

Board of Governors of the Federal Reserve System

The Board Can Improve the Management of Its Renovation Projects



Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



Executive Summary, 2021-FMIC-B-004, March 10, 2021

The Board Can Improve the Management of Its Renovation Projects

Findings

The Board of Governors of the Federal Reserve System's Facility Services section used a leading project planning practice when it completed certain planning studies for the Marriner S. Eccles Building/1951 Constitution Avenue NW building renovation project. Facility Services also established clear roles and responsibilities for senior leadership with respect to managing changes to existing contracts. However, the section did not establish project governance before awarding the architectural and engineering (A/E) contract for Eccles/1951. Leading project management practices emphasize the importance of project governance, which consists of defining roles and responsibilities and expected engagement and communication with stakeholders. Developing a policy that outlines the required planning components, including project governance, will help the project team plan and manage the upcoming New York Avenue building renovation project and other future large, complex, multidivision initiatives.

In addition, although Facility Services ensured that the contractors on the William McChesney Martin, Jr., Building renovation project submitted monthly progress reports, it did not ensure that the A/E firm for the Eccles/1951 renovation project submitted monthly progress reports or biweekly status meeting minutes as required by the contract. Additionally, Facility Services did not formally approve project schedule changes as required by the contract. When we informed Facility Services management of this finding, they indicated that the section has begun requesting and documenting contractor progress reports and meeting minutes. Ensuring that contractors submit progress reports and meeting minutes and that the project team formally approves schedule changes will help the project team to accurately measure, monitor, and report on project performance.

Lastly, we found that the Board's policies and procedures aligned with industry and government practices for conducting market research and awarding competitive contracts to bidders and that the Board's market research and contract award activities complied with its policies and procedures.

Recommendations

Our report contains recommendations designed to further enhance the Board's planning and management of ongoing renovation projects as well as future large, complex, multidivision initiatives. In its response to our draft report, the Board concurs with our recommendations and outlines actions that have been or will be taken to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

Purpose

The objective of our audit was to assess the Board's process for planning and managing multiple renovation projects as well as procuring services under various renovation-related contracts. We initiated this audit because the successful completion of the Board's building renovation projects is strategically important and because the Board expanded its portfolio of renovation projects in 2018 to four buildings. These multiyear projects involve significant resources and pose significant risks and challenges because of their size, complexity, and interdependence.

Background

The Board is planning and managing major renovations of all four Board-owned buildings. The Board's total renovation budget, as of June 2020, was \$2.1 billion. The Martin renovation project is in the construction stage, with completion planned for the third quarter of 2021. The Eccles/1951 renovation project is being designed by the A/E firm, and the Board will soon solicit bids for a construction firm. The Board is reviewing the requirements for the New York Avenue building renovation and is several years away from awarding an A/E contract. Leading project management practices for capital projects suggest that comprehensive planning, which includes project governance, provides a foundation for effectively managing that project.



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Recommendations, 2021-FMIC-B-004, March 10, 2021

The Board Can Improve the Management of Its Renovation Projects

Finding 1: The Board Should Develop a Policy on Project Management

Number	Recommendation	Responsible office
1	Develop a policy on project management that establishes the required components of a comprehensive project plan for large, complex, multidivision initiatives and that describes how these components should be documented and updated. Examples of components that should be documented include project governance, scope, schedule, and budget.	Office of the Chief Operating Officer

Finding 2: The Board Should Improve Contractor Oversight

Number	Recommendation	Responsible office
2	Direct project managers to ensure that <ol style="list-style-type: none">the A/E firm submits key status documents, such as biweekly meeting minutes and monthly status reports, as required under each contract, and that project managers maintain these documents in the project file.project managers maintain a current approved project schedule and document any significant changes to the schedule in the project file.	Division of Management

Finding 3: The Board Has Appropriate Policies and Procedures to Procure Services Under Renovation-Related Contracts

Number	Recommendation	Responsible office
	No recommendations.	



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

MEMORANDUM

DATE: March 10, 2021

TO: Distribution List

FROM: Cynthia Gray *Cynthia Gray*
Assistant Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2021-FMIC-B-004: *The Board Can Improve the Management of Its Renovation Projects*

We have completed our report on the subject audit. We conducted this audit to assess the Board’s process for planning and managing multiple renovation projects as well as procuring services under various renovation-related contracts.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that have been or will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from your staff during our audit. Please contact me if you would like to discuss this report or any related issues.

- cc: Donna Butler
- Kendra Gastright
- Steve Bernard
- Monica Manning
- Kim Briggs
- Craig Delaney
- Cheryl Patterson

Distribution:

- Patrick J. McClanahan, Chief Operating Officer
- Winona H. Varnon, Director, Division of Management
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Introduction

Objective

One of the Board of Governors of the Federal Reserve System’s strategic goals is to optimize operations and capabilities through efficient, effective, and sustainable stewardship and governance of resources. To help achieve this goal, the Board established the following objectives related to its physical infrastructure: (1) execute building renovations to efficiently align physical space requirements with projected workforce needs while optimizing required resources and (2) design and implement a modern, safe, sustainable, and efficient workplace equipped with new tools and technology to better use resources. To achieve these objectives, the Board has undertaken the following:

- The Board acquired a new building, 1951 Constitution Avenue NW, from the U.S. General Services Administration (GSA) in June 2018.
- The Board endorsed developing a long-term strategic space plan as part of the Board’s 2019 budget approval process. The space plan has two objectives: (1) locate the majority of Board employees within close proximity to each other and (2) reduce leased-space costs. To meet these objectives, the Board endorsed a mixed-use space design that includes more open workstations and fewer private offices.¹
- The Board is in the process of planning and managing major renovations of all four Board-owned buildings. The Board-owned buildings are the William McChesney Martin, Jr., Building; the Marriner S. Eccles Building; 1951; and the New York Avenue building (NYA). The Board is managing the Eccles and 1951 renovations as a single project.

We initiated this audit because the successful completion of these three renovation projects is strategically important for the Board, and because the Board expanded its portfolio of renovation projects in 2018 from one building renovation to four. We have also identified the Board’s management of its physical infrastructure as a major management challenge since 2014, because these multiyear projects involve substantial resources and pose significant risks and challenges because of their size, complexity, and interdependence.

The objective of our audit is to assess the Board’s processes for planning and managing multiple renovation projects as well as procuring services under various renovation-related contracts.² We are conducting a separate concurrent audit that is reviewing the Board’s process for managing change orders to assess compliance with procedures and contract terms relevant to these renovation projects. The two audits will result in a comprehensive review of the Board’s three renovation projects. Our scope and methodology are detailed in appendix A.

¹ Division of Management leadership indicated that the design for the buildings will be affected by the COVID-19 pandemic. Leadership also stated that the Board is collaborating with a health professional and the architectural and engineering firm to inform its current and future work.

² Planning and managing are two components of project management. For the purpose of this report, *planning* refers to the activities prior to contract award, and *managing* refers to the activities after contract award through completion of the project.

Background

The Board's Renovation Projects and Budgets

The Board is renovating four buildings, grouped into three renovation projects. These renovation projects are interdependent; for example, a precondition to starting construction for the Eccles/1951 renovation project is completing the Martin renovation project because that building will serve as swing space for Eccles staff. The total renovation budget, as of June 2020, was \$2.1 billion (table 1).

Table 1. The Board's Approved Budget Amounts and Estimated Completion Quarters, by Building

Building	Approved budget (millions)	Estimated completion quarter
Martin	\$436.5	Third quarter 2021
Eccles	\$593.4	Third quarter 2026
1951	\$680.0 ^a	Third quarter 2026
NYA	\$415.2	TBD 2030

Source: Compiled by the OIG based on Board documents.

^a Excludes the cost of acquiring 1951, which was \$41.6 million.

Martin Building Renovation

The Martin renovation project is in the construction stage; the design phase was completed in 2017. In April 2018, the Board estimated that the project would be completed in the first quarter of 2020, but that completion quarter estimate has been revised several times. As of June 2020, the project is expected to be completed in the third quarter of 2021. Our interviews and review of relevant documentation revealed that the Martin renovation project continues to experience delays because of the Board's implementation of its long-term strategic space plan, unforeseen site conditions, and design coordination concerns.³ Implementing its long-term strategic space plan caused the Board to revisit the designs of all four buildings in 2019, including Martin, which was already under construction.

Eccles/1951 Renovation

The Board approved funds for Eccles predesign efforts in November 2017 and completed a basis of design (BOD) study for Eccles in March 2018. A BOD serves as a guideline for a renovation and describes the project; its goals and objectives; its schedule; building infrastructure systems, such as mechanical and plumbing; and design options. When the Board purchased 1951 in June 2018, it had planned to award separate architectural and engineering (A/E) contracts for Eccles and 1951. However, rather than starting a new solicitation process to procure A/E services for 1951 after completing the building's BOD, the Board

³ We conducted audits related to the Martin renovation project in [2013](#), [2014](#), and [2017](#). These three audit reports contain recommendations to improve the Board's cost estimation process, communication process, and recordkeeping for the Martin renovation project, as well as matters for management consideration. These recommendations are all closed.

modified the Eccles solicitation to include renovating both Eccles and 1951 as one project to optimize coordination and gain efficiency benefits. The Board awarded an A/E contract to design both buildings as a single project in March 2019.

The Eccles/1951 renovation project is in the design stage. In March 2019, when the A/E contract was awarded, the project's expected completion quarter was the fourth quarter of 2024; however, in June 2020, the completion quarter estimate was revised to the third quarter of 2026. Our interviews and reviews of relevant documents revealed that the schedule changed because of project scope adjustments that include (1) a significant additional underground component to the project that will involve additional excavation work and a parking garage and (2) food service consulting work.

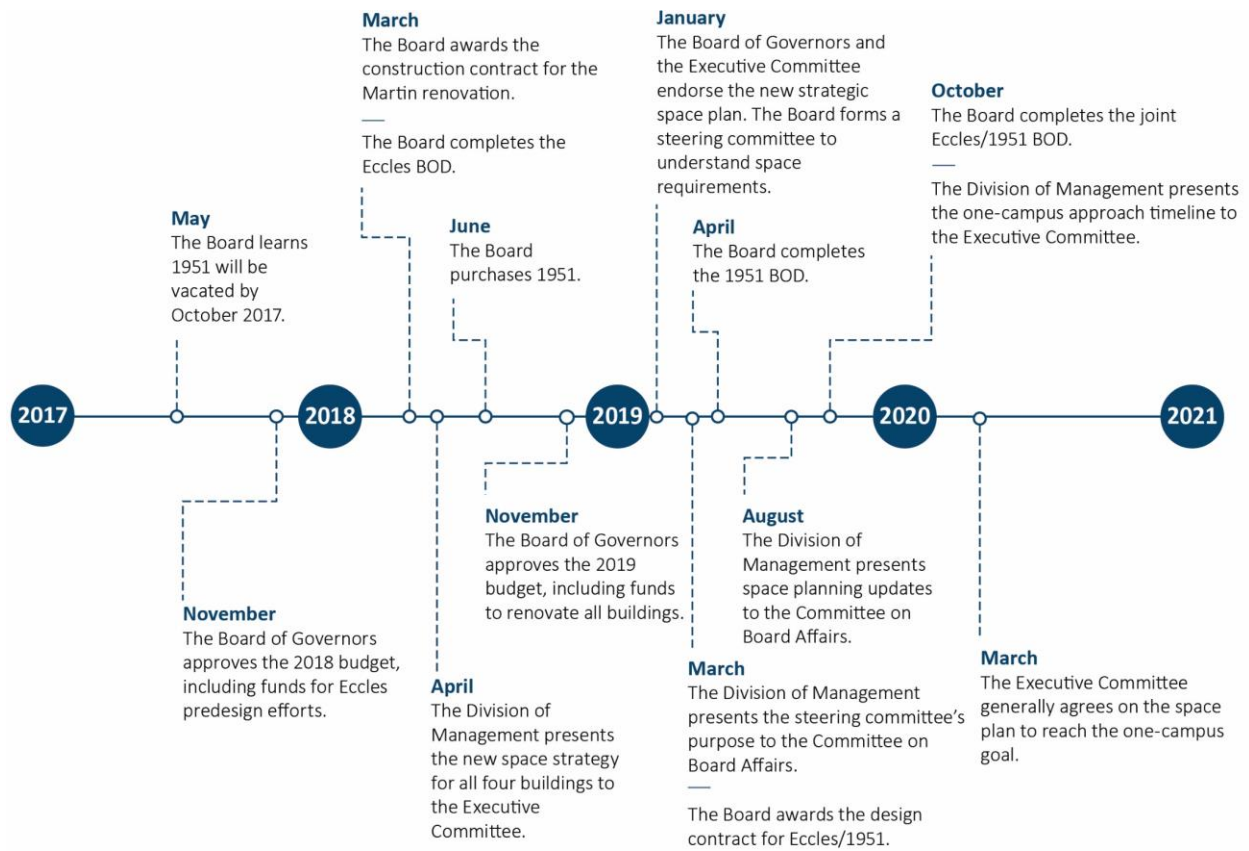
NYA Renovation

The Board approved a full renovation of NYA in its 2020 budget. The Board intends for NYA to have a space layout and appearance that is consistent with the Martin and Eccles/1951 renovation projects. The NYA renovation project is in the planning stage, and the Board intends to start the design work in 2023, during the construction stage of the Eccles/1951 renovation project. As such, there are no A/E or construction contracts for NYA at this time.

Renovation Projects Timeline

In 2017, when the Board learned that 1951 would be available for purchase, the Board began developing its long-term strategic space plan. The timeline for the Board's three renovation projects is provided in figure 1.

Figure 1. Timeline of Renovation Project Events, May 2017–March 2020

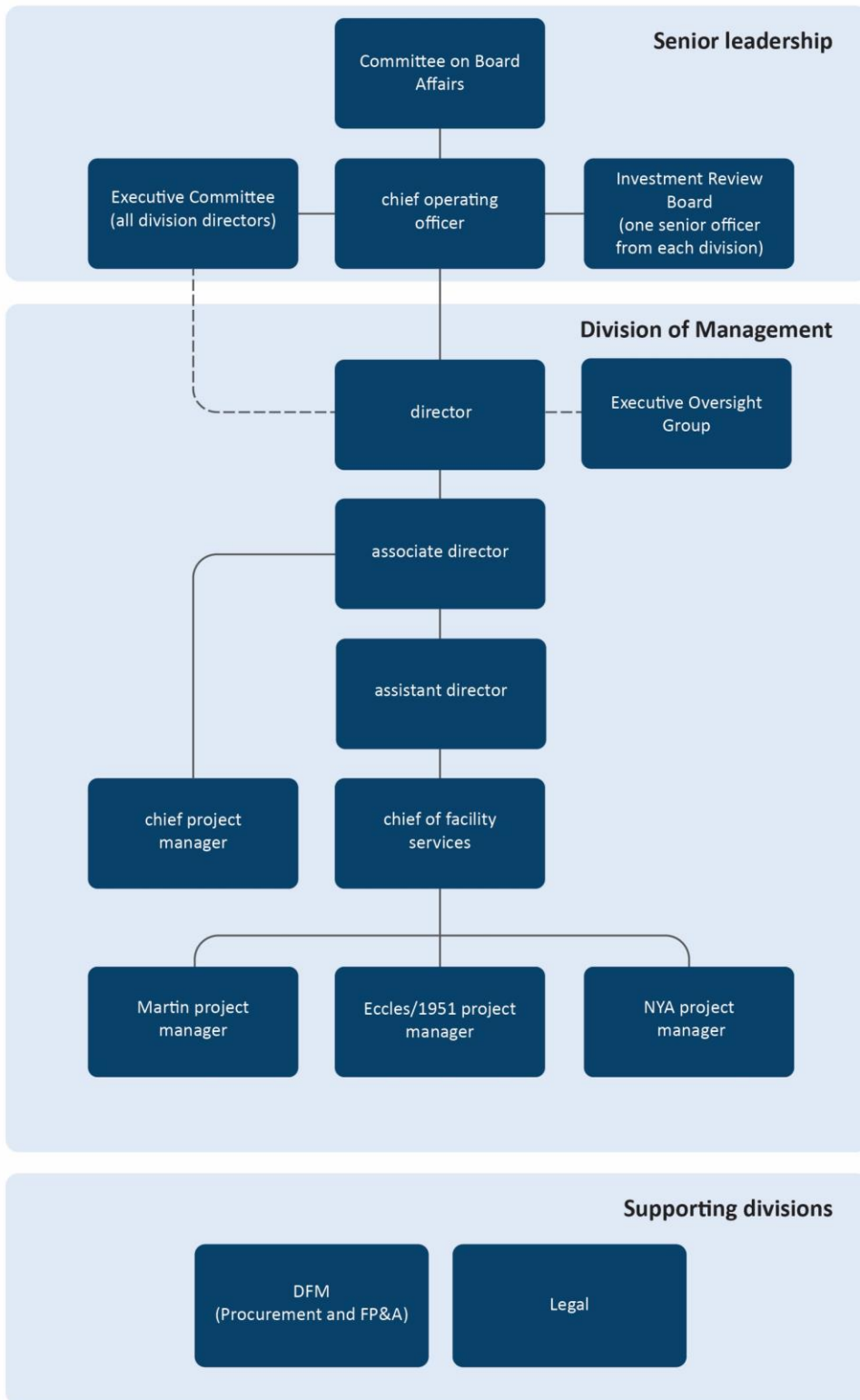


Source: Created by the OIG based on Board documents.

The Board’s Organizational Structure for Managing Renovation Projects

The Facility Services section within the Division of Management (MGT) is primarily responsible for managing day-to-day aspects of renovation projects. MGT’s work on renovation projects is overseen by Board senior leadership and is supported by the Division of Financial Management’s (DFM) Procurement and Financial Planning and Analysis (FP&A) sections and the Legal Division (figure 2).

Figure 2. The Board’s Organizational Structure for Managing Renovation Projects



Source: Compiled by the OIG based on Board documents.

Note: This organization chart shows titles and reporting lines for the groups and individuals that participate in renovation project management only; it does not confer their specific roles and responsibilities.

Committee on Board Affairs (CBA). The CBA, comprising up to three governors, informs and advises the Board of Governors on matters related to the Board's internal administrative operations and supports the chief operating officer (COO) on risk management matters and Board performance. The CBA oversees and executes the Board's planning and budgetary process and presents the annual budget, including operating and capital budgets, to the Board for discussion and decision. The CBA chair typically serves as the Board's administrative governor and the oversight governor for activities within the COO's purview.

COO. The COO is responsible for the Board's day-to-day operation and oversees MGT and two other Board divisions. The COO serves as the chair of both the Executive Committee (EC) and the Investment Review Board (IRB). The Board hired a new COO in April 2019 following the retirement of the previous COO in March 2019.

EC. The EC helps the Board address internal administrative issues to best deploy its resources, strengthen its culture, and support successful outcomes. The EC advises the COO, the administrative governor, and the Board on internal administrative policies. The EC serves as a forum for exchanging and coordinating information among division directors, particularly on topics that require Boardwide coordination. The EC also recommends approaches for developing the Board's strategy for resource planning, operational and budgetary risk management, and staff engagement. Division and office directors make up the EC membership, and the COO serves as the chair.

Executive Oversight Group (EOG). As a strategic advisor, the EOG provides strategic oversight, advice, and guidance to the building renovation project teams based on the members' collective expertise. The EOG operates under a charter that provides broad direction for the group to function as "a second set of eyes." The EOG charter states that the membership represents a cross-section of the key stakeholders involved in executing the projects and additional members who are able to provide an external executive perspective.

IRB. The IRB provides a consistent and disciplined review and monitoring of significant and strategic Board projects. Prior to the implementation of projects and during the execution phase, the IRB strengthens coordination across the Board and promotes project success. Senior officers designated by each division's EC member serve as members, and the COO serves as the chair. The IRB reviews all new projects within its scope that are under consideration for the upcoming budget year, which generally includes strategically significant projects and projects over \$1 million.

MGT. MGT oversees and executes the Board's renovation projects. Within MGT, the Facility Services section is responsible for planning and managing the renovation projects. Facility Services leadership, including the associate and assistant directors and chiefs, is responsible for (1) establishing work and project priorities and (2) reporting to Board leadership on the section's initiatives. Facility Services also leads a steering committee established in January 2019, comprising two members from each division, to understand division-specific space requirements. The Board hired a new MGT division director in June 2019 following the retirement of the previous director in May 2019.

DFM. DFM is responsible for the Board's contracts and finances. The Procurement section awards and administers the Board's contracts with construction contractors, A/E firms, construction administrators, and others, and it serves as the liaison between the Board's project team and contractors. The FP&A section manages budget development, analyzes and reports on budget performance, and develops financial forecasts for the Board. To facilitate the budget process for multiyear capital projects, divisions

must submit project initiatives to FP&A and obtain approval through the Board's capital budget process before initiating a project.

Legal Division. The Legal Division generally reviews contract actions over \$200,000 and provides legal advice.

The Board's Project Management Process for Its Renovation Projects

Facility Services assigns one project manager to each renovation project and uses planning studies to develop design options to meet the project's goals and objectives as a part of its project planning process. Project managers lead the project teams, which consist of Board staff and contractors. Project managers also oversee the contractors by monitoring performance and ensuring contract compliance. Facility Services management stated that they use schedules, status reports, and meetings with contractors to manage the Board's multiple renovations.

In addition, Facility Services uses the Board's *Long-Term Space Plan—Change Order Responsibility Matrix* (RACI) document, which contains a matrix specifying who needs to review, approve, concur, or be informed of various change orders affecting the scope, schedule, or budget for a contract. Further, the Board uses a project file management system to manage A/E and construction documentation and information on its projects and to facilitate coordination with contractors.

Facility Services communicates renovation project information to Board leadership through recurring and ad hoc meetings. The chief project manager, who serves as an advisor to the associate director of Facility Services, compiles information from the project managers into status reports and updates the COO, the chief financial officer, and the MGT director in monthly meetings and updates the EOG in quarterly meetings. Facility Services communicates similar information to the Legal Division, the EC, the CBA, the IRB, and the Board of Governors on an as-needed basis.

The Board's Efforts to Improve the Project Management of Its Renovation Projects

In 2019, the Board conducted a risk assessment on the Martin renovation project to mitigate schedule risk. The assessment summarizes the results of the Board's risk mitigation efforts and recommends that the Board discuss and develop action plans to further mitigate risk, such as adjusting the sequence of activities and increasing construction work hours.

Additionally, Facility Services has taken or is planning to take steps to improve project management, such as changing the delivery method for the Eccles/1951 renovation project and contracting for additional support services. Either design-bid-build (DBB) or construction-manager-at-risk (CMAR) requirements may be developed during project planning to support the procurement process. In a DBB scenario, the building owner uses the completed A/E designs to solicit and award a construction contract; with CMAR, the general contractor is selected during design and works with the A/E firm to manage the project. Although the Board used DBB for the Martin renovation project, the Eccles/1951 BOD noted that the Board considered using CMAR for the Eccles/1951 project. Project team members stated that the Martin renovation project's DBB construction contract created issues, such as design document discrepancies

and additional change orders that would be less likely under a CMAR contract. Facility Services indicated that after soliciting industry and federal agency feedback and holding internal discussions, in April 2020 it decided to use CMAR for the Eccles/1951 project because it would provide greater value to the Board.

In addition, the Board is planning to contract for more-robust third-party construction manager services to augment Facility Services staff for the Eccles/1951 renovation project than its initial approach for the Martin renovation project. During the Martin renovation project, the Board determined that it needed a greater onsite presence and additional support for monitoring and managing the contractors, and it modified the contract accordingly.

Leading Project Management Practices

In a report on leading practices related to managing capital projects, the U.S. Government Accountability Office (GAO) stated that comprehensive planning is a best practice that provides a foundation for effectively managing a capital project.⁴ As a planning tool and a key to a well-managed project, a comprehensive plan should define a project's scope, governance, schedule, safety, expectations for quality, risk, communication, and cost. Two other government reports on major infrastructure projects note that a project management plan guides a project's communication, planning, and management.⁵ GAO has also reported on best practices associated with developing and maintaining a reliable, high-quality schedule.⁶

GSA has also published leading practices for government construction planning studies in its feasibility studies and program development studies.⁷ In addition, the Project Management Institute (PMI) describes leading project management practices, such as establishing project governance at project onset and implementing it throughout the project.⁸

⁴ U.S. Government Accountability Office, *Kennedy Center: Stronger Oversight of Fire Safety Issues, Construction Projects, and Financial Management Needed*, GAO-05-334, April 22, 2005.

⁵ Architect of the Capitol Office of Inspector General, *Cannon House Office Building Renewal Project – OIG Report A-2016-01*, June 24, 2016; and Minnesota and Wisconsin Departments of Transportation, *St. Croix River Crossing Project- Project Management Plan*, January 15, 2009.

⁶ U.S. Government Accountability Office, *Schedule Assessment Guide: Best Practices for Project Schedules*, GAO-16-89G, December 2015.

⁷ U.S. General Services Administration, *Project Planning Guide*.

⁸ Salina Sandra Alie, *Project Governance: #1 Critical Success Factor*, paper presented at PMI Global Congress 2015—North America, Orlando, FL, Newton Square, PA: Project Management Institute, 2015.



Finding 1: The Board Should Develop a Policy on Project Management

During the planning phase for Eccles/1951, Facility Services used planning studies, which is a leading project planning practice.⁹ Facility Services also established clear roles and responsibilities for senior leadership with respect to managing contract changes for existing contracts. However, the section did not establish project governance before awarding the A/E contract for Eccles/1951. Leading project management practices emphasize the importance of project governance, which consists of defining (1) roles and responsibilities and (2) expected engagement and communication with stakeholders. Effective project management, including strong governance, increases the likelihood of a project being delivered on time, within budget, and within the defined scope. In addition, governance assists in aligning stakeholder expectations, drives timely decisionmaking, and helps ensure accountability and responsibility. Facility Services did not develop project governance prior to awarding the A/E contract in part because the Board does not have a policy on project management that requires developing a project plan and defining project governance for large, complex, multidivision initiatives. Developing such a policy will help the project team plan and manage the NYA renovation project, as well as help the Board manage future large, complex, multidivision initiatives, more effectively.

Facility Services Aligned With Certain Leading Practices on Planning Studies

Facility Services aligned with leading practices in GSA's *Project Planning Guide* by using a due-diligence report and BODs for the Eccles/1951 renovation project.¹⁰ During planning for 1951, Facility Services used a 2013 feasibility study and a 2018 due-diligence report to understand the state of the building. In addition, Facility Services hired a contractor to prepare a combined BOD for the Eccles/1951 renovation project, which supplemented information from the separate BODs for each building, in order to develop design options to meet the project's goals and objectives.

Facility Services Did Not Establish Project Governance Prior to Awarding the A/E Contract for the Eccles/1951 Renovation Project

Although Facility Services used the RACI process to establish clear roles and responsibilities for senior leadership with respect to managing contract changes for existing contracts, Facility Services did not establish project governance to facilitate key planning decisions before awarding the A/E contract for Eccles/1951. Specifically, Facility Services did not establish (1) clear roles and responsibilities for the COO, the EC, and the CBA regarding their level of involvement for key decisions during project planning or (2) a

⁹ We focused on the Eccles/1951 renovation project because the project is in the design phase. The Martin renovation project is nearing completion, and the Board plans to renovate NYA after the Eccles/1951 renovation is completed.

¹⁰ The Board used a due-diligence report and BODs in lieu of the feasibility studies and program development studies.

plan for engaging and communicating with key stakeholders during project planning. These are key components of a comprehensive project plan.

Establishing project governance, which emphasizes responsibilities and accountability, stakeholder engagement, and stakeholder communication, is a leading practice and is key at the onset of a project. Specifically, project governance defines (1) responsibilities and accountability within the project, (2) the stakeholders and their interests and expectations, and (3) a plan for communicating with the stakeholders. In addition, project governance provides instructions for handling project issues, such as scope and time deviations, and it provides a vehicle for information gathering and reporting to all stakeholders.

Further, internal control standards note that management should (1) design and implement control activities, including assigning responsibilities for an operational process's objectives, through policies and (2) internally communicate the necessary quality information to achieve the entity's objectives.¹¹ Although the Board is not required to follow these standards, they are considered to be leading practices for internal control.

The Board does not have a policy on project management that requires developing a project plan and defining project governance for large, complex, multidivision initiatives. A senior official indicated that the project team did not develop all aspects of a project plan because it could not determine some planning information, such as project milestones, before awarding the A/E contract and did not have a lot of time to plan. Although the IRB's *Charter* and *Procedures* serve as the framework for reviewing and monitoring significant Board projects, not all projects are required to go through the IRB prior to implementation.

Establishing a policy on project management that includes guidance on developing key components of a comprehensive project plan would help ensure that project teams establish and document project governance, including roles and responsibilities and a methodology to communicate and engage with stakeholders to advance a project. Effective project management, including strong governance, may increase the likelihood of a project succeeding by aligning stakeholder expectations, driving timely decisionmaking, and ensuring accountability and responsibility. A policy on project management that requires establishing project governance, among other things, will help the project team plan and manage the NYA renovation project, as well as assist the Board in managing future large, complex, multidivision initiatives, more effectively.

Recommendation

We recommend that the COO

1. Develop a policy on project management that establishes the required components of a comprehensive project plan for large, complex, multidivision initiatives and that describes how these components should be documented and updated. Examples of components that should be documented include project governance, scope, schedule, and budget.

¹¹ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 10, 2014.

Management Response

The COO concurs with our recommendation. The COO indicates that the Office of the Chief Operating Officer will review its existing *Project Management Community of Practice* content and develop appropriate guidance that addresses planning and managing large, complex, multidivision projects. This guidance will include guidelines on developing key components of a comprehensive project plan, such as governance and communications.

The COO estimates that corrective actions to address this recommendation will be completed by the second quarter of 2021.

OIG Comment

The actions described by the COO appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 2: The Board Should Improve Contractor Oversight

Facility Services ensured that the Martin renovation project contractors submitted monthly progress reports; however, it did not ensure that the A/E firm for the Eccles/1951 renovation project submitted monthly progress reports or biweekly status meeting minutes, and it did not formally approve project schedule changes, as required by the A/E contract. Facility Services indicated that the project team members believe that they have been adequately discussing the project's status with the A/E firm during project working meetings and weekly coordination meetings and that the team deferred approving project schedule changes until after the negotiations with the A/E firm. Ensuring that (1) the contractors submit progress reports and meeting minutes and (2) the project team formally approves schedule changes will help the project team accurately measure, monitor, and report on project performance. Facility Services began requesting and documenting the monthly progress reports and biweekly status meeting minutes after we informed them of this finding.

Facility Services Had Not Ensured That the Contractor Submitted Required Status Reports

Although Facility Services ensured that the A/E firm for the Martin renovation project submitted monthly progress reports, it had not ensured that the A/E firm for the Eccles/1951 renovation project submitted monthly progress reports or biweekly status meeting minutes since the contract award in March 2019.

The Board's A/E contract states that the A/E firm shall take minutes of all project meetings and provide those minutes to the Board's project manager within 3 business days. Meeting minutes must include a full description of the issues, problems, and decisions made as well as action items identifying responsible parties and deadlines, among other things. The contract further requires the A/E firm to prepare and submit monthly progress reports to the Board. Progress reports must include a narrative of the progress made to date, issues, and anticipated changes, as well as an updated schedule depicting both planned and actual progress, among other things.

Facility Services stated that it has been managing the Eccles/1951 renovation project through meetings with contractors and presentations on project status. Facility Services indicated that although the contract required status reports, the project team felt that the project's status had been adequately discussed in progress meetings and documented through email communications with the A/E firm.

Because Facility Services has not been receiving monthly progress reports and biweekly status meeting minutes from the A/E firm on the Eccles/1951 renovation project, it did not ensure the contractor's compliance with these contract requirements. Ensuring that contractors submit monthly progress reports and biweekly meeting minutes will help the project team (1) monitor the contractors' progress and performance under the contract and (2) communicate project status to senior leadership more effectively.

Facility Services Did Not Formally Approve the Contractor's Project Schedule Changes

Facility Services formally approved the initial project schedule for the Eccles/1951 renovation project as part of the A/E contract award; however, it did not formally approve any schedule updates after the contract award, even though the project schedule was extended approximately 2 years.

The Board's A/E contract requires the A/E firm to prepare a detailed schedule for the Board's approval within 5 business days following contract award. The contract further states that the A/E firm will not deviate from the approved schedule except for reasonable cause, and in such instances, prior written authorization from the Board is required. GAO's *Schedule Assessment Guide: Best Practices for Project Schedules* states that scheduling is a distinct process that follows the planning process. The schedule is essentially a model of the project plan. It calculates the dates on which activities will be executed according to the project plan. In addition, the guide states that all changes made to the schedule should be documented and that significant changes should be justified with an assessment of the likely effect on future activities.

Facility Services indicated that the project schedule continued to evolve after contract award as a result of scope changes, so the project team deferred approving project schedule updates until after the negotiations with the A/E firm. Failure to maintain and document an approved schedule could have legal implications and increase financial risk. Maintaining a current approved schedule would help ensure that all status updates can be traced and that all stakeholders are using the current schedule, allowing the Board to more accurately measure, monitor, and report on project performance.

Management Action Taken

During fieldwork, when we informed Facility Services management that certain contractor deliverables, such as progress reports and meeting minutes, had not been documented in the project file management system, Facility Services began requesting and documenting these deliverables in the system. After fieldwork and upon completion of the negotiations, Procurement approved the project schedule via a contract modification in December 2020.

Recommendation

We recommend that the director of MGT

2. Direct project managers to ensure that
 - a. the A/E firm submits key status documents, such as biweekly meeting minutes and monthly status reports, as required under each contract, and that project managers maintain these documents in the project file.
 - b. project managers maintain a current approved project schedule and document any significant changes to the schedule in the project file.

Management Response

The director of MGT concurs with our recommendation. Regarding recommendation 2(a), the director of MGT states that in August 2020, Facility Services communicated the need for timely submission of status documents to the contractor. In that same month, the associate director of Facility Services informed project managers to ensure that contractors submit status documents and store them in the appropriate project file.

Regarding recommendation 2(b), the director of MGT states that Facility Services will ensure any adjustments to the design schedule are reflected in meeting minutes from the contractor. Additionally, a revised draft schedule will be maintained in the project file until those changes are incorporated into a contract modification by Procurement.

The director of MGT estimates that corrective actions to address this recommendation will be completed by the second quarter of 2021.

OIG Comment

The actions described by the director of MGT appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 3: The Board Has Appropriate Policies and Procedures to Procure Services Under Renovation-Related Contracts

We determined that the Board has policies and procedures for procuring various renovation-related services and that the Board's market research and contract award activities for the renovation-related contracts complied with these policies and procedures. In addition, we found that the Board's policies and procedures aligned with leading practices for conducting market research and awarding competitive contracts to bidders.

Procurement awards separate contracts for the design, construction, and supporting services needed to renovate Board buildings. The Board's *Acquisition Policy* and *Acquisition Procedures* outline the procurement process steps prior to awarding these contracts, such as conducting market research to identify potential bidders, developing requirements, issuing solicitations, and negotiating terms. The Legal Division reviews large acquisitions at several stages prior to contract award.

In general, Procurement and the acquiring division conduct and document market research to determine the availability of the items to be purchased and to identify potential bidders. The acquiring division works with Procurement to develop a statement of work describing and defining the work activities and the intended deliverables. The Board uses a statement of work to solicit proposals from the potential bidders and then evaluates the offers received. Procurement negotiates terms with the vendor that will provide the best value and awards a contract.



Appendix A: Scope and Methodology

Our objective was to assess the Board’s process for planning and managing multiple renovation projects as well as procuring services under various renovation-related contracts. To accomplish our objective, we reviewed project-related internal communications to leadership; project planning activities; and procurement planning processes, including the market research process to identify potential bidders for the contracts. We reviewed relevant reports from federal and state agencies as well as our prior work related to the Board’s renovation projects.

To evaluate the effectiveness of communication to the COO, we reviewed materials provided to the COO and the supporting documentation, and we interviewed the COO. Specifically, we compared the key project concerns and status updates in contractor reports for the Martin renovation project to the information in the COO reports. We confirmed the COO’s expectations for the information included in the COO reports. We evaluated the quality of communications from the project team to the COO using GAO’s *Standards for Internal Control in the Federal Government*. Specifically, we considered principle 14, which states, “Management should internally communicate the necessary quality information to achieve the entity’s objectives.”¹²

To assess the Board’s planning and management processes, we reviewed available documentation, such as financial analyses; the IRB’s *Charter and Procedures*; COO and CBA meeting minutes; project deliverables; and internal briefings to the EC, COO, and CBA. We interviewed the COO; division directors; members of the project team; and individuals from the Board’s Legal Division, MGT, and DFM.

We compared the Board’s process for planning and managing multiple renovation projects to leading practices identified through interviewing individuals at GSA and the Federal Deposit Insurance Corporation responsible for managing infrastructure projects, researching the PMI’s best practices, and reviewing relevant reports by other government agencies. We considered principles 10 and 12 of GAO’s *Standards for Internal Control in the Federal Government*, as well as principle 14. Principle 10 states, “Management should design control activities to achieve objectives and respond to risks”; and principle 12 states, “Management should implement control activities through policies.”

To assess the effectiveness of the Board’s procurement preaward planning process, we compared the Board’s policies and procedures to leading practices to determine the effectiveness of the Board’s processes for planning and procuring the renovation-related contracts. Our analysis included a review of

- the Board’s *Acquisition Policy and Acquisition Procedures*
- the Board’s *Procurement Instruction 1803* and *Procurement Instruction 1804*
- GAO’s *Market Research: Better Documentation Needed to Inform Future Procurements at Selected Agencies* (GAO-15-8, October 9, 2014)
- *Federal Acquisition Regulation*, part 14, Sealed Bidding

¹² U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*.

- title 48, part 2414, section 2414.408-70 of the *Code of Federal Regulations*

We also reviewed supporting documentation, such as the market research record and memorandums on recommendations for the bidders list, to confirm that the Board followed its policies and procedures in procuring renovation-related services. We considered principles 10 and 12 of GAO's *Standards for Internal Control in the Federal Government* in our assessment of the Board's procurement planning process.

Auditing standards require that we assess internal controls significant to our audit objective. Accordingly, we assessed the internal controls related to the Board's process for planning and managing its renovation projects. The underlying internal control principles significant to our audit objective are principles 10, 12, and 14 of GAO's *Standards for Internal Control in the Federal Government*, as noted above. Our assessment included reviewing policies and procedures applicable to communication, procurement, and planning. We also gained an understanding of the Board's processes for implementing these controls, such as communicating quality information to the COO and conducting market research before procuring renovation-related services. Internal control deficiencies identified during the audit are presented in the body of this report.

We conducted our audit fieldwork from March 2020 through September 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

OFFICE OF THE
CHIEF OPERATING OFFICER

February 26, 2021

Cynthia Gray
Assistant Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Cynthia:

Thank you for the opportunity to comment on the draft report, *The Board Can Improve the Management of Its Renovation Projects*. We appreciate the Office of Inspector General's (OIG) effort in developing this report and the recommendations for strengthening the Board's process for planning and managing multiple large and complex building renovation projects.

We are incredibly proud of the work we have accomplished in support of the Board's long-term strategic space plan. Engagement and communication with stakeholders have advanced under the guidance of the Director, Division of Management. Our project approvals and governance include regular briefings to the Board senior leadership (EWG, COO, EOG, CBA and BOG); adherence to Board budget approval and acquisition requirements; and, on project initiation, routine reporting to the Investment Review Board. Roles and responsibilities are more clearly identified in the Division of Management and Division of Financial Management.

There were three findings noted in the report with recommendations listed for Findings 1 and 2. Finding 3 did not have any recommendations as you determined that Board has appropriate policies and procedures to procure services under renovation-related contracts. The Division of Management and I have reviewed the report and concur with the recommendations offered. We believe these recommendations provide an opportunity to further strengthen our management of these very significant projects. We have already begun making changes in our processes to comply. Our responses for each recommendation follow.

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We value your objective, independent viewpoints and appreciate the professionalism demonstrated by all OIG personnel throughout this audit. We look forward to continuing to work with your office in the future.

Regards,

PATRICK
MCCLANAHAN Digitally signed by
PATRICK MCCLANAHAN
Date: 2021.02.25 09:26:54
-05'00'
Patrick J. McClanahan

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Monica Manning
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**Response to recommendations presented in the Draft OIG Report,
“The Board Can Improve the Management of its Renovation Projects”**

Recommendation 1: Develop a policy on project management that establishes the required components of a comprehensive project plan for large, complex, multi-division initiatives and that describes how these components should be documented and updated. Examples of components that should be documented include project governance, scope, schedule, and budget.

Management Response:

The Office of the Chief Operating Officer (COO) houses the Board’s Project Management Community of Practice (COP), which provides a variety of resources related to project management knowledge, tools and techniques. Among the resources are templates for developing project plans. OCOO will review its existing PM COP content and develop appropriate guidance that addresses planning and managing large, complex, multi-division projects. It will include guidelines on developing key components of a comprehensive project plan such as governance and communications. The estimated completion of the review and additional policy is Q2 2021.

Recommendation 2a: Direct project managers to ensure that the A/E firm submits key status documents, such as biweekly meeting minutes and monthly status reports, as required under each contract, and that project managers maintain the documents in the project file.

Management Response:

Facility Services tracked the Eccles-1951 project status through exhibits presented at regularly scheduled meetings with the contractor and documented through email. In August 2020, MGT (Facility Services) began storing key status documents in Newforma. It has also communicated the need for timely submission of status documents to the contractor. Additional document control support will be provided through the Construction Management Owner’s Representative contract early in Q2 2021. In August 2020, the Associate Director, Facility Services, informed project managers to ensure that contractors submit status documents and store them in the appropriate project file located in Newforma. The estimated completion date for reviewing and filing previous status documents and ensuring the current documents are filed appropriately is Q2 2021 (June 30, 2021). The Associate Director, Facility Services, will provide the Director, Division of Management with the results of the review.

Recommendation 2b: Direct project managers to ensure that project managers maintain a current approved project schedule and document any significant changes to the schedule in the project file.

Management Response:

Facility Services formally approved the initial project schedule as part of the A/E contract award documentation; however, they did not formally document known changes to the

schedule until December 2020. Although the initial schedule did not match the planned date for beginning design, it provided a good schedule for expected durations during each phase of design. After contract award in March 2019 and concept submission in October 2019, adjustments to the schedule were evolving between the A/E firm and the FRB to accommodate developing scope changes resulting from consultation with outside agencies and changing acquisition strategy. In December 2020, upon completion of the negotiations with the A/E firm, Procurement approved an updated project schedule via contract modification.

Facility Services will ensure any adjustments to the design schedule are reflected in meeting minutes from the contractor. Additionally, a revised draft schedule will be maintained in Newforma until those changes are incorporated into a contract modification by Procurement. The estimated completion of this recommendation is Q2 2021 (June 30, 2021). The Associate Director, Facility Services, will inform the Director, Division of Management of the completion of these actions.



Abbreviations

A/E	architectural and engineering
BOD	basis of design
CBA	Committee on Board Affairs
CMAR	construction-manager-at-risk
COO	chief operating officer
DBB	design-bid-build
DFM	Division of Financial Management
EC	Executive Committee
EOG	Executive Oversight Group
FP&A	Financial Planning and Analysis
GAO	U.S. Government Accountability Office
GSA	U.S. General Services Administration
IRB	Investment Review Board
MGT	Division of Management
NYA	New York Avenue building
PMI	Project Management Institute
RACI	<i>Long-Term Space Plan—Change Order Responsibility Matrix</i>

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