

**Alternate Strategies Are Needed for
Upgrading Campus Facilities**

July 2005

Reference Number: 2005-10-105

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 6, 2005

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Margaret E. Bezz
FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Alternate Strategies Are Needed for
Upgrading Campus Facilities (Audit # 200310040)

This report presents the results of our review of the replacement and renovation of the Internal Revenue Service (IRS) campus¹ facilities. The overall objective of this review was to determine whether the IRS had developed a cost-effective plan for providing the facilities needed to accomplish the mission of the campuses.

In summary, there are currently 10 IRS campuses comprised of 83 buildings with over 9.7 million rentable square feet of space.² The three major functions performed by personnel at the campuses include responding to taxpayer inquiries, completing compliance actions, and processing tax returns. The functions at the campuses have undergone a major restructuring because of the IRS Restructuring and Reform Act of 1998.³ Furthermore, increases in the electronic filing of tax returns and changes in the technology used to store and retrieve taxpayer data are also having a significant impact on the functions at the campuses.

The IRS, in partnership with the General Services Administration and a consulting firm, studied the physical condition of the current campus facilities and the future space requirements of the campuses. This study was used to develop a long-term strategy that focused on operational consolidation to eliminate the existing fragmentation of functions in multiple buildings at each of the campuses. However, this strategy requires a significant capital investment and has limited the options that were considered. The

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² The rentable square footage is the area for which rent is charged under a lease, including a portion of the common area used by the public and for maintenance within the building.

³ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

IRS has not been successful in obtaining funding for the renovation or construction of campus facilities. As a result, the upgrading of facilities has been delayed. Further, the consulting firm did not consistently use the factors developed to calculate future space requirements, which reduced the accuracy and reliability of the projections developed for the future space requirements of the campuses.

We recommended the Chief, Agency-Wide Shared Services (AWSS), develop a more flexible long-term real estate strategy and determine whether the real estate markets can provide the facilities considered in the long-term strategy. We also recommended the Chief, AWSS, finalize the workspace standards prior to developing alternate campus space acquisition strategies and evaluate whether adjustments are appropriate for the end-state requirements.

Management's Response: IRS management agreed with our recommendations and has proposed action to develop a new campus strategy based on each of the campuses' current facilities condition, business requirements, and real estate portfolio. The new strategy will incorporate flexibility by using both consolidation and co-locating multiple facilities at one location. The AWSS will update long-term master plans to include the recently revised workspace standards and consider the current circumstances at each location, such as the condition of the buildings, the cost to upgrade, and the length of the existing lease. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Table of Contents

Background	Page 1
Alternate Strategies Are Needed to Address Funding Constraints and Changing Requirements.....	Page 3
<u>Recommendation 1</u> :.....	Page 6
<u>Recommendation 2</u> :.....	Page 7
Alternative Options Were Not Considered for the Approved Replacement of the Kansas City Campus.....	Page 7
Some Campus Space Requirements Need to Be Revised	Page 10
<u>Recommendation 3</u> :.....	Page 12
Appendix I – Detailed Objective, Scope, and Methodology.....	Page 13
Appendix II – Major Contributors to This Report	Page 15
Appendix III – Report Distribution List	Page 16
Appendix IV – Overview of the Comprehensive Real Estate Master Program Projections for the 10 Campuses.....	Page 17
Appendix V – Management’s Response to the Draft Report.....	Page 18

Alternate Strategies Are Needed for Upgrading Campus Facilities

Background

The Internal Revenue Service (IRS) campuses, previously known as service centers, were established to process tax returns.¹ There are currently 10 campuses comprised of 83 buildings with over 9.7 million rentable square feet (RSF)² of space. The three major functions at the campuses are:

- **Accounts Management** – Employees respond to taxpayer inquiries on refunds, tax law issues, and other questions and process adjustments to their accounts, including amended tax returns.
- **Compliance Services** – Employees handle issues related to balance due or delinquent accounts, conduct correspondence audits of tax returns, and correspond with taxpayers to determine whether income has been accurately reported.
- **Submission Processing** – Employees process tax returns and issue refunds and notices to taxpayers.

Each year, employees assigned to these functions respond to about 109 million taxpayer inquiries and process over 230 million tax returns. Employees assigned to other functions, including Appeals, Agency-Wide Shared Services (AWSS), Criminal Investigation, and Modernization and Information Technology Services, are also located at the campuses.

The IRS has undergone major restructuring because of the IRS Restructuring and Reform Act of 1998.³ The 3 major functions at the 10 campuses were realigned into new business divisions, and the work was specialized to focus on meeting the unique needs of particular groups of taxpayers.

The Accounts Management and Compliance Services functions at five campuses were designated to serve taxpayers who report only wage and investment income. At

¹ The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² The rentable square footage is the area for which rent is charged under a lease, including a portion of the common area used by the public and for maintenance within the building.

³ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Alternate Strategies Are Needed for Upgrading Campus Facilities

the remaining five campuses, these functions were designated to serve small business and self-employed taxpayers. The Submission Processing functions at eight campuses were designated to process individual tax returns; at the remaining two campuses, they were designated to process business tax returns.

The IRS is reducing the number of campuses that process individual tax returns based on the impact of the electronic filing of tax returns. After the changes have been fully implemented, the IRS plans to have three campuses process individual tax returns. The elimination of returns processing at the other five campuses will reduce the space needed and require adjustments to the number of buildings at the campuses.

The IRS completed a study to address the future space requirements of the campuses, considering factors such as the impact of electronic filing of tax returns, the reorganization, and the condition of the facilities at the campuses. The study was conducted by the IRS Real Estate and Facilities Management (REFM) Division in partnership with the General Services Administration (GSA) and a consulting firm. During the period 2000 through 2004, the IRS incurred approximately \$4 million in consulting costs for this initiative.

The results of the study were reported in the August 2003 Comprehensive Real Estate Master Program (CREMP). The study concluded that the facilities at a majority of the campuses were in poor physical condition and that operations were fragmented. Detailed plans and analyses for each of the campuses were reported in Site Specific Campus Real Estate Master Plans.

The study also resulted in the development of an Optimal Building Configuration Concept, whose design consists of a multistory main building with three attached annexes. The annexes are designed for efficient processing of tax returns, while the multistory building is designed to house all other functions at the campus.

Cost analyses were completed on options considered for the Kansas City, Missouri (April 2003), and Philadelphia, Pennsylvania (September 2001), Campuses. The Philadelphia Campus was the first campus scheduled for

Alternate Strategies Are Needed for Upgrading Campus Facilities

replacement; the Kansas City Campus was the first to receive Congressional approval for a consolidated leased facility. The results were reported in Capital Investment Total Equivalent Cost Analysis (CITECA) reports. Studies are in progress on the options being considered for other campuses.

The consulting firm developed the Campus Planning Model (CPM) as a tool to assist the REFM Division in projecting the space requirements of the 10 campuses. The CPM was designed to project the overall future space requirements for up to 15 years for each of the campuses, along with the space requirements of specific functions at each of the campuses.

This review was performed at the IRS National Headquarters AWSS function in Washington, D.C., during the period February 2004 through January 2005. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Alternate Strategies Are Needed to Address Funding Constraints and Changing Requirements

The Office of Management and Budget (OMB) has provided guidance on the actions that should be taken when choosing capital assets. The OMB Capital Programming Guide states that agencies should determine:

- **Availability** – Can the market provide capital assets that partially or fully meet program requirements?
- **Affordability** – Are the assets affordable within budget limits? If the full requirement is not affordable, can it be divided into separate modules that are affordable?

Appropriations to fund large-scale construction and renovation projects are generally provided to the GSA. The GSA manages Federally owned buildings, and the IRS leases its space from the GSA.

The IRS worked with the GSA and an independent consulting firm to develop a long-term strategy for improving its campus facilities, which focused on consolidating campus operations. Depending on the age, condition, and location of existing buildings, this strategy required the IRS to either construct large new facilities or make significant renovations to existing buildings. The

Alternate Strategies Are Needed for Upgrading Campus Facilities

estimated cost of implementing the long-term strategy is \$2.32 billion over a 10- to 15-year period. However, the OMB has not approved and is unlikely to approve funding for the construction or renovation of any of the campuses.⁴

The Philadelphia Campus was the first scheduled for replacement. The IRS submitted a request for approval for the construction of a new Philadelphia Campus to the OMB in each year from 2000 through 2003. However, the OMB rejected each of these requests. The cost to replace the Philadelphia Campus is estimated to be \$305 million, which would have represented a 25 percent increase over the \$1.2 billion the GSA had requested for Fiscal Year 2005 new construction and major renovations for Federal Government buildings, such as border stations, courthouses, and office buildings.⁵ The Congress has approved only one project, the replacement of the Kansas City Campus. However, this is a unique situation involving the renovation of a historical United States Postal Service (USPS) building located in the downtown area of Kansas City. A private developer is paying for the renovation of the building, and the developer will be compensated through a long-term lease arrangement.

The CREMP recommended the number of campus buildings⁶ be reduced from 83 to 17 and the total space at the campuses be reduced from 9.7 million to 8.1 million RSF. Five of the 10 campuses were to be renovated, based on their locations and physical conditions. The remaining five campuses were to be replaced, based on several factors including the condition and location of the main buildings. All the renovated and replaced facilities would be Federally owned. Table 1 shows the estimated cost for each campus.

⁴ The Congress did approve a rent increase that allowed the IRS to move into a new facility in Kansas City.

⁵ Excludes funding for Federal Government facilities such as Department of Defense military installations and Department of Veterans Affairs hospitals.

⁶ See Appendix IV for information on each campus.

Alternate Strategies Are Needed for Upgrading Campus Facilities

Table 1: Estimated Capital Costs⁷ to Renovate or Replace the Campuses

Campus	Cost (in millions)
Renovation	
Andover	\$ 157
Brookhaven	168
Austin	149
Atlanta	111
Memphis ⁸	23
Renovation Subtotal	\$ 608
Replacement	
Philadelphia	\$ 305
Kansas City	337
Cincinnati	295
Ogden	332
Fresno	438
Replacement Subtotal	\$ 1,707
Grand Total	\$ 2,315

Source: The CREMP.

The IRS' strategy focused on consolidation to reduce duplicate costs that result from fragmented space such as additional cafeterias and training rooms, increased number of security personnel, and the transport of employees and documents between locations. In addition, the IRS expected that consolidation would encourage business units to share resources, such as personnel and workstations.

Because the primary objective of the IRS' long-term strategy was to consolidate all of the functions of each campus at one site, other options were not adequately considered even though they would not require as much capital investment. For example, the IRS did not perform any studies to determine whether functions at the campuses,

⁷ Capital Costs include estimated construction, site acquisition, design and review, and management and inspection costs in 2003 dollars.

⁸ The Memphis Campus is approximately 8 years old and will not require extensive construction on the existing site.

Alternate Strategies Are Needed for Upgrading Campus Facilities

such as Accounts Management, Compliance Services, and Submission Processing, could be assigned to separate, smaller facilities that met the needs of the functions at a lower cost. The inclusion of smaller-scale alternatives would have improved the IRS' chances of obtaining funding approval to relocate its campus operations into improved facilities.

Furthermore, it is likely that smaller-scale alternatives are becoming more feasible with time. Large-scale processing operations at the campuses were needed primarily because of the need to process a large volume of paper tax returns. However, increases in electronic filing of tax returns are reducing the number of paper tax returns filed and the space required to process them. The REFM Division plans to reduce Submission Processing function space from 3.5 million to 1.7 million RSF (for a reduction of 1.8 million square feet) over 15 years due to the increase in filing of electronic returns. This means that 20 percent of the total space will be used for tax return submission processing.

In addition, the IRS is implementing the Customer Account Data Engine and Customer Account Management systems. These systems will reduce future staffing and space requirements by improving productivity with timely access to taxpayers' accounts and eliminating work that results from taxpayers' returns not correctly posting to their tax accounts. Other initiatives, such as Filing and Payment Compliance and Collection Contract Support, will also affect future space requirements.

We believe the IRS should reevaluate its Optimal Building Configuration Concept and develop a configuration that will increase the likelihood the market can provide capital assets that partially or fully meet program requirements. This will reduce the capital outlay needed and increase the IRS' ability to adapt to changing space requirements as needs or technology change.

Recommendations

The Chief, AWSS, should:

1. Develop a more flexible long-term real estate strategy.

Alternate Strategies Are Needed for Upgrading Campus Facilities

Management's Response: The REFM will develop a new campus strategy based on each of the campuses' current facilities condition, business requirements, and real estate portfolio. The new strategy will incorporate flexibility by using both consolidation and co-locating multiple facilities at one location.

2. Reevaluate the Optimal Building Configuration Concept and develop a configuration that will increase the likelihood the market can provide capital assets that partially or fully meet program requirements.

Management's Response: Management's response to Recommendation Number 1 also addressed this recommendation. In addition, the REFM will continue to pursue smaller leases to accommodate business functions rather than consolidation into one facility using the Optimal Building Configuration Concept.

Alternative Options Were Not Considered for the Approved Replacement of the Kansas City Campus

The IRS plans to consolidate the responsibility for processing individual tax returns at three locations: Kansas City, Missouri; Fresno, California; and Austin, Texas. Kansas City was selected based on three primary criteria:

- The size of its tax return processing operations, which was expected to result in economies of scale.
- Favorable conditions for recruiting and retaining employees.
- Low real estate costs—the real estate costs were estimated as \$16 per rentable square foot.

Originally, the Kansas City Campus was second on the IRS' list of facilities to be replaced. However, the Kansas City Campus was the first and only campus to be replaced. In FY 2003, the GSA and USPS proposed that the IRS consolidate its operations in downtown Kansas City at the largely vacant Main USPS facility, which was designated as a historical building, and construct remaining space requirements on adjacent land owned by the USPS. The USPS contracted with a private real estate developer, who agreed to pay for the renovation of the facility in return for a 15-year guaranteed lease and temporary transfer of the building ownership. In April 2003, the Senate Committee on Environment and Public Works and the House of

Alternate Strategies Are Needed for Upgrading Campus Facilities

Representatives Committee on Transportation and Infrastructure approved the leasing arrangement.

While this arrangement avoided a large initial outlay on the part of the Federal Government, it was not the lowest cost option considered. The Kansas City CITECA assessed three options for the Kansas City Campus:

- Renovate and upgrade the existing facilities.
- Build a new consolidated, Federally owned campus.
- Lease the USPS building after renovations and expansions.

Several factors were considered for each option, including the capital costs, occupancy costs, risk assessment analysis, and intangibles. For the purpose of comparing costs, only the capital costs and occupancy costs were compared because cost savings from the other factors were considered subjective. Table 2 shows the total occupancy costs for each option considered in Kansas City.

Table 2: Total Occupancy Costs for the Kansas City Campus Options Considered (net present value computed for 30 years' occupancy⁹ [*\$ in millions*])

	Renovate Existing Buildings/ Supplemental Lease¹⁰	Construct New Building	Lease USPS Building
Capital Costs ¹¹	\$88	\$297	—
Occupancy Costs ¹²	\$494	\$181	\$537
Total Occupancy Costs¹³	\$582	\$478	\$537
Cost Savings	Baseline	\$104	\$45

Source: CITECA for Kansas City, 100% Presentation, April 25, 2003.

⁹ The net present value calculations were completed by the GSA using The Automated Prospectus System (TAPS). TAPS was developed to conform to requirements of OMB Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*. Key factors (e.g., the discount rate, inflation rate, and GSA management costs) are included in the computation.

¹⁰ The IRS would need to add leased space to accommodate the consolidation of Submission Processing functions from other campuses.

¹¹ Initial capital required to implement the option.

¹² Includes recurring costs associated with campus operations.

¹³ Rounded to the nearest \$1 million.

Alternate Strategies Are Needed for Upgrading Campus Facilities

Although the IRS estimates it will save approximately \$45 million by leasing the USPS building compared with renovating its existing buildings, it could have saved an additional \$59 million if a new facility had been constructed. However, this option would have required funding approval for an initial investment of approximately \$297 million, while the USPS option required minimal initial investment.

Whether the lease of smaller facilities for individual functions would have been a more cost-effective alternative cannot be determined because market surveys and cost studies of smaller-scale alternatives were not performed. The GSA sponsored three independent appraisals of the market rents for this facility to assure itself of the reasonableness of the rent. Although the GSA concluded that the IRS was paying a fair price for the rent at the former USPS facility, the appraisals did not assess whether smaller blocks of comparable space were available at other commercial locations downtown. We reviewed two separate real estate reports that assessed the real estate market conditions for Kansas City in 2004. Table 3 shows the vacancy rates and average full-service rental rates for similar office space in Kansas City.

Table 3: 2004 Kansas City Market Conditions

	Report A	Report B
Full-Service Rent per Square Foot, Class "A"	\$22.00	\$20.54
Vacancy Rate, Class "A" and Class "B" Metro Area ¹⁴	21.5 percent	21.1 percent

Source: Two independent 2004 real estate market reports.

These figures indicate the IRS could have benefited from assessing the feasibility of using smaller blocks of commercial space. The estimated difference in rent costs

¹⁴ Class "A" Office Space: The building is in a premier location with excellent building finishes, multiple building amenities, and high efficiencies. Class "B" Office Space: The building is in an excellent location with good building finishes, some building amenities, and medium efficiencies.

Alternate Strategies Are Needed for Upgrading Campus Facilities

Some Campus Space Requirements Need to Be Revised

between the current market rates and the IRS' expected rent cost in 2006 is \$9.7 million per year.¹⁵

The IRS developed the CREMP before its space standards and requirements were finalized. The REFM Division and the consulting firm had not completed the data gathering and analyses necessary for accurately estimating space requirements. Therefore, the cost estimates for the options discussed in the CREMP are likely to change for the nine campuses that have not been funded for renovation or replacement.

The IRS contracted with a consulting firm to assist with the development of space requirements and the estimated costs of replacing or renovating the 10 campuses. During the period 2000 through 2004, the IRS spent approximately \$4 million for consulting firm services, including:

- Preparation of the Optimal Building Configuration Concept.
- Preparation of the CITECA.
- Preparation of the CPM.
- Preparation of the IRS campus CREMP.
- Preparation of the Site Specific Campus Real Estate Master Plans Updates.

For the Accounts Management, Compliance Services, Submission Processing, and other functions at the campuses, the REFM Division developed workspace square footage factors that it used in the CPM to develop space requirements. During the development of the CREMP, the consulting firm proposed that the IRS revise its workspace factors to reflect the unique space requirements for different types of employees, such as paraprofessional employees assigned to the Accounts Management and Compliance Services functions and technical/professional employees assigned to functions such as Appeals and Criminal Investigation. The consulting firm used the proposed workspace factors to determine the space requirements at the Philadelphia Campus but did not apply these standards

¹⁵ It is not known what the additional costs of supporting multiple facilities at this location would have been; therefore, the actual difference may be less.

Alternate Strategies Are Needed for Upgrading Campus Facilities

to the other campuses. The Strategic Campus Action Team estimated that, if the proposed standards were applied to the other campuses, it would shift over 464,000 RSF from the Accounts Management and Compliance Service functions to other campus functions.

Subsequent to issuance of the CREMP, the REFM Division issued National Workspace Standards, which included new draft workspace standards for both the Accounts Management and Compliance Services functions. The draft workspace standards were set as 120 Useable Square Feet (USF), which is different from both the original standards and the proposed standards used for the Philadelphia Campus. Table 4 shows the different workspace standards that have been used or developed for the three major campus functions.

Table 4: Workspace Standards Used or Developed for the Three Major Campus Functions

Function	CREMP Original Standards	Proposed Standards ¹⁶	New Workstation Standards
Accounts Management	132 USF	104 USF	120 USF
Compliance Services	132 USF	99 USF	120 USF
Submission Processing	84 USF	82 USF	100 USF

Source: Strategic Campus Action Team and the IRS-REFM Division National Workspace Standards.

During the peak processing period, over 27,000 employees are assigned to the Accounts Management and Compliance Services functions at the campuses. As such, changes in the workspace requirements for these employees will have a major impact on the overall space requirements of the campuses and the costs to renovate or replace them. The REFM Division needs to determine which workspace standards should be used and ensure they are applied to all of the campuses.

¹⁶ Used for the Philadelphia CREMP only.

The schedule for renovation or replacement is dependent on funding approval

In the CREMP, the IRS based all of its requirements on an “end-state” in 2017, the year the IRS expected to complete the renovation or replacement of all campuses. The requirements used to determine space needs, such as the expected workload and number of Full-Time Equivalents (FTE),¹⁷ were based on the IRS’ forecast for 2017. These requirements were also used to estimate the cost for each campus and to evaluate and select a strategy for improving each facility.

For each campus, the CREMP established a priority schedule that estimated the time it would take to complete each project and the order in which the projects would begin work. This schedule showed a 15-year time period to complete all sites. However, the schedule is dependent on funding allocation, which has not been approved, except for the rent increase for Kansas City. It is unlikely the IRS will complete the renovation and replacement of all campuses by 2017, since the work was planned to have started during 2002. As a result, the IRS should reassess the end-state year and make appropriate adjustments to its requirements and costs.

Recommendation

3. The Chief, AWSS, should finalize the workspace standards prior to developing alternate campus space acquisition strategies and evaluate whether adjustments are appropriate for the end-state requirements.

Management’s Response: The revised workspace standards were approved in December 2004. The REFM will use these revised workspace standards in the updated long-term master plans for each campus.

¹⁷ An FTE is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year (FY) 2004, 1 FTE was equal to 2,096 staff hours. For FY 2005, 1 FTE is equal to 2,088 hours.

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Internal Revenue Service (IRS) had developed a cost-effective plan for providing the facilities needed to accomplish the mission of the campuses.¹ To accomplish this objective, we completed the following subobjectives and steps.

- I. To determine whether the IRS adequately estimated the future facility requirements of the campuses, we assessed the adequacy of:
 - A. Baseline information on the current facility requirements of the campuses.
 - B. Procedures for validating the accuracy and reliability of the baseline information.
 - C. Procedures for validating key factors that affect space requirements, including the number of workstations, workstation size, and day/night shift ratios.
 - D. Adjustments made to the future facility requirements of the campuses based on major processing changes, including projected increases in electronic tax return filing and the modernization of the computer systems.
 - E. Data input to the Campus Planning Model (CPM) by comparing the data in the CPM to data on the source documents (for the Andover, Massachusetts; Kansas City, Missouri; and Philadelphia, Pennsylvania, Campuses). Andover was selected because it was the first Campus scheduled for renovation.
 - F. Procedures for validating the accuracy and reliability of the CPM output.
 - G. The CPM output for the Andover, Kansas City, and Philadelphia Campuses by confirming whether the output is correct based on the input data and variables in the CPM.
- II. To determine whether feasible alternatives for meeting the overall IRS requirements were evaluated, we:
 - A. Reviewed the guidelines in the Office of Management and Budget (OMB) Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, and Capital Programming Guide.
 - B. Obtained and reviewed for compliance with OMB guidelines any studies that were performed on the cost and benefits of:

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Alternate Strategies Are Needed for Upgrading Campus Facilities

1. The consolidation of the Accounts Management, Compliance Services, and support functions at five renovated campuses and one new campus.
 2. The consolidation of Accounts Management, Compliance Services, Submission Processing, and support functions at four new campuses.
 3. Other facilities configurations for the functions.
- III. To determine whether feasible alternatives for meeting the facility requirements of the individual campuses were evaluated, we reviewed the:
- A. Data and criteria used in the Comprehensive Real Estate Master Program (CREMP) and Site Specific Campus Real Estate Master Plans that determined which campus facilities would be renovated and which would be replaced.
 - B. Data and criteria used in the CREMP and Site Specific Campus Real Estate Master Plans that determined when each campus facility should be renovated or replaced.
 - C. Purchase/lease options considered for acquiring new campus facilities.
 - D. Information on alternatives presented to the OMB to support the request for funding for the Philadelphia Campus.
- IV. To determine whether accurate and reliable estimates of expected costs and benefits were developed for the alternatives that were considered feasible, we:
- A. Reviewed the OMB Capital Programming Guide and Circular A-94.
 - B. Reviewed any benefit-cost studies conducted on the overall alternatives for meeting the facility needs of the campuses for compliance with OMB guidelines.
 - C. Reviewed the Capital Investment Total Equivalent Cost Analysis for the Andover, Kansas City, and Philadelphia Campuses for compliance with OMB guidelines.
 - D. Reviewed information on cost and benefits presented to the OMB to support the request for funding for the Philadelphia Campus.
- V. To determine whether the IRS selected the most feasible alternatives for its overall facility needs and the facility needs of the campuses, we:
- A. Reviewed the process used to ensure alternatives for the overall facility needs, and the facility needs of each of the campuses, were consistently considered.
 - B. Reviewed the alternatives that were available for meeting the overall IRS requirements, criteria used for selecting alternatives, and alternatives selected.
 - C. Reviewed the alternatives that were available for meeting the facilities requirements of the Andover, Kansas City, and Philadelphia Campuses; the criteria used for selecting an alternative; and the alternative selected for each of the three campuses.
 - D. Compared the facilities in the original plan for the Kansas City Campus with the facilities in the plans that received funding approval.

Major Contributors to This Report

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Alternate Strategies Are Needed for Upgrading Campus Facilities

Appendix IV

Overview of the Comprehensive Real Estate Master Program Projections for the 10 Campuses

Campus ¹	Operating Division	2017 SP Site?	SP Discontinued ²	2002 Buildings	2017 Buildings	2002 RSF	2017 RSF
Andover	W&I	No	2008	7	1	778,811	445,065
Brookhaven	SB/SE	No	2004	6	1	813,707	644,678
Austin ³	W&I	Yes	N/A	8	1	991,698	610,305
Atlanta	W&I	No	2010	10	3	1,030,066	704,253
Memphis	SB/SE	No	2006	3	1	972,115	548,168
Philadelphia	SB/SE	No	2009	9	2	971,993	722,220
Kansas City	W&I	Yes	N/A	7	1	837,764	1,140,000
Cincinnati	SB/SE	Yes	N/A	7	2	1,116,651	1,020,253
Ogden	SB/SE	Yes	N/A	14	4	1,240,367	1,022,375
Fresno	W&I	Yes	N/A	12	1	951,549	1,273,283
Total				83	17	9,704,721	8,130,600

Source: *Comprehensive Real Estate Master Program, August 2003.*

Legend

Operating Division – The Operating Division for Accounts Management, Compliance Services, and Submission Processing.

W&I – Wage and Investment.

SB/SE – Small Business/Self-Employed.

SP – Submission Processing.

RSF – Rentable square feet.

N/A – Not applicable.

¹ The data processing arm of the Internal Revenue Service (IRS). The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² These dates are as of the Comprehensive Real Estate Master Program issuance date (August 2003). Some dates may have since changed.

³ In July 2004, the IRS decided to continue processing individual tax returns at the Austin, Texas, Campus.

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 26 2005

RECEIVED
JUN 27 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: James P. Falcone *James P. Falcone*
Director, Real Estate and Facilities Management

SUBJECT: Draft Audit Report – Alternate Strategies Are Needed For
Upgrading Campus Facilities (Audit #200310040)

I have reviewed the subject report and our response to the recommendations is attached. We are addressing recommendation one and have taken actions to close recommendations two and three.

Real Estate and Facilities Management (REFM) continues to update the strategic vision for all 10-campus real estate portfolios and is prepared to act on opportunities as they present themselves at specific sites. Through diligent investigation of the business functionality requirements at each campus, REFM will act on specific planned end state actions for a particular campus. As the IRS responds to congressionally mandated tax law changes, technological advances, and additional modernization initiatives, REFM will continue to adjust the long-term campus real estate plan.

We are in the process of developing a campus strategy that will provide the real estate portfolio flexibility to address corporate IRS business requirements while maximizing our opportunities in various building(s) configurations to take advantage of the available real estate market for a specific campus.

If you have any questions, please call me at (202) 283-9400 or Gregory Zurmühlen at (202) 283-9395.

Attachments

Alternate Strategies Are Needed for Upgrading Campus Facilities

RECOMMENDATION 1

Develop a more flexible long-term real estate strategy.

CORRECTIVE ACTION(S):

REFM will develop a new Campus Strategy based on each of the campuses current facilities condition, business requirement and real estate portfolio. The long-term campus real estate strategy will incorporate flexibility by using both campus consolidation and multiple facilities co-located as appropriate for each specific location.

Long-term master plans for each campus will be updated using data from the recently updated campus-planning model (including new workspace standards). The approach will be dictated by current circumstances (including owned vs. leased, length of existing leases, condition of each existing site, and costs to upgrade sites), opportunities presented by outside agencies removing the burden of significant upfront capital outlay from the federal government (e.g., Atlanta, Covington and Ogden), and new directions dictated by current and projected business unit requirements. A significant change in approach is the possibility of co-location of campus operations instead of consolidation under one roof.

PROPOSED IMPLEMENTATION DATE: September 30, 2006

RESPONSIBLE OFFICIAL(S):

Director, Real Estate and Facilities Management Division

CORRECTIVE ACTION(S) MONITORING PLAN:

Not applicable

OUTCOME MEASURES (if any):

Not applicable

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RECOMMENDATION 2

Reevaluate the Optimal Building Configuration (OBC) Concept and develop a configuration that will increase the likelihood the market can provide capital assets that partially or fully meet program requirements.

CORRECTIVE ACTION(S):

Over the past years, we have taken numerous actions to move towards the recommended improvements to our long-term campus real estate plans. We executed long-term leases for smaller separate facilities for the Fresno, Covington, and Ogden Campuses. We developed the successful Philadelphia Campus Accounts Management lease prospectus as an alternative to the previously rejected consolidated campus initiatives. We believe this demonstrates the re-evaluation of the OBC recommendation by pursuing available smaller leases to accommodate business functions rather than the entire campus consolidation.

COMPLETED: June 27, 2005

RESPONSIBLE OFFICIAL(S):

Director, Real Estate and Facilities Management Division

CORRECTIVE ACTION(S) MONITORING PLAN:

Not Applicable

OUTCOME MEASURES (If any):

Not Applicable

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RECOMMENDATION 3

The Chief, AWSS, should finalize the workspace standards prior to developing alternate campus space acquisition strategies and evaluate whether adjustments are appropriate for the end-state requirements.

CORRECTIVE ACTION(S):

The Memorandum of Understanding signed by Terry P. Guidt (IRS, Acting Director Workforce Relations Division) on November 30, 2004, and Katherine Lane (NTEU National Negotiator) on December 1, 2004 documents agreement on campus workspace standards between IRS and the National Treasury Employees Union.

COMPLETED: December 1, 2004

RESPONSIBLE OFFICIAL(S):

Director, Real Estate and Facilities Management Division

CORRECTIVE ACTION(S) MONITORING PLAN:

N/A

OUTCOME MEASURES (if any):

N/A