



Executive Summary:

Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project

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March 31, 2014

Purpose

The Martin Building construction and renovation project (Martin Building project) requires significant investment, and it has been identified by the Board of Governors of the Federal Reserve System (Board) as a strategic theme in the Board's strategic framework. As such, our objectives for this audit were to assess how the cost estimates for the project were determined and how these costs will be managed within the Board's strategic framework.

Background

The Martin Building project comprises construction of a visitors' center, construction of a conference center, and renovation of the Martin Building. The concept for the project began shortly after the events of September 11, 2001. Since the original concept was developed, the Martin Building project has gone through a lengthy design phase, primarily due to significant scope changes. These scope changes also resulted in the preparation of multiple estimates that were eventually consolidated into a single conceptual construction cost estimate of \$179.9 million, which is one component of an overall estimated project cost of \$280.4 million.

Findings

Our audit focused on the Martin Building project's conceptual construction cost estimate that was available during our fieldwork. Conceptual cost estimates are typically used during initial planning and should be updated as scope and costs are clarified. Consistent with this practice, the Board's architecture and engineering (A/E) firm and construction administrator submitted updated estimates based on detailed project requirements in December 2013. These estimates were within the expected range of the conceptual cost estimate developed by the Martin Building project team.

Our audit identified opportunities for the Board to improve its recordkeeping, cost estimation, and cost management processes for the Martin Building project. Specifically, we found that the project team did not adequately maintain documentation supporting its conceptual construction cost estimate for the Martin Building project, and support was not available for several line items. We also found that the conceptual construction cost estimate contained errors and inconsistencies. In addition, the Board has not yet established a contractual stated cost limitation with the A/E firm and has not required the firm to submit cost-saving items to aid in cost management.

Actions that the Board has taken since 2011 to improve management of the Martin Building project include arranging for the preparation of an independent construction cost estimate; hiring additional personnel, including a senior project manager, with construction experience; dedicating a procurement staff member to the project; and acquiring a records management system.

Recommendations

We are making six recommendations to improve the Board's cost-estimation process and cost-management practices. We recommend that appropriate individuals maintain records in support of the construction cost estimates for the Martin Building project. We also recommend that the Board's construction cost estimate contain all design requirements, be free of errors and inconsistencies, and be in the same format as contractor estimates. Finally, we recommend that the stated cost limitation be established as quickly as practicable and that the A/E firm be required to submit cost-saving items on an ongoing basis throughout the design process. In its response to a draft of our report, the Board concurred with our recommendations and noted that it is taking actions to implement them.

Access the full report: <http://www.federalreserve.gov/oig/files/Board-Martin-Building-Construction-Renovation-Mar2014.pdf>

For more information, contact the OIG at 202-973-5000 or visit <http://www.federalreserve.gov/oig>.