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The FDIC's Program for Managing FDIC-Owned Buildings at Headquarters

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CONTENTS

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TO: Arleas Upton Kea, Director
Division of Administration

FROM: Russell A. Rau [Electronically produced version; original signed by Russell Rau]
Assistant Inspector General for Audits

SUBJECT: Report Entitled *The FDIC's Program for Managing FDIC-Owned Buildings at Headquarters* (Audit Report No. 02-007)

This report presents the results of an audit of the Federal Deposit Insurance Corporation's (FDIC) program for managing FDIC-owned headquarters buildings. The objectives of the audit were to (1) assess the adequacy of FDIC-owned headquarters building maintenance, repair, and improvement plans and (2) review selected building services purchase orders related to FDIC-owned and leased buildings to identify potential cost-savings opportunities resulting from eliminating unauthorized or unwarranted work. Appendix I discusses our scope and audit methodology.

BACKGROUND

The FDIC owns three headquarters buildings: the 550 17th Street and 1776 F Street buildings in Washington, D.C., and the Virginia Square (VS) building located in Arlington, Virginia. The 550 17th Street building was constructed in 1963, has approximately 163,000 useable square feet, and consists of seven floors above ground and one below-ground level that is used for parking and support facilities. The 550 17th Street building includes office space, a cafeteria, parking garage, and maintenance areas. The 1776 F Street building was constructed in 1972, has approximately 129,000 useable square feet, and consists of eight floors above ground and three below-ground levels that are used for parking and support facilities. The 1776 F Street building includes office space, a day-care center, credit union, and security operations center.

The VS building was constructed in 1991 and includes the Student Residence facility and the Office and Training Center facility, which are connected by a ground-level corridor. The VS building has approximately 700,000 useable square feet. The Student Residence facility includes a hotel with 354 rooms for FDIC travelers, contractors, and training participants and consists of 11 above-ground floors. The Office and Training Center includes two seven-story towers linked by the first six stories. The VS building includes two below-ground parking and support levels.

In addition, the FDIC leases space in four headquarters buildings: the 1700 and 1730 Pennsylvania Avenue buildings, the 1717 H Street building, and the 801 17th Street building. These leased buildings were included in the scope of our audit only to the extent that we reviewed contracts that applied to both the FDIC-owned and leased buildings to identify unwarranted work.

As part of the Division of Administration (DOA), the Acquisition and Corporate Services Branch (ACSB), Facilities Management Section (FMS), has primary responsibility for managing FDIC-owned headquarters buildings. DOA's Year 2001 Annual Performance Plan states that DOA's mission is to provide quality and timely human resources, organizational, and administrative services to support the Corporation in fulfilling its mission. To accomplish this mission, DOA has an operational goal to ensure FDIC employees are provided a safe and well-maintained work environment.

FMS's building management program primarily consists of the (1) day-to-day monitoring, maintenance, and minor repair to the owned buildings, buildings systems, and equipment and (2) major non-recurring building repairs and improvements. The FDIC contracts with the firm Consolidated Engineering Services, Inc. (Consolidated) to provide comprehensive building engineering services for each of the three FDIC-owned headquarters buildings, including equipment in the VS Student Residence facility. Consolidated operates, monitors, maintains, and repairs major building equipment and systems including, among other items, air distribution systems; all electrical equipment, panels, and distribution centers; natural gas and piping; heating systems; heating, ventilation, and air cooling (HVAC) system computer controls and monitoring systems; plumbing systems; sanitary connections from the buildings to the city; hotel mechanical systems; and water treatment.

Consolidated utilizes the FDIC's ATLAS 2000 computerized reporting and scheduling system for inventory, preventive maintenance, and repairs. Consolidated maintains equipment according to a preventive maintenance schedule outlined in its contract. Consolidated also performs routine minor repairs (defined contractually as those costing less than $10,000) and, with approval from the FDIC oversight manager,[1] may perform major repairs (defined as those costing between $10,000 and $50,000). Repairs greater than $50,000 are subject to competitive solicitations arranged by the FDIC. Consolidated's contract was established in March 1999 for a 2-year period with three 1-year extension options, the first of which has been exercised.

In addition to the work performed by Consolidated, the FDIC periodically initiates non-recurring major repairs and improvements to the FDIC-owned headquarters buildings. These projects are identified through the daily building management program, periodic building condition assessments, and observations by in-house staff. The larger projects are tracked using a "capital projects" list. The "capital projects" list identifies planned projects by building over a 3-year period with estimates of planned costs. The "capital projects" list as of June 2001 identified 32 projects for the three FDIC-owned headquarters buildings with an estimated cost of $4.7 million.

[1] The oversight manager is a person designated by the program office to monitor the activities of a contractor. Oversight managers are provided with a letter of oversight manager confirmation from the contracting officer containing a description of their authority and responsibility in performing designated functions on behalf of the FDIC.

The FDIC's annual budget includes expense categories specifically related to building services for both owned and leased buildings. These categories include maintenance and repairs, miscellaneous operating expenses, janitorial services, architectural and engineering (A&E) fees, work in process, and improvements. The FDIC year 2001 budget for these expense categories totaled $30.1 million, which was $2.8 million or 8.5 percent less than the $32.9 million year 2000 budget. Of the $30.1 million budgeted for 2001, $16.2 million was applicable to the FDIC-owned headquarters buildings, $2.4 million to the headquarters leased buildings, and $11.5 million to the field offices.

RESULTS OF AUDIT

The FDIC has systematically planned for non-recurring building repair and improvement projects. Since August 2000, the FDIC has initiated or completed building condition studies and assessments covering energy and water use and conservation, electrical systems, and an A&E survey. The results of these assessments will be used to develop a 5-year non-recurring repair and improvement projects plan for each FDIC-owned headquarters building. Appendix II provides a more detailed description of the various conditions assessments, including the status and results.

In addition, the overall services covered by 12 building-related purchase orders we reviewed were necessary and justified. These services included basic building services such as janitorial and cleaning, painting, and carpentry. The contracted services also included other more technical services required to operate, maintain, and repair the buildings and other services such as interior space design associated with occupying the buildings. Also, based on a more detailed review of the task and work orders related to 6 of the 12 purchase orders, we did not identify cost-savings opportunities resulting from eliminating unauthorized or unwarranted work. The task and work orders were supported by written requests and proper approvals by contract specialists and oversight managers, and we did not identify work performed on the leased buildings that conflicted with lease terms.

Nonetheless, the FDIC does not have a policy that formally establishes its building management program and its requirements. In addition, the FDIC needs to incorporate additional elements into its building management program, including project prioritization criteria and deferred maintenance reporting. FMS staff stated that, historically, the building management program has not been formalized, although FMS is moving towards a more formalized program through the development of a 5-year non-recurring building repair and improvements projects plan. The General Accounting Office (GAO) and the National Research Council (NRC) have conducted audits and a study, respectively, related to the management of federal buildings and recommended more formal strategic approaches to building management programs.

Without a more complete and formal building management program, adequate management controls may not be in place to ensure that DOA's operational goal of providing employees with a safe and well-maintained work environment is met, performance initiatives are achieved, and the continuity of the building management program is ensured. Accordingly, we are recommending that the FDIC formalize its building management program for FDIC-owned headquarters buildings by developing a policy that establishes the overall requirement for a building management program. The policy should require, at a minimum, a 5-year annually updated building management plan for each FDIC-owned building that includes project cost estimates, project prioritization criteria (with an emphasis on safety and legally required alterations), and a deferred maintenance reporting element. Finally, the FDIC should assign a higher priority to a safety-related project that involves installing fire suppressant sprinkler systems at the 550 17th Street and 1776 F Street buildings.

THE FDIC'S BUILDING MANAGEMENT PROGRAM SHOULD BE FORMALIZED AND MORE COMPLETE

The FDIC does not have a policy that formally establishes its building management program and its requirements. In addition, the program does not include formal project prioritization criteria or a deferred maintenance reporting requirement. Historically, the FDIC's building management program has not been formalized and, accordingly, no policy requiring a program was deemed necessary. In addition, FMS staff stated that the FDIC prioritizes building projects involving safety and security and does not presently have a backlog of deferred maintenance projects (projects that were not performed when they should have been performed and, therefore, are put off or delayed for a future period). Without a more formal and complete building management program, the FDIC may not have adequate management controls to ensure that DOA's operational goal of providing employees with a safe and well-maintained work environment is met, performance initiatives are achieved, and the continuity of program management is ensured.

The GAO and the NRC have conducted audits and a study, respectively, related to the management of federal buildings. In March 2000, GAO issued a report entitled, *Federal Buildings: Billions Are Needed for Repairs and Alterations* (GAO/GGD-00-98). The report emphasized the need for the General Services Administration (GSA) to complete a 5-year comprehensive buildings repair and alteration plan that identifies total needs, relative priorities, and funding requirements so that decision-makers have necessary information to make informed decisions. The types of repairs and alterations needed at GSA buildings included projects similar to those identified at the FDIC-owned buildings such as electrical, HVAC, and fire alarm and sprinkler systems. In their response to the report, GSA officials told GAO that the 5-year plan being developed would be more than a listing of projects and was intended to be an overall strategy document that would be updated annually so that it would best address current and future repair and alteration needs.

In April 2001, GAO issued another report entitled, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge – Expanded Financing Tools Needed* (GAO-01-452). GAO identified significant health and safety concerns at GSA buildings, including a lack of fire suppressant sprinkler systems. The report stated that the ultimate cost of eventually completing delayed repairs and alterations may escalate because of inflation and increases in the severity of the problems caused by the delays. GAO concluded and recommended that GSA reexamine the weighting of health and safety criteria to ensure that sufficient priority is being given to funding repair and alteration projects that would prevent or resolve significant health and safety problems in federal buildings.

In addition, the NRC issued a report in 1998 entitled, *Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets.* The NRC report discussed the significance of identifying and quantifying deferred maintenance, especially since a large proportion of federal buildings are more than 40 years old. The NRC report also noted that legislative requirements to improve health, safety, or welfare (such as the Americans with Disabilities Act [ADA] of 1990) have put additional pressure on maintenance and repair budgets and programs. Appendix III discusses in more detail the results of the two GAO audits and the NRC report.

Finally, GAO's *Standards for Internal Control in the Federal Government* state that "internal control techniques are to be effective and efficient in accomplishing their internal control objectives." Internal control techniques are the mechanisms by which control objectives are achieved and include, but are not limited to, such things as specific policies, procedures, and plans of organization. An FDIC policy establishing the requirements of the FDIC's building management program would constitute an internal control technique that would provide additional assurance that DOA's operational goal of providing employees with a safe and well-maintained work environment is achieved.

FDIC Perspective on Current Building Management Program

The Assistant Director, FMS, stated that, historically, the building management program has not been formalized. Therefore, the FDIC does not have an overall policy addressing building management. Rather, the FDIC relies largely on contractors to accomplish the day-to-day building management function and its "capital projects" list for long-range building requirements. Nonetheless, the FDIC's development of a 5-year building repair and improvement plan (which will replace the "capital projects" list) is a move towards formalizing the building management program.

In addition, although the FDIC does not have formal prioritization criteria for its non-recurring repair and improvement projects, the Assistant Director stated that senior management emphasizes safety and security-related building projects. For example, in light of the events of September 11, 2001, and the possibility of future terrorist threats, the FDIC announced on October 10, 2001 (and then updated on November 8, 2001) certain building-related physical security precautions. Specifically, the FDIC stated that it would be installing window mylar at the FDIC-owned buildings at headquarters and at the FDIC-owned building on Ecker Street in San Francisco to prevent injuries from window glass fragmentation. In addition, the FDIC is erecting barricades in front of the 550 17th Street building to prevent vehicle access under an existing portico. The FDIC expects to complete these projects between November 2001 and March 2002.

Finally, both the Assistant Director, FMS, and Consolidated's on-site project manager stated that deferred maintenance is not, at present, a problem at the FDIC. The focus of the Consolidated contract is on preventive maintenance, thereby lessening the likelihood that a backlog of deferred maintenance projects develops.

Risks Associated With Not Formalizing or Incorporating Additional Program Elements

Without a more formal and complete building management program, the FDIC may not have the necessary management controls to ensure that DOA's operational goal of providing employees with a safe and well-maintained work environment is met, specific performance initiatives are achieved, and the continuity of program management is ensured. Specifically, without documented criteria for prioritizing building projects, the risk is increased that safety-related projects get deferred. For example, the FDIC has identified a project to install fire-suppressant sprinkler systems at the 550 17th Street and 1776 F Street buildings, but DOA did not consider the project a high priority and, therefore, the project will not be accomplished until 2004 or 2005. FDIC management stated that sprinkler systems relate to both property protection and safety. Given that other FDIC priority repair and improvement projects do not have a safety component and that management believes in the merits of having sprinkler systems, we believe sprinkler systems should have a higher priority consistent with DOA's goal of a safe work environment.

In addition, the DOA Year 2000 Annual Performance Plan included an initiative to "Renovate all restrooms at Headquarters-owned buildings to be compliant with the Americans with Disabilities Act."[2] However, due to unexpected costs associated with re-facing the 1776 F Street building and unexpected delays associated with developing construction plans and the procurement cycle, the project was only partially completed. Specifically, the 1776 F Street restrooms were renovated; however, the 550 17th Street and VS buildings restroom renovation projects were delayed. The 550 17th Street restroom renovation has since been completed but the VS restroom renovation has been delayed again due to the need to complete other projects. However, the Assistant Director, FMS, stated that the VS bathroom renovation project is in the study and design phase and will be competed in 2002, with work completed in 2003.

Similarly, the FDIC identified in its "capital projects" list a planned fire-alarm upgrade at the VS building for 2001, but it was cut from the 2001 budget. The Assistant Director, FMS, re-submitted the project for the 2002 budget. The FDIC's A&E firm is conducting a system evaluation and the resulting report will be used to develop a contract for the upgrade or replacement of the fire-alarm system.

Documenting the criteria for prioritizing projects would help focus attention and budget resources on projects that sometimes have competing priorities. Specifically, projects related to the HVAC systems are expected to improve the efficiency and comfort of the buildings. As previously identified, the VS bathroom renovation project relates to compliance with the ADA. The safety of employees is addressed by other projects, including upgrading the VS building fire alarms and the installation of fire suppressant sprinkler systems at the 550 17th Street and 1776 F Street buildings. Recommendations resulting from the Department of Energy (DOE) energy reviews identified projects that are expected to have long-term cost savings resulting from more efficient energy use. The Assistant Director, FMS, acknowledged that balancing the competing goals of certain projects combined with the annual budget process and limitations as to the number of projects that can be managed concurrently sometimes results in periodic re-prioritizations of projects.

Without a requirement to identify and report on both the present and future costs associated with correcting deferred maintenance projects, the risk is increased that such needs are unknown to

[2] The Legal Division has opined that the ADA does not by its terms apply to the FDIC. However, various provisions of the ADA have been incorporated into the Rehabilitation Act of 1973, which applies, in general, to federal agencies. Although the Rehabilitation Act does not specifically apply to the FDIC according to the Legal Division opinions, the FDIC voluntarily complies with various portions of the Rehabilitation Act.

senior management or increase in severity, thereby possibly compromising the work environment and resulting in additional costs. We reviewed an ATLAS 2000 report dated November 6, 2001, and confirmed the lack of deferred maintenance projects. The report identified 174 work orders that had not been completed, the oldest of which was initiated on October 1, 2001.

Nonetheless, the present lack of deferred maintenance projects does not ensure such projects could not arise in the future, especially with the Corporation's emphasis on containing operating costs and the aging of the FDIC-owned headquarters buildings. The FDIC 550 17th Street building is 38 years old, and the 1776 F Street building is 29 years old. As the FDIC buildings continue to age, their need for maintenance will expectedly increase, thereby increasing the importance of incorporating a formal deferred maintenance reporting requirement into the FDIC building management program. The deferred maintenance reporting requirement should include reporting to senior FDIC management both the present and future costs associated with deferred maintenance. As a result, senior FDIC management would be better informed of any such projects as a basis for evaluating the overall priority order in which projects should be completed. Additionally, FDIC management would be kept informed of the cost and other implications of deferring maintenance activities from one year to another.

Without a more formal and complete building management program, the risk is also increased that the continuity of the building management program could be impaired if key program managers and staff leave the FDIC. A more formal and complete program would better ensure that maintenance, repair, and improvement operations and projects related to corporate priorities were completed, notwithstanding changes in program management and staff. The Assistant Director, FMS, acknowledged that the lack of a formal program when she was appointed to her position in 1999 made it difficult to determine what priority work arising from prior building condition assessments had been identified and what work had been completed.

Finally, the FDIC spends millions of dollars annually to maintain, repair, and improve the FDIC-owned buildings. A policy establishing a formal building management program that includes additional program elements would better establish the relationship and relative priorities between the day-to-day maintenance program and larger non-recurring repair and improvement projects and ensure that the FDIC achieves its stated operational goal of providing all employees with a safe and well-maintained work environment.

RECOMMENDATIONS

We recommend that the Director, DOA:

(1) Develop a policy that formally establishes a building management program for FDIC-owned headquarters buildings that incorporates, at a minimum, the following requirements:

- A comprehensive 5-year building management plan for each facility that is updated annually and includes estimated project costs.
- Prioritization criteria for maintenance, repair, and improvement projects, with an emphasis on employee safety and legally required projects.

- A deferred maintenance reporting requirement that includes both the estimated present and future costs to correct deficiencies.

(2) Assign a higher priority to installing fire suppressant sprinkler systems at the 550 17th Street and 1776 F Street buildings.

CORPORATION COMMENTS AND OIG EVALUATION

On March 6, 2002, the Director, DOA, provided a written response to the draft report. The response is presented in Appendix IV to this report. The Director's response indicated concurrence with both of the report's recommendations.

DOA has already taken action on recommendation 1 to develop a policy that formally establishes a building management program for the FDIC-owned buildings. Specifically, on January 22, 2002, DOA issued a policy memorandum that formally established policy and procedures for developing and maintaining a repair plan for the FDIC-owned buildings at headquarters and San Francisco. The policy requires annual plans be developed for the repair of building equipment and systems and capital improvements. The policy also requires that the plans encompass a minimum time frame of 5 years and include the estimated project repair and improvement costs. The policy includes prioritization criteria for projects and a reporting requirement for maintenance projects that are deferred.

With regard to recommendation 2, DOA completed a building repair plan for each FDIC-owned building at headquarters that reflects a higher priority on the installation of fire suppressant sprinkler systems. The repair plans for the 1776 F Street and 550 17th Street buildings indicate that the sprinkler systems project will be completed in 2003 and 2003/04, respectively. DOA management further stated that ACSB is currently developing a contract statement of work for the fire suppressant sprinkler systems project.

The OIG obtained and reviewed DOA's January 22, 2002, policy memorandum and the FDIC repair plans for the 550 17th Street and 1776 F Street buildings. We verified that the policy memorandum adequately addressed the OIG's recommendation and that the repair plans assigned a higher priority to installing the fire suppressant sprinkler systems. Therefore, we conclude that both recommendations have been implemented and are effective and consider the recommendations closed for reporting purposes.

APPENDIX I

SCOPE AND METHODOLOGY

The scope of the audit included the three FDIC-owned headquarters buildings at 550 17th Street and 1776 F Street in Washington, D.C. and the VS building located in Arlington, Virginia. On a limited basis, the audit included the four headquarters leased buildings located in Washington, D.C., at 1700 and 1730 Pennsylvania Avenue, 1717 H Street, and 801 17th Street. This is the OIG's first audit of the FDIC-owned building management program.

To accomplish our audit objectives, we reviewed draft and final reports on the energy and electrical systems reviews performed on the FDIC-owned buildings. We reviewed the reports to obtain an understanding of the scope and inter-relationship of the reviews, number and type of recommendations, and whether any safety-related projects requiring immediate attention were identified. More specifically, we reviewed draft and final reports covering the DOE energy reviews conducted in August 2000 on each of the FDIC-owned buildings. We reviewed a draft contractor report on the results of the electrical systems conditions survey completed in August 2001 covering the 550 17th Street and 1776 F Street buildings. In addition, we interviewed the Assistant Director, FMS, to determine the scope of the A&E conditions survey on the 550 17th Street and 1776 F Street buildings.

We also performed the following additional methodology:

- Reviewed the 3-year FMS capital projects list related to each of the FDIC-owned buildings to identify the number and type of planned building projects.
- Compared the FDIC year 2000 and 2001 budgets related to building maintenance, operating expenses, repair, and improvement to determine the amount and trend of expenditures.
- Assessed DOA's progress in completing performance initiatives related to headquarters building maintenance, repair, and improvement by reviewing DOA's year 2000 and 2001 Annual Performance Plans and interviewing DOA staff.
- Reviewed GAO and NRC reports related to federal building management issues, challenges, practices, and recommendations to identify potential areas where the FDIC program could be improved.
- Evaluated an ATLAS 2000 computer system report dated November 6, 2001, to determine the status and number of outstanding building maintenance and repair work orders under the Consolidated Engineering contract as a basis for evaluating whether the FDIC has a backlog of deferred maintenance projects.
- Reviewed FDIC headquarters building leases to determine lessee and lessor responsibilities related to building maintenance, repair, and improvement as a basis for evaluating whether cost-savings opportunities existed by eliminating work performed on leased buildings that should be a lessor responsibility.
- Judgmentally selected for review 12 purchase orders related to building maintenance, repair, and improvement to identify potential cost-savings opportunities. These purchase orders covered janitorial, A&E, electrical, construction, painting, fire alarm system, and carpentry services. We selected the 12 purchase orders based on an electronic analysis and sorting of open and closed purchase orders as of February 6, 2001. Generally, we selected the highest dollar purchase orders related to maintenance, repair, and improvement work on the FDIC-

owned and, as applicable, leased buildings. For each of the 12 purchase orders, we reviewed the statements of work and other contract file documentation to obtain an understanding of the nature and need for the work. Table I.1 identifies each of the contracts selected for review, the nature of the contracted services, the total contract dollar ceilings (including option years) and total amount paid as of February 6, 2001.

Table I.1: FDIC Building Services Contracts Selected for Review

Contract Number	Contract Description	Not to Exceed Amount	Total Paid as of 02/06/01
96-01025-C-BK[a]	Painting & Related Services	$1,690,000	$1,595,957
96-01026-C-BK[a]	Carpentry & Related Services	$1,950,000	$1,911,675
97-00083-C-RJ	Electrical Maintenance & Repairs	$2,790,000	$2,609,434
97-00238-C-DS[a]	Landscape Architect & Move Coordination	$1,900,001	$1,877,646
98-00850-C-DQ	Interior Construction/Tenant Improvement	$4,940,000	$3,453,864
98-01057-C-DS	Cleaning/Janitorial	$4,852,233	$2,322,324
98-01147-C-DQ	Painting & Related Services	$2,255,478	$579,800
98-01330-C-BK	Building Engineering	$12,500,000	$4,530,386
99-00127-C-CJ	Carpentry & Repair	$1,561,560	$510,247
99-00621-C-DQ	*Architectural/Engineering – Office Design*	$1,889,374	$943,827
99-00659-C-DQ	Fire & Life Safety System Installation & Maintenance	$1,813,805	$1,642,667
01-00075-C-RJ[b]	Exterior Reface to 1776 F Street Building	$4,419,406	$302,127

[a]These purchase orders were closed as of our audit sample selection date of February 6, 2001.
[b] Amount paid as of September 20, 2001.

Source: *OIG review of contract file documentation and reports generated as of February 6, 2001, from the FDIC Purchase Order System.*

For 6 of the 12 purchase orders,[1] we reviewed task and work orders representing approximately 35 percent of the amounts paid under the contracts as of February 6, 2001.[2] We reviewed the task and work orders for evidence of a written request for the work, nature of work performed, changes and modifications to the work, appropriate FDIC approvals, and applicability to leased or owned building. The purpose of this review was to identify any cost-savings opportunities resulting from eliminating unauthorized work, work at the leased buildings that should have been covered by leases, and unauthorized modifications that increased original task and work order dollar amounts. However, the scope of our work did not include reviewing contractor invoices or supporting documentation or verifying that amounts billed on the invoices were reasonable or in compliance with contract terms.

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[1] The six purchase orders included 96-01025CBK , 96-01026CBK, 97-00083CRJ, 98-00850-CDQ, 98-01147CDQ, and 99-00127CCJ.

[2] A task order is a contract awarded under an existing basic ordering agreement, which sets forth terms and conditions to be applied to future task orders. The FDIC uses the terms task and work orders interchangeably.

We reviewed management controls including FDIC guidelines related to painting and carpeting, the Facilities Design Guide, the applicability of the ADA or similar statutes to the FDIC, and FMS's 3-year list of capital projects planned for each of the owned buildings. We considered management controls to be adequate except as related to the additional formalization of the building management program as described in the report.

We relied on computer-processed data from the Purchase Order System to judgmentally select our audit sample of 12 purchase orders and the ATLAS 2000 System for confirming the lack of deferred maintenance projects. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that information in the Purchase Order System including contract numbers, contractor names, and description of services agreed with the information in the 12 contract files we reviewed. Further, we did not establish the reliability of the data in the ATLAS 2000 System because the primary focus of our audit was on high-dollar building management project plans as opposed to day-to-day building operations and maintenance performed by Consolidated Engineering and tracked by the ATLAS 2000 System. However, we did not find any errors that would preclude use of the computer-processed data or that would materially change the conclusions in the report.

Throughout our audit, we interviewed DOA staff and solicited and considered their comments as appropriate. We performed our audit between February and November 2001 in accordance with generally accepted government auditing standards.

FDIC-INITIATED REVIEWS AND ASSESSMENTS PERFORMED ON FDIC-OWNED BUILDINGS

The FDIC is developing a 5-year non-recurring major repair and improvement projects plan for the FDIC-owned headquarters buildings. A draft of the 5-year plan had not been prepared as of our field work completion date of November 6, 2001. The plan will incorporate the results of completed and ongoing reviews and assessments.

The DOE completed energy reviews on the FDIC-owned headquarters buildings in August 2000. In total, the DOE reviews identified 19 energy conservation measures and 3 water conservation measures that would result in both energy and water savings and, hence, cost savings. The more significant energy conservation measures were related to updating or converting the HVAC building systems. The water conservation measures primarily involved installing low flow faucets and, at the Student Residence facility, low flow showerheads. FMS staff were generally receptive to the findings in the DOE energy reviews. The Assistant Director, FMS, stated that the FDIC had already completed three of the energy conservation measures. However, FMS may consider obtaining a second opinion before undertaking more costly energy conservation measures related to modifying building air-flow systems to both reconfirm cost estimates and projected long-term savings.

In addition, an electrical systems conditions assessment was completed in August 2001. The assessment was performed by a contractor at both the 550 17th Street and 1776 F Street buildings. The VS building was not included in the survey since it is only 10 years old. The purpose of the assessment was to review the present condition and evaluate the remaining useful life of the buildings' electrical equipment. The contractor developed recommendations ranging from the minimum requirements needed to update existing equipment to meet the latest standards and code requirements to the maximum replacement or renovation of the existing equipment. According to the Assistant Director, FMS, a full system replacement can be deferred for another 3 to 5 years as long as interim maintenance and renovation is performed. In addition, the FDIC will contract annually to have the electrical systems re-assessed to determine if the Corporation needs to accelerate the replacement schedule.

Also, an A&E conditions assessment was in process but had not been completed as of the end of our audit field work on November 6, 2001. The scope of the assessment includes the 550 17th Street and 1776 F Street buildings. The VS building will have a conditions assessment performed on it during 2002. The A&E contractor is assessing all building conditions including mechanical systems, plumbing, and the roofs.

Finally, FMS developed a 3-year capital projects list for each FDIC-owned headquarters building. The list will be updated with the results of the completed or ongoing studies and is subject to revision, re-prioritization, and budgeting constraints. In addition, the projects list is being converted from a 3-year plan to a 5-year plan. Some of the larger projects include VS restroom renovations, uninterrupted power source batteries and modules for VS, and electrical systems work at the 550 17th Street and 1776 F Street buildings.

APPENDIX III

PRIOR GAO AUDITS AND NRC STUDY

The GAO and the NRC[1] conducted audits and a study, respectively, related to the management of federal buildings. We reviewed these reports and compared the results and practices to the FDIC's building management program and, where appropriate, identified areas where the FDIC program could be more formal and complete.

Specifically, in March 2000, GAO issued a report entitled, Federal Buildings: Billions Are Needed for Repairs and Alterations (GAO/GGD-00-98). Beyond identifying the need for substantial additional funding, GAO noted that "…GSA does not have a comprehensive plan that (1) identifies its total repair and alteration needs and corresponding funding requirements and (2) establishes the relative benefits or priorities of all competing projects…." However, GAO noted that "GSA's initiative to develop a comprehensive plan that will identify, in priority order, the repair and alteration work that needs to be funded within a 5-year period should go a long way toward providing key decision-makers the needed context to fully understand what needs to be done and how best to do it." Based on our follow-up with both GAO and GSA, we determined that GSA had not completed its 5-year plan as of October 11, 2001.

In addition, in April 2001 GAO issued a report entitled, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge – Expanded Financing Tools Needed* (GAO-01-452). GAO's work focused primarily on prospectus-level repair and alteration design projects, defined as those costing $1.99 million or more during fiscal year 2001. GAO stated that GSA's process for assessing and selecting prospectus-level repair and alteration design projects for funding emphasizes a project's economic return; i.e., projects that maximize GSA's ability to increase rent revenues from building tenants. However, GAO collected evidence suggesting that significant health and safety concerns exist. For example, GAO noted that the lack of sprinkler systems on occupied floors was one of many conditions that could expose federal employees to unsafe and/or unhealthy situations. Accordingly, GAO concluded and recommended that GSA reexamine the weighting of health and safety criteria to ensure that sufficient priority is being given to funding repair and alteration projects that would prevent or resolve significant health and safety problems in federal buildings. In responding to the report, GSA officials stated that GSA has made and will continue to make health and safety issues a major factor in selecting repair and alteration projects for funding.

The NRC issued a report in 1998 entitled, *Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets.* The NRC report discussed the significance of identifying and quantifying deferred maintenance. The Federal Accounting Standards Advisory Board (FASAB)[2] defines deferred maintenance as "maintenance that was not performed when it

[1] The NRC was organized by the National Academy of Sciences in 1916 to associate the broad community of science and technology. The NRC study discussed in this report was supported by a contract between the National Academy of Sciences and the Department of State on behalf of the Federal Facilities Council.

[2] The FASAB guidelines are not applicable to the FDIC because, as an independent agency, the FDIC follows generally accepted accounting principles. The FASAB was established in October 1990 by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General of the United States. FASAB was created to consider and recommend accounting standards and principles for the federal government to improve the usefulness of federal financial reports.

should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." The NRC report states that deferred maintenance is generally quantified as the estimated cost of the maintenance and repair needed to bring a facility up to a minimum acceptable condition. In addition, the NRC report noted that legislative requirements such as the ADA have put additional pressure on maintenance and repair budgets and programs. The ADA prohibits discrimination against people with disabilities in employment, transportation, public accommodations, communications, and activities of state and local government. The ADA requires the removal of barriers from existing facilities, if this is readily achievable, and requires making the altered facilities as accessible as is feasible. The FDIC Facilities Design Guide states that "Although not required to comply, FDIC will comply with the ADA to the fullest extent practicable…when renovating or altering space."[3]

In total, the three GAO and NRC reports identify the need for and recommend more formal strategic approaches to building management programs. Based on a comparison to the FDIC building management program, we believe the FDIC could also benefit from some of the practices and recommendations discussed in these reports.

[3] The Facilities Design Guide provides recommended design and construction practices to ensure that a consistent, cost effective level of design and technical excellence will be reflected and maintained in each FDIC facility. As noted in footnote 2 on page 6, the ADA does not apply to the FDIC, but the FDIC voluntarily complies with the Rehabilitation Act which incorporates certain provisions of the ADA. We have focused on the ADA because a performance standard established by DOA addressed this issue. However, there are various other laws and building codes that may govern the FDIC's facilities. Determining compliance with such other laws and codes was outside the scope of this audit.

CORPORATION COMMENTS

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429 Division of Administration

March 5, 2002

MEMORANDUM TO: Sharon M. Smith
Deputy Assistant Inspector General for Audits

FROM: Arleas Upton Kea [Electronically produced version; original signed by Arleas Upton Kea]
Director, Division of Administration

SUBJECT: Management Response to Draft Report: *FDIC's Program for Managing FDIC-Owned Buildings at Headquarters (Audit No. 2001-704)*

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) draft report. We appreciate the review performed by the OIG, and its conclusion that DOA has systematically planned for non-recurring building repair and improvement projects. We also appreciate the OIG for its acknowledgment and recognition of the various building condition studies and assessments that DOA has initiated or completed. Although we are extremely pleased with our current building management program, we understand that improvements can always be made to enhance operational efficiency. As such, DOA continuously looks for ways to improve its business operations in the building management area.

In the report the OIG made two recommendations to DOA under the finding entitled "*FDIC's Building Management Program Should Be Formalized and More Complete."* DOA has reviewed the finding and agrees that the recommended improvements should be made. Outlined below are the corrective actions DOA has completed to-date and the actions currently in-process.

Management Decision:

Recommendation # 1: Develop a policy that formally establishes a building management program for FDIC-owned headquarters buildings that incorporate, at a minimum, the following requirements:

- A comprehensive 5-year building management plan for each facility that is updated annually and includes estimated project costs.

- Prioritization criteria for maintenance, repair, and improvement projects, with an emphasis on employee safety and legally required projects.

- A deferred maintenance reporting requirement that includes both the estimated present and future costs to correct deficiencies.

Management Response # 1: DOA management agrees with the OIG recommendation. On January 22, 2002, the DOA Acquisition and Corporate Services Branch (ACSB) issued Policy Memorandum No. 02-001 entitled *FDIC Owned Building Repair Plan Policy Memorandum* that formally established the building management program for the FDIC. The policy requires annual plans be developed for the repair of building equipment and systems and capital improvements. The repair plans will encompass a minimum time frame of five years and will include the estimated repair/improvement costs and life cycle information if available. Section V of the policy contains the prioritization criteria for developing these plans.

Since the issuance of the policy memorandum, DOA ACSB has completed an annual repair plan in accordance with the criteria outlined in the policy. With the issuance of this policy and the development of a strategic repair plan, we believe that the real property assets of the Corporation will be better maintained and that repairs and upgrades will be completed timely.

Recommendation # 2: Assign a higher priority to installing fire suppressant sprinkler systems at the 550 17th Street and 1776 F Street buildings.

Management Response # 2: DOA management agrees with this recommendation and has assigned the installation of fire suppressant sprinkler systems at the 550 17th Street and 1776 F Street building as a priority in the recently completed repair plan. At this time, DOA ACSB is developing the contract statement of work for the project.

If you have any questions regarding the response, our point of contact for this matter is Andrew Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

cc: Michael Rubino
Marianne Jentilucci
Vijay Deshpande