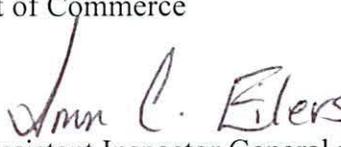




AUGUST 5, 2010

**MEMORANDUM FOR:** Scott Quehl  
Chief Financial Officer and Assistant Secretary for Administration  
Department of Commerce

**FROM:** Ann Eilers   
Principal Assistant Inspector General for Audit and Evaluation

**SUBJECT:** Management of the Herbert C. Hoover Building Renovation  
Final Report OAE-19885

This memorandum reports the findings from our review of the comprehensive renovation of the Herbert C. Hoover Building (HCHB), the Department of Commerce's Washington, D.C., headquarters.

The renovation is being managed by the General Services Administration (GSA), but because the Department and its operating units will be directly affected by the renovation, the Office of Inspector General (OIG) plans to conduct an ongoing review of the project. As part of our review, we will continue to monitor the progress of various projects critical to the success of the renovation efforts, such as the consolidated server room and perimeter security. Such projects are Commerce's largest monetary responsibilities during the early phases of the renovation, and directly affect critical stages of construction. These topics may be addressed in greater detail in future reports.

Our objective for this first evaluation was to gain an understanding of the HCHB renovation project and its project management plan to determine whether the project was being managed effectively. To accomplish this, we evaluated project oversight mechanisms and project management coordination efforts, identified project risks, and determined whether the renovation is meeting its cost and schedule milestones. We also analyzed relevant documentation and interviewed officials from GSA's Public Building Service; GSA's OIG; Commerce's Office of Building Renovation (OBR); and Gilbane-Grunley Joint Venture (GGJV), the contractor for the renovation. Our work was performed in accordance with the *Quality Standards for Inspections* (January 2005) issued by the President's Council on Integrity and Efficiency and under authority of the IG Act of 1978, as amended, and Department Organization Order 10-13 (August 2006).

As part of our inspection we reviewed project management documentation and project processes. We also interviewed GGJV representatives, as well as GSA and DOC officials, to assess project oversight and management, costs, challenges, milestones, internal controls, and coordination efforts with GSA. We noted that the management teams had implemented reasonable operating procedures to ensure adequate oversight of the initial phases of the project.

However, as we will discuss further in this memorandum, we found two areas that may affect the renovation’s progress: (1) Commerce’s OBR does not have a formal procedure in place for tracking and reconciling reimbursable work authorizations (RWAs), and (2) concerns about GSA’s calculation of Commerce’s rental rate still have not been addressed. We also found that the Department will need to continue its oversight of the renovation in order to minimize potential disruptions to employees’ comfort, health, and productivity.

Please accept our thanks for the courtesies shown to us during our fieldwork. If you have any questions, please contact me at (202) 482-4832 or Leon Sampson at (202) 482-0535.

**Background**

Construction of the GSA-owned 1.8-million-gross-square-foot building located at 1401 Constitution Avenue, NW, in Washington, D.C., was completed in 1932. The structure, originally called the Department of Commerce Building, was renamed the Herbert C. Hoover Building in 1981. HCHB has undergone only limited upgrades, but in January 2008 GSA began an extensive 8-phase modernization and renovation project (see table 1 for an outline of the scope of work). The renovation, which is scheduled for completion in 2021, will upgrade mechanical, electrical, and life-safety systems; increase usable space; improve energy and environmental efficiency; and incorporate security improvements. The renovation makes HCHB one of the final buildings in the Federal Triangle area to be modernized.



Source: Department of Commerce Web site

**Table 1. HCHB Renovation Scope of Work**

Phase <sup>a</sup>	Activities
<b>Phase 1</b>	Replace air-conditioning system cooling towers. Build the swing space to house staff while future phases of the building renovation are in progress.
<b>Phase 2</b>	Interior and exterior renovations <sup>b</sup> will encompass Corridor 1 along Constitution Avenue. Phase 2 also includes building facade restoration and site utilities replacement around the entire building, as well as development of a staging area for moving construction materials.
<b>Phase 3</b>	Interior and exterior flat roof renovations will encompass Corridor 2 (second corridor north of Constitution Avenue).
<b>Phase 4</b>	Interior and flat roof renovations will encompass Corridor 3.
<b>Phase 5</b>	Interior and flat roof renovations will encompass Corridor 4.

<b>Phase<sup>a</sup></b>	<b>Activities</b>
<b>Phase 6</b>	Interior and flat roof renovations will encompass Corridor 5.
<b>Phase 7</b>	Interior and flat roof renovations will encompass Corridor 6.
<b>Phase 8</b>	Interior and exterior renovations will encompass Corridor 7.

Source: OIG, based on information from GSA

<sup>a</sup> Each phase is planned to last approximately 18 months. All phases are subject to schedule changes.

<sup>b</sup> Renovations for all corridors include new mechanical, electrical, and plumbing systems, and architectural finishes.

GSA is managing the estimated \$960 million contract awarded to GGJV to complete the renovation. GSA's Federal Building Fund (FBF), the primary financial contributor to the project, received \$225.6 million from the American Recovery and Reinvestment Act of 2009 (ARRA) to fund phases 2 and 3 of HCHB's renovation. Table 2 illustrates the funding sources for the project and their contributions.

**Table 2. HCHB Renovation Project Funding**

<b>Source of Funding</b>	<b>Amount (in millions)</b>	<b>Percentage of Funding</b>
GSA/Federal Building Fund	\$ 605.0	63.2
ARRA funds	225.6	23.5
Commerce's estimated contribution <sup>a</sup>	128.0	13.3
<b>Total Estimated Project Cost</b>	<b>\$ 958.6</b>	<b>100</b>

Source: OIG

<sup>a</sup> Commerce's projected funding contribution is dependent upon annual congressional appropriations.

In recent years, GSA's OIG has audited both FBF and the Public Building Service and identified several areas of concern. For example, the Public Building Service has not fully developed a comprehensive strategy for building and renovation projects, nor has it established a means of assigning priorities among competing projects. FBF needs to review its planning process for building projects nationwide. And finally, deficiencies were identified in GSA's internal controls over financial reporting and information technology.

These issues may also affect the progress of HCHB's renovation. The project is being reviewed by GSA's OIG as part of its ARRA oversight, and Commerce's OIG is coordinating with GSA's OIG to better define our respective roles and responsibilities for the renovation oversight efforts.

The tenants of HCHB are directly affected by this renovation and modernization project; however, they have very limited control over project management or over decisions that will have an impact on them. This creates a challenge that requires open and active participation of all stakeholders. As part of the renovation’s Integrating Integrated Project Team (IIPT),<sup>1</sup> Commerce is working closely with GSA as an advocate for the bureaus and operating units housed at HCHB with respect to space requirements, building services, and improvements.

**Commerce Is Taking an Active Role in Managing the Renovation Project**

Implementing the IIPT, communicating with representatives from Commerce’s operating units (see figure 1), using the renovation information and guidance provided to each operating unit by GSA, and holding weekly coordination meetings are some of the activities Commerce has employed to manage the HCHB renovation project.

**Figure 1. Commerce Operating Units**

• Office of the Secretary	• Minority Business Development Agency
• Bureau of Economic Analysis	• National Institute of Standards & Technology
• Bureau of Industry & Security	• National Oceanic & Atmospheric Administration
• Economic Development Administration	• National Telecommunications & Information Administration
• Economics & Statistics Administration	• Patent & Trademark Office
• International Trade Administration	

Source: Department of Commerce, Office of Building Renovation

Conversely, the Department’s limited management control over the construction activities, as well as the construction’s potential impacts on the operating units’ abilities to achieve their missions, is a concern. Traditionally, effective management of the time and costs associated with large-scale federal construction projects has been difficult. Given Commerce’s limited role in the project, the Department will need to continue to work closely with the operating units to assist in resolving issues as they arise. Commerce must also monitor GSA’s activities carefully to ensure that employees are not negatively affected by the renovation. The Department will need dedicated personnel and financial resources and extensive coordination with GSA and GGJV throughout the project’s lifecycle to ensure the success of the renovation.

<sup>1</sup> The IIPT is a group of key stakeholders from GSA, Commerce, and GGJV, formed to address construction issues as they arise.

Phase 1 of the project was completed on time and within budget. Phase 2 is currently underway. All parties involved must continue to work diligently toward the success of the renovation and promptly identify areas of concern that may hinder it. The following sections describe issues we noted during our evaluation that may affect the project's successful completion.

### **The Office of Building Renovation Lacks an Efficient Procedure for Processing Reimbursable Work Authorizations**

RWAs are used by GSA to capture costs and bill customers for altering, renovating, repairing, or providing services in GSA-managed space over and above the basic operations financed through rent. GSA uses RWAs to invoice the Department for its share of expenses related to the renovation project via the Intra-Governmental Payment and Collection (IPAC) system. Commerce's OBR originates and processes renovation-related RWAs. RWAs are then forwarded to the Department's Office of Executive Budgeting (OEB) to confirm the availability of funds, and Administrative Services for certification. Finally, the RWA and supporting documentation are forwarded to the National Institute of Standards and Technology (NIST) to record the obligation.

Officials in OBR stated that the RWAs and related data are not routinely reconciled to project-related records for accuracy and prompt payment. Therefore, there is a potential risk that cost information may not be fully and accurately captured.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, provides the definition, objectives, and fundamental concepts for federal internal control standards.<sup>2</sup> As described, internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.<sup>3</sup>

While the transaction volume and dollar values of RWAs for the renovations are currently low, both will increase significantly as the renovation progresses. Reasonable control activities can help ensure accurate and timely recording of transactions and events; access restrictions to and accountability for resources and records; and appropriate documentation of transactions and internal control.<sup>4</sup> The Department's current RWA processes do not meet this standard.

### **Recommendation**

We recommend that the directors for Administrative Services and Financial Management work with GSA to develop a process and a written policy for tracking and reconciling renovation-related RWAs.

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<sup>2</sup> GAO. *Standards for Internal Control in the Federal Government*. GAO/AIMD-00-21.3.1 (1999), p. 4.

<sup>3</sup> *Id.* at 5.

<sup>4</sup> *Id.* at 15.

## **GSA and the Department Have Not Reached a Formal Agreement on the Improvement Rental Rate**

The Department currently remits approximately \$2.25 million per month to GSA in rental expenses for the use of HCHB. This rate increases as phases of the construction project are completed, and is adjusted by GSA to reflect the costs associated with any improvements requested by the Department.

GSA's total rental rate is based upon tenant improvements and operating expenses, as well as a base rental rate (which is calculated using third-party market appraisals). The proposed rental rate included monies to be amortized from improvements funded by FBF and monies received from ARRA to pay for construction related to phases 2 and 3 of the renovation project.

However, the opinion of the Department's Real Estate Division is that the rental rate should be comprised solely of the FBF funds and should not include any tenant improvements from ARRA funds. Officials from the Real Estate Division stated that the intent of the ARRA appropriation is to fund phases 2 and 3 of the renovation project, and that it is separate and apart from FBF's annual appropriation. Also, the most recent occupancy agreement between Commerce and GSA did not specify that ARRA monies would be included in the rental rate; therefore, the rate should reflect only the funds from FBF. After more than a year, GSA and Commerce have not reached a final decision and formalized an agreement on the rental rate calculation.

### **Recommendation**

We recommend that the Associate Director for Administrative Services seek confirmation of GSA's decision as soon as possible, in order to allow the Department the time it needs to make appropriate adjustments to its rental budget.

### **Other Issues**

After we completed our fieldwork, OIG became aware of health complaints from Commerce staff occupying the renovation swing space. An inspection on swing space level A was conducted by an Occupational Safety and Health Administration (OSHA) compliance safety officer. The safety officer concluded that the complaints raised were related to indoor air quality and temperature (being too hot or too cold), which are not regulated by OSHA. It was suggested that the Department continue to work with the National Institute of Occupation Safety and Health concerning its existing request for a health hazard evaluation of the swing space.

Although the matter falls outside the original scope of this evaluation, OIG will continue to monitor the situation and may address these concerns in future reports.

### **Stakeholder Comments and OIG Response**

In response to our draft memorandum, OIG received comments from GSA and Commerce's Office of Chief Financial Officer and Assistant Secretary for Administration. GSA stated that it has been addressing tenants' health complaints by monitoring water and indoor air quality in the HCHB swing space. We have included comments from the commissioner and regional

commissioner of GSA's Public Buildings Service as attachment A. The Department did not dispute our findings, but did provide several edits that we have incorporated into this final report.

Regarding our recommendation about renovation-related RWAs, Commerce said that the Director for Administrative Services is working with the Department's Office of Financial Management and GSA to improve the overall RWA process. As part of these improvements, OBR, the Office of Executive Budgeting, and the National Institute of Standards and Technology developed a system for tracking expenditures. In addition, GSA is now helping to reconcile Intra-Governmental Payment and Collection transactions to RWA amendments every month. The Department and GSA plan to work together to improve GSA's monthly reporting of renovation-related RWAs.

GSA confirmed that any tenant improvement work funded by ARRA will not be amortized into the rental rate, although it said that improved building security will be. GSA is in the process of revising the occupancy agreement to bill for the renovation swing space as well as adjusting the current occupancy agreement for space vacated in the building because of the renovation. We are encouraged that the Department of Commerce and GSA are taking actions to address our recommendations, and we look forward to receiving the specific details and results of the activities the Department and GSA have taken and planned.

cc: Lisa Casias, Chief Financial Officer, Department of Commerce  
Mary Pleffner, Director, Office of Administration, Department of Commerce  
Diane Haeger, Resolution Officer, Office of the Secretary, Department of Commerce  
Lawrence Hess, Associate Director, Office of Building Renovation, Department of Commerce  
Trudy Anne Gallic, Audit Liaison Officer, Office of the Secretary, Department of Commerce  
Tyrone A. Anderson, HCHB Project Executive, General Services Administration

**Attachment A – Stakeholder Comments**



GSA Public Buildings Service

JUL 14 2010

The Honorable Todd J. Zinser  
Inspector General  
U.S. Department of Commerce  
Washington, DC 20230

Dear Mr. Zinser:

GSA's Public Buildings Service appreciates the opportunity to comment on the draft audit report titled "OAE-19885—Management of the Herbert C. Hoover Building Renovation."

The objective of this audit was for your office to gain an understanding of the Hoover Building renovation project and its project management plan, as well as to determine whether the project was being managed effectively. Commerce plans to conduct an ongoing review of the project because its operating units will be directly affected by the renovation. GSA's Inspector General is coordinating with your office to better define the roles and responsibilities for the renovation oversight efforts.

The system renovation will occur in eight phases and will be completed in 2021. Phase 1 was substantially completed in October 2009. Phase 2 is underway, and Phase 3 is projected to be completed in June 2013. Phases 2 and 3 have received funding from the American Recovery and Reinvestment Act (ARRA).

The audit report is directed to DOC management; however, the following findings were directed at GSA, as follows:

- GSA and DOC have not reached a formal agreement on the improvement rental rate;
- Health complaints have been received from the DOC staff occupying the renovation swing space; and,
- Prior audits by GSA's OIG on the FBF and on GSA's planning process identified areas of concern, which may affect the progress of renovation.

Accordingly, we offer the enclosed comments in response.

Sincerely,

A handwritten signature in black ink that reads "Robert A. Peck".

Robert A. Peck  
Commissioner

Enclosure

cc: The Honorable Brian J. Miller, GSA Inspector General  
Theodore Steheney, GSA Assistant Inspector General for Auditing

U.S. General Services Administration  
1800 F Street, NW  
Washington, DC 20405-0002  
www.gsa.gov

**GSA and DOC have not reached a formal agreement on the improvement rental rate.**

Prior to the ARRA funding for Phases 2 and 3, GSA provided an Occupancy Agreement (OA) in 2007 to DOC. This OA included a *pro forma* schedule with projected rental rates and details related to the cost of tenant improvements and security fixtures and equipment to be amortized into the rent. The components of the rent bill and how the rental rate is developed and calculated have been explained to DOC and its OIG. The DOC OIG is correct that any tenant improvement work funded by ARRA will not be amortized in the rent. However, at this time, any ARRA funds used to improve building security are to be amortized in the rent. GSA is preparing an OA to bill for the newly renovated space in Phase 1 using 2007 appraisal rates. This OA will include amortization for Tenant Improvements based on allowances for DOC. GSA will also revise the current OA in place to adjust for the space vacated in the building prior to the start of Phase 2. At the end of Phases 2 and 3, no amounts will be billed for Tenant Improvements.

**Health complaints from the DOC staff occupying the renovated swing space.**

The GSA project team is aware of the health complaints from DOC staff, and is working with DOC to manage this issue. The project team has taken every necessary precaution during hazmat abatement and construction of the swing space. Prior to DOC moving into the swing space, GSA conducted water and indoor air quality testing (Volatile Organic Compounds, particulates and formaldehyde) and all tests were negative. GSA has further conducted electric and magnetic field and radon testing, with all testing results being negative. These test results have been forwarded to DOC.

**Prior audits by GSA's OIG on the FBF and on GSA's planning process will affect the progress of renovation.**

Prior audits by the GSA OIG of the Federal Buildings Fund (FBF) and the planning process identified areas of concerns; GSA has been addressing those areas. As you know, the FBF is a revolving fund that finances the Public Buildings Service real property management and related activities such as the operation, maintenance and repair of GSA's public buildings, and the construction of federal buildings and courthouses through the collection of rental charges. The FBF cannot support all the repair and alteration needs of an aging inventory, as well as provide funding for new construction to meet the needs of our customers. As such, GSA must prioritize all requests that compete for the limited funds. GSA has new initiatives and strategies to lower operating costs and become more efficient, which will strengthen the FBF and allow GSA to continue meeting the needs of the Federal customer.

Finally, the draft report stated that the Commerce contribution to the project is subject to Commerce receiving the necessary appropriations. If Commerce does not receive funds to support the additional costs and tenant requested changes to the contract, that portion of the work will not be performed.



GSA National Capital Region

JUL -2 2010

MEMORANDUM FOR: ROBERT PECK  
COMMISSIONER  
PUBLIC BUILDINGS SERVICE (P)

FROM: BART BUSH  
REGIONAL COMMISSIONER  
PUBLIC BUILDINGS SERVICE (WP)

SUBJECT: Draft audit report OAE-19885-Management  
of the Herbert C. Hoover Building Renovation

The objective of this audit was for the Department of Commerce (DOC) Office of Inspector General (OIG) to gain an understanding of the Herbert C. Hoover Building (HCHB) renovation project and its project management plan, as well as to determine whether the project was being managed effectively. The DOC OIG plans to conduct an ongoing review of the project because the DOC operating units will be directly affected by the renovation. Their OIG is coordinating with the GSA OIG to better define the roles and responsibilities for the renovation oversight efforts.

The system renovation will occur in eight phases and will be completed in 2021. Phase 1 was substantially completed in October 2009. Phase 2 is underway and Phase 3 is projected to be completed in June 2013. Phases 2 and 3 have received funding from the American Recovery and Reinvestment Act (ARRA).

The audit report is directed to DOC management; however, the following findings were directed at GSA, as follows:

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- Health complaints have been received from the DOC staff occupying the renovation swing space; and
- Prior audits by GSA's OIG on the FBF and on GSA's planning process identified areas of concern which may affect the progress of renovation.

I offer the following comments in response.

**GSA and DOC have not reached a formal agreement on the improvement rental rate.**

Prior to the ARRA funding for phases 2 and 3, GSA provided an Occupancy Agreement (OA) in 2007 to DOC. This OA included a proforma schedule with projected rental rates and details related to the cost of tenant improvements and security fixtures and equipment to be amortized into the rent. The components of the rent bill and how the rental rate is developed and calculated have been explained to DOC and their OIG. The DOC OIG is correct that any tenant improvement work funded by ARRA will not be amortized in the rent. Guidance was received this spring from GSA Central Office on this. However, at this time, any ARRA funds used to improve building security are to be amortized in the rent. GSA is preparing an OA to bill for the newly-renovated space in Phase 1 using 2007 appraisal rates. This OA will include amortization for Tenant Improvements based on allowances for DOC. GSA will also revise the current OA in place to adjust for the space vacated in the building prior to the start of Phase 2. At the end of Phases 2 and 3, no amounts will be billed for Tenant Improvements.

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Finally, the draft report stated that the Commerce contribution to the project is subject to Commerce receiving the necessary appropriations. If Commerce does not receive funds to support the additional costs and tenant requested changes to the contract, that portion of the work will not be performed.