



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

March 29, 2013

MEMORANDUM

TO: Donald Hammond
Chief Operating Officer

Michell Clark
Director, Management Division

FROM: Cynthia Gray *Cynthia Gray*
Senior OIG Manager for Financial Management and Internal Controls

SUBJECT: OIG Report No. 2013-AA-B-007: Audit Observations on the Board's Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff

Introduction

As referenced in our announcement letter, dated April 23, 2012, we have been conducting an audit survey of the Board's planning and contracting process for the William McChesney Martin, Jr., Federal Reserve Board Building (Martin Building) construction and renovation project and relocation of staff. We conducted the survey to gather information on, and to gain an understanding of, the current status of the Martin Building construction and renovation, the space planning process, and leasing policies and procedures to identify potential areas for audit. We reviewed relevant policies and procedures, contract files, and other pertinent documentation. We also interviewed various Board officials involved in the Martin Building construction, renovation, space planning, and leasing process.

Based on our audit survey work, we plan to issue a formal announcement letter shortly with specific audit objectives concerning the overall project's cost estimates. In the interim, we would like to share our observations concerning claims associated with the architectural and engineering (A/E) contract for the Martin Building construction and renovation project for increases in contractor labor rates due to project delays.

Background

The Martin Building construction and renovation project is one of the Board's largest contracting efforts and comprises three interrelated construction and renovation initiatives: (1) construction of a new visitors' center, (2) construction of a conference center, and (3) renovation of the Martin Building. The concept for the project began shortly after the events of September 11, 2001, and was initially planned as a visitors' center that would address the need for heightened security at the Board. Since the original concept was developed, the project has gone through a lengthy design phase, primarily due to significant scope changes.

Visitors' Center and Conference Center

In August 2005, the Board issued the solicitation, offer, and award (SOA) for an A/E contract solely for the design of the visitors' center. In February 2006, this SOA was reissued to include design work for a conference center. In October 2006, after a competitive bid and evaluation process, the contract to design both the visitors' center and the conference center was awarded to an A/E firm at a total cost of \$1.68 million with an anticipated completion date of July 2007. However, the contract was subsequently modified in June 2007 to add additional design services and the anticipated completion date was extended to December 2007.

Martin Building Renovations

In December 2007, Management Division officials determined that the design and construction of the visitors' center and the conference center should take place concurrently with needed renovations to the Martin Building. In March 2008, the Management Division advised the Committee on Board Affairs (CBA) of the opportunity to combine the Martin Building renovation with the visitors' center and conference center project.¹ During the spring and summer of 2008, the Management Division studied leasing additional space for purposes that included providing swing space for the Martin Building renovation. In September 2008, the Management Division submitted a memorandum through the Board's Legal Division to the then chair of the CBA to include the Martin Building renovations in the existing A/E contract. The then chair of the CBA approved the memorandum within the same month.

1. The CBA is responsible for providing oversight of the Board's planning and budgetary process; coordinating the work of the oversight committees as they plan and budget for their particular areas of oversight; presenting a plan and budget to the Board for discussion and decision; monitoring budget formulation and planning execution over the budget cycle; providing planning guidance where appropriate; and providing oversight of the Management Division and Division of Information Technology.

Exterior Design Approvals from the Commission of Fine Arts and the National Capital Planning Commission

In December 2008, the CBA gave the Management Division approval to submit the exterior design concepts of the visitors' center and conference center to the Commission of Fine Arts (CFA) and the National Capital Planning Commission (NCPC).² The Board submitted these design concepts to both the CFA and the NCPC and obtained their approvals in November 2009 and February 2010, respectively.

Martin Building Renovations Modifications

In February 2011, the Board's Procurement section modified the contract to include the design of the Martin Building renovations after negotiations with the current A/E firm. This modification significantly increased the total estimated cost of the A/E design work, by \$10.41 million, and stated that the A/E firm was expected to complete the design services for the Martin Building renovations, as well as the remaining design services for the visitors' center and conference center, "within 475 working days of the execution of this modification," indicating that completion was expected in December 2012. Further, this modification stated that "commencing October 1, 2011, the contractor's hourly rates shall be adjusted for all labor categories by a maximum of 4.0 percent annually for the duration of the Contract."

In June 2011, the A/E contract was modified again; this modification added services to the A/E contract that were previously planned to be completed by Board staff. This modification pushed the completion date for all design services to May 2013.

In October 2011, the then Director of the Management Division verbally instructed the Board's project team to slow the pace of the work while the Board discussed a range of options for the approach to the Martin Building renovations proposed by the Board's project team.³ The decision to conduct a comprehensive renovation of the Martin Building that would include construction of the visitors' center and conference center, as well as the associated budget, was approved as part of the Board's strategic planning process in June 2012. However, a further delay resulted from the need to decide which divisions would return to the Martin Building after completion of the construction and renovations, as this decision would impact the design. As of

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2. The CFA, established in 1910 by an act of Congress, is charged with giving expert advice to the President, Congress, and the heads of departments and agencies of the federal and District of Columbia governments on matters of design and aesthetics as they affect the federal interest and preserve the dignity of the nation's capital. The NCPC is the federal government's planning agency for the national capital region. The 12-member commission meets monthly to adopt, approve, or provide advice on plans and projects that impact the nation's capital and surrounding areas.
 3. The range of options included (1) no renovation or refreshment of the Martin Building, (2) a 10-year floor-by-floor refreshment of the Martin Building that would not include the construction of a visitors' center and conference center or many of the upgrades to improve energy efficiency, and (3) a comprehensive renovation that would include the construction of conference and visitors' centers.

February 2013, the Board's project team schedule showed that the completion of all design services is expected in April 2015.

OIG Observations

Past Claims Paid

The A/E contract, as originally awarded for the design of the Martin Building visitors' and conference centers, included an anticipated completion date of July 12, 2007. Due primarily to scope changes initiated by the Board, the A/E firm worked beyond this date and subsequently submitted two claims to cover increased costs in its hourly labor rates. After negotiations with the A/E firm that reduced these claims by \$28,412, the Board paid the claims at a total cost of \$139,165:

- The first claim, totaling \$26,763, was processed in 2009 to cover the increase in labor rates for the period July 13, 2007, through April 20, 2009.
- The second claim, totaling \$112,402, was processed in 2010 to cover the increase in labor rates for the period April 21, 2009, through December 31, 2009.

Current Claim

As noted above, we identified that the design services included in the February 2011 A/E design modification were originally expected to be completed in December 2012. The June 2011 A/E design modification, which included additional A/E services, pushed the anticipated completion date to May 2013. As a result of further Board delays, these design services are now not expected to be completed until April 2015. In March 2013, the A/E firm submitted an additional claim which is being reviewed by the Board.

Future Concerns

We are highlighting these observations for management attention as lessons learned while the construction and renovation project continues. The Board will be soliciting a construction contract for the Martin Building renovations, the visitors' center, and the conference center with an estimated cost of approximately \$180 million, an amount over 10 times higher than the current A/E contract. Similar delays occurring during construction could lead to significantly higher claims and increased costs for the Board due to the size of the construction contract and the nature of construction work. Moving forward, we believe it is important for the Board to ensure that specific plans are finalized before contracts are awarded to minimize the risk of additional delays and potential increases in costs during construction.

We provided a draft of our memorandum to you for review; however, since we are not making formal recommendations, a written response to this memorandum is not required. However,

your staff indicated that they concur with our observations and concerns and that actions are being taken to minimize the risk of additional delays and potential increases in cost during construction.

We appreciate the support the Management Division and the Financial Management Division staff has provided us during our audit survey. This memorandum will be included on our publicly available website and in our semiannual report to Congress. The principal contributors to this report were Margaret An, Project Lead; Mark Kaufman, Auditor; Brian Murphy, Auditor; and Jim Keegan, Project Manager.

If you have any questions concerning the matters discussed in this memorandum, please contact me or Jim Keegan.

cc: Bill Mitchell
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Keith Bates