the GSA rent bills and various reimbursable costs for Census 2000 LCO space immediately after closing the LCOs.

4. *Ensure that the lessons learned from the installation of the 2000 decennial telecommunications systems are recorded so that they may serve as a basis for planning and implementation in 2010 (see page 22).*

The Census Bureau concurs: The acceleration of the space acquisition program created insufficient time to evaluate and thoroughly document all telecommunications requirements. Field Division has since pulled together all available documents leading to the decision to increase the number of telephone lines into the system, provide voice mail capability, and implement other improvements based on the experience with the ELCOs. The Census Bureau's evaluation program for the Census 2000 includes a review of the telecommunications systems. All findings and recommendations will be considered in planning the 2010 census.

5. *Ensure that there is more centralized coordination between the offices that supply information needed for planning the bureau's space and capacity requirements for the 2010 decennial well in advance of the leasing of its field offices (see page 22).*

The Census Bureau concurs: As noted in the responses to previous recommendations, the decision to open the ELCOs one year earlier than scheduled had an impact on the evaluation and planning for space and capacity requirements. Although the Census Bureau was able to make needed adjustments well ahead of the start of major field operations in early 2000, the process clearly would have benefited from more centralized coordination and better communication between the headquarters offices, the RCCs, and the local offices. As part of the Census 2000 evaluation program, the Census Bureau will be examining ways to ensure better coordination and sharing of information on space and logistics early in the 2010 planning process.

6. *Coordinate planning with Department's Office of Telecommunications Management (OTM) and provide the OTM with a detailed plan for the 2010 telecommunications procurement and systems deployment before any systems are purchased so that it may analyze and provide advice to improve the overall plan. Update that office regularly as the systems procurement and deployment unfold in preparation for the 2010 decennial (see page 22).*

The Census Bureau concurs: In addition to the Department of Commerce's Office of Real Estate Policy and Major Programs, the Census Bureau agrees to work with the OTM to prepare a detailed plan for the 2010 decennial census telecommunications and work with the office to identify operational needs and resolve potential problems.

7. *Expand the use of formal business case analyses as a management tool in the 2010 decennial to guide decision-making. (see page 24).*

The Census Bureau concurs: The Census Bureau agrees with the OIG recommendation and plans to expand the use of formal business case analyses as a management tool in the 2010 space and leasing program. However, the Bureau does not concur with the OIG's statement that the business case analysis used for Phase II of Census 2000 included flawed assumptions. The OIG report suggests that the analysis was flawed because cost estimates for Class A office space by geographic region were used, when "in reality, the ideal space needed by the Census Bureau was light industrial and strip mall retail, which is typically less expensive than Class A office space." Though light industrial and strip mall retail space often met the Census Bureau's preference for a loading dock for the heavy volume of deliveries of materials and supplies, this type space often did not have the infrastructure in place for voice and data communications lines, which then required longer lead times for the installation of these necessary services. Also, light industrial and strip mall retail space often was not available in the metropolitan areas where offices were needed.

8. *If commercial brokers are used in the 2010 decennial leasing operations, ensure that the terms of their use, degree of responsibility, commissions structure, and limits of their authority are worked out in general policy and with individual lessors (see page 26).*

The Census Bureau concurs: GSA contract real estate brokers were used to perform various functions of the space acquisition process for approximately 6 percent of the LCOs for Census 2000. Although there hasn't yet been a formal evaluation of their use, the Census Bureau agrees that commercial brokers should not be used in the 2010 census leasing operations until the terms of their use, degree of responsibility, commissions structure, and limits of their authority are worked out in general policy and with individual lessors.

9. *Work closely with the Department and GSA to finalize a memorandum of understanding between the bureau and GSA. Ensure that any future agreements associated with this or future decennials receive appropriate approvals from the Department of Commerce before they are signed and any new work is started (see page 26).*

The Census Bureau concurs: Despite the lack of a signed Memorandum of Understanding (MOU) for Phase II, all work has been accomplished, with the exception of office close-out and the disposition of property. The Census/GSA core team has continued to meet to address the multiple tasks necessary for a smooth close-out of the field offices, just as the team met regularly during the opening of the LCOs. If the Census Bureau enters into a partnership with GSA for the 2010 census, every effort will be made to work closely with the Department and GSA to finalize all MOUs prior to the start of leasing activities.

10. *Evaluate the usefulness of providing up-front financing to lessors for build-out costs related to the 2000 decennial leasing and consider expanding its use in 2010 (see page 28).*

The Census Bureau concurs: The evaluation of the Census/GSA Joint Venture 2000 partnership will address the issue of providing up-front financing to lessors for build-out costs related to the Census 2000 leasing. In response to the statement that the "Census could have made greater use of build-out financing," it should be noted that the opening of 130 ELCOs made the use of up-front financing very difficult. There was insufficient FY 1998 funding available for widespread, lump-sum payments of the initial space alterations. The FY 1999 budget allocation included the requested funds for lump-sum alterations needed to make short-term, one-year leases more appealing to building owners. Based on the experience of Phase II of the leasing program, the Census Bureau will give full consideration to expanding the use of up-front financing in the 2010 census.

cc: US/EA