U.S. General Services Administration
Office of Inspector General

OCT 15 2010

MEMORANDUM FOR MARTHA N. JOHNSON
ADMINISTRATOR (A)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: GSA's Major Challenges

Attached is a copy of our office's updated assessment of the major challenges currently facing GSA. The Reports Consolidation Act of 2000, Public Law 106-531, requires that each Office of Inspector General (OIG) prepare a statement that summarizes what the Inspector General considers to be the most significant management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges.

We are hereby providing you with our assessment to afford you the opportunity to review and prepare any comments you wish to append.

If you have any questions or wish to discuss this, please call me at 202-501-0450. If your staff needs any additional information, they may contact Theodore R. Stehney, Assistant Inspector General for Auditing, at 202-501-0374.

Attachment

1800 F Street, NW, Washington, DC 20405-0002

Office of Inspector General's Assessment of GSA's Major Management Challenges

October 2010

As required by the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) regularly identifies what it considers the U.S. General Services Administration's (GSA) most significant management challenges. This effort highlights the Agency's most demanding issue areas. Some challenges represent an inherent risk to GSA's mission or programs and not necessarily a deficiency in performance. As such, GSA management may not be able to eliminate some challenges, but should continue to take steps to mitigate these challenges.

The following represent the areas in which GSA is facing the most serious challenges: the Greening Initiative, Acquisition Programs, Financial Reporting, Information Technology, Protection of Federal Facilities and Personnel**,** the Federal Buildings Fund (FBF), and the Impact of the American Recovery and Reinvestment Act.

GSA'S "GREENING" INITIATIVE – SUSTAINABLE ENVIRONMENTAL STEWARDSHIP

ISSUE: *Challenges exist in achieving GSA's sustainability and environmental goals.*

GSA plays a major role in federal construction, building operations, acquisition, and government-wide policy. With the enactment of the Energy Independence and Security Act of 2007 (EISA), the American Recovery and Reinvestment Act (Recovery Act), and Executive Order 13514, GSA has received additional responsibilities to lead change towards sustainability in these areas. Under these initiatives, GSA is required to increase energy efficiency; reduce greenhouse emissions; conserve water; reduce waste; support sustainable communities; and leverage federal purchasing power to promote environmentally responsible products and technologies.

In response, GSA issued its Fiscal Year 2010-2015 Strategic Sustainability Performance Plan (Sustainability Plan). However, GSA faces challenges in implementing its Plan and achieving its goal of a Zero Environmental Footprint. This is especially pertinent as the Plan requires a cohesive and coordinated implementation of diverse functions and initiatives throughout the agency and government. The move towards sustainability will not only require the implementation of sustainable practices within the agency, but also in coordination with customer agencies and contractors. It will also require actions at the building level as specific emerging technologies and measures are implemented and at the employee level as employees are tasked with changing their behaviors.

We have identified three obstacles for GSA's sustainability initiatives: 1) developing a management framework that GSA will use, 2) developing metrics to accurately measure and demonstrate the impact of GSA's changes, and 3) collecting data to support goals and evaluate return on investment.

Management Framework for Sustainability

To successfully implement its Sustainability Plan, GSA needs a transparent management framework that uses a collaborative approach that "drives things down" throughout the Agency's organization and in coordination with customer agencies and contractors. GSA's sustainability initiative cuts across all of the Agency's business lines, but there is not a clear process that brings the disparate parts together and implements overall program management. The successful implementation is highly dependent on communication that also cuts across program lines and extends to external partners. When sustainability initiatives began, GSA did not have a management framework in place to lead its efforts and evaluate results. There were individual achievements, but with little follow-up once a measure was implemented. For example, GSA required construction projects to seek LEED certification and implemented building improvements aimed at improving energy efficiency. However, no program was set up to monitor and evaluate the actual results.

Metrics Need to be Developed and Adopted

GSA needs metrics that align with the Agency's mission and are meaningful, balanced, and encourage improvement in sustainable processes. In addition, GSA needs to adopt a return–on-investment (ROI) approach to demonstrate economic lifecycle viability as well as whether or not an outcome is "greener" due to any improvements in technologies and processes. However, the development and adoption of metrics may be problematic. In many cases, the metrics related to sustainability are not standardized and there may be multiple methodologies to measure a given aspect of sustainability. In addition, monitoring and tracking the effectiveness of all actions being taken will be a large undertaking given the extent of GSA's operations. Further, metrics by themselves may not be reliable as there may be a multitude of factors impacting a specific metric. For example, a building's energy usage may be affected by not only new equipment being installed in a building, but also by the severity of the local weather and the operations or habits of the building's tenants.

Capturing Accurate and Complete Data

As the Agency invests in and implements new sustainable technologies, which tend to cost more than conventional technologies, it needs to be able to demonstrate its benefits – accurate, complete, and replicable data is crucial. However, capturing accurate and complete data is a challenge. To be useful in monitoring and evaluating sustainable activities, baseline data is needed as well as continuous measurement into the future. In some cases, baseline data is not available nor have processes been put in place to capture the data. For example, under the American Recovery and Reinvestment Act, GSA is installing meters in many of its buildings, which means the baseline data wasn't captured previously and that there may still be buildings without the necessary equipment. The result of these data gaps is that in some cases results cannot be evaluated or in other cases the missing data can lead to misleading or misreported metrics. To ensure these impacts are taken into account, data gaps need to be identified during reporting so that users of the data are fully informed.

AGENCY ACTIONS: GSA developed a Strategic Sustainability Performance Plan that describes the Agency's sustainability goals and objectives. In addition, GSA has established the Sustainability Steering Committee chaired by the Agency Senior Sustainability Officer to ensure that the Agency's sustainability goals, strategies, and actions are coordinated, integrated, and that consistent progress towards target levels of performance is demonstrated. The Agency plans to disseminate its sustainability goals and objectives across its 11 geographic regions and its headquarters through internal and external communications, management councils and committees, and in employee performance plans and expectations.

The Agency also plans to develop a system of internal controls for risk-based testing of the quality of its greenhouse gas (GHG) measurement and reporting. The Agency will identify and document risks that create uncertainty in its GHG emissions data, establish mitigating controls to improve data quality, and disclose identified weaknesses in its GHG emissions data. GSA will explore the use of independent third parties to validate, provide assurances, or audit GSA GHG emissions data "accuracy".

The Agency plans to implement the Department of Energy's guidance on estimating total Economic Life Cycle Cost as it is released. In many cases, GSA has established minimum standards that all potential investments must meet. In other cases, such as small energy and water savings projects, potential projects are ranked and prioritized based on financial return, estimated energy or water savings, and potential greenhouse gas emissions reductions. The Agency uses Lean Six Sigma methodologies to review programs and processes to eliminate wasted effort; GSA is currently developing a "Green Six Sigma" methodology to review programs and processes to reduce or eliminate wasted energy, water, and other resources, as well. The Agency also includes social factors in its business decision-making. GSA considers local economic conditions when evaluating sites for new federal buildings and leases, and it often selects locations where a large federal presence will stimulate new economic development.

ACQUISITION PROGRAMS

ISSUE: *As we have noted in past years, pricing and compliance challenges persist in the Multiple Award Schedules (MAS) program. Additional challenges include the increased contract workload caused by a surge in offers resulting from the economic downturn and subsequent implementation of the American Recovery and Reinvestment Act. Additionally, recommendations made by the MAS Advisory Panel, proposed changes to the General Services Administration Acquisition Manual (GSAM) and the transition to Networx all present unique challenges and opportunities.*

The MAS program remains one of GSA's largest procurement programs with approximately 18,000 contracts and well over $38 billion in sales in fiscal year (FY) 2009. The MAS program provides federal agencies and other authorized users with a simplified procurement process to purchase over 12 million commercial items and services at prices associated with volume buying. GSA negotiates MAS contracts with the objective of achieving the contractors' most favored customer (MFC) pricing/discounts, given similar contract terms and conditions. Authorized users then simply order supplies or services from the schedules (or catalogs) at the pre-negotiated prices and pay the contractors directly for their purchases. While revenue growth in the MAS program has slowed, it remains positive and revenues are substantial.

Pricing

Price analysis is the key substantive step a contracting officer performs for the purpose of arriving at fair and reasonable prices. With the large volume of MAS program sales, even minor changes in pricing can have a substantial impact. We are concerned that the emphasis on related MAS program fundamentals – including pricing objectives and other pricing tools – has diminished. These fundamentals are set by regulation and include the mandate to seek the contractor's best price (MFC pricing); the requirement to perform meaningful price and cost analysis when awarding or extending contracts; and the use of field pricing assistance in negotiating contracts.

Contractors do not compete against each other to receive an MAS contract. Rather, GSA evaluates a contractor's offer by comparing it to the contractor's agreements with its other customers. The MAS program operates under the premise that contractors routinely sell commercial products and services in competitive markets, and that this competitive process establishes market prices (fair and reasonable prices). Given the lack of competition at initial contract award, the requirement for GSA to seek MFC pricing provides an essential link from MAS contract pricing to the competitive commercial market. The MFC pricing objective also harnesses the federal government's collective buying power at the MAS contract level for pricing purposes.

The broad definition of a commercial item in the Federal Acquisition Regulation (FAR) also impacts MAS pricing. Under the current definition, a commercial item is any item - and many services - of a type customarily used by the general public. However, the FAR definition does not require that contractors have any actual commercial, competitive sales of a product or service, and thus removes a critical link between the MAS program and competitively established market pricing. With this broad definition of a commercial item, it has been our experience that many MAS contractors have only federal government sales. We have also found contractors who create a corporate structure to organizationally segregate their commercial business from their government business. In addition, even when a commercial market exists for a contractor's services, its commercial contracts are typically awarded on a firm fixed price basis, while its contracts with GSA schedule clients are mainly on a time and materials basis. All of these scenarios present challenges in terms of comparability and impact a contracting officer's ability to perform valid price analyses.

Pre-award audits provide contracting officers with additional details regarding a contractor's pricing and sales practices in anticipation of negotiations, and are a tool contracting officers can use to be assured that a contractor's pricing is appropriate. Based on our pre-award audits, we have reported that contracting officials were not consistently negotiating MFC prices; many MAS contract extensions were accomplished without adequate price analysis; and available tools were not being used effectively to negotiate better MAS prices. Additionally, we have found that some contractors will go to great lengths to misrepresent their actual sales prices. In FY 2009 alone, we found flaws in many of the proposals audited, amounting to over $560 million in proposed contract price reductions and over $30 million in recoveries.

Problems with contract compliance have also led to pricing issues. As a recent example, in May 2010, a MAS contractor agreed to pay the United States Government $87.5 million to resolve alleged false claims and contract fraud. This contractor knowingly failed to comply with the Price Reductions clause of its GSA contract by failing to disclose to GSA discounts the contractor gave to its commercial customers, which were higher than the discounts that had been disclosed to GSA.

Other Considerations Impacting MAS

We have two additional concerns with regards to the MAS program. First is the MAS Advisory Panel recommendations presented in February 2010. Among the recommendations was the elimination of the Price Reductions clause with competition occurring at the task order level by the purchasing agency. We are concerned that, if the Price Reductions clause is eliminated, the MAS program will have lost a critical contractual requirement that protects taxpayer dollars by ensuring that fair and reasonable pricing is maintained throughout the potential 20-year lifespan of MAS program contracts. As the Veterans Administration OIG noted in its comments to GSA on the MAS Advisory Panel recommendations, "If the recommendations are implemented, contract pricing will no longer be considered fair and reasonable which defeats the purpose of having the schedules. If contract pricing is no longer fair and reasonable, we seriously question the value added by the schedules to the procurement process."

We also have concerns in two areas regarding the rewrite of the GSAM. First, we believe the proposed changes will result in a major weakening of the controls over the MAS program, make the MAS program less useful to user agencies, and waste significant amounts of taxpayer dollars. Second, we believe issuance of the Final Rule in its current form, with significant changes that have not been published or otherwise publicly communicated, would not be consistent with the Administration's emphasis on transparency in government operations. We believe the number and extent of changes from the originally published proposed rule warrant a new round of public comment.

Contract Workload Management

Managing the workload associated with approximately 18,000 contracts is a challenge for the MAS program. This workload includes the processing of contract actions such as new offers, modifications, and options to extend existing contracts, as well as the need for ongoing contract oversight. Further adding to the already burdensome workload is the number of new offers, which has increased by as much as 140 percent as a result of the economic downturn and the Recovery Act, and the over 6,000 contracts that had no reported contract sales in FY 2009. Our concerns include the demands placed on the workforce by a large and increasing contract workload, the potential impact on timeliness and quality of contract actions, and the costs associated with unused and underutilized contracts.

AGENCY ACTIONS: GSA management has shown their desire to address some of the issues stated above. For example, GSA management stated to the Government Accountability Office (GAO) that it will make additional efforts to improve the MAS program pricing and management. These efforts will include using pre-award audits, clarifying price objectives, establishing more consistent performance measures, and collecting transactional data on MAS orders and prices. The program for pre-negotiation clearances to ensure the quality of the most significant contract negotiations is ongoing. In this process, the contracting officer presents a summary of his or her actions in developing negotiation objectives including market research, contractor responsibility, and price analysis to a panel for evaluation. Also, there are several initiatives that may have an effect on the program in FY 2010. FAS established an office in October 2008 to develop and implement consistent acquisition policy and guidance for the MAS program that was previously housed under several different offices within FAS. In addition, FAS is using Lean Six Sigma[1] in evaluating its contracting process, emphasizing process efficiency and effectiveness.

GSA Administrator Johnson has articulated her vision of transforming GSA into an innovative change agent for Government. This vision includes GSA changing its offerings to influence behaviors of federal agencies to reduce consumption and waste, and to improve efficiency and effectiveness. Additionally, the Administrator has created a zero-environmental footprint goal for GSA.

Networx Management Challenge

The transition of government agencies from the FTS2001/Crossover contracts to the Networx contracts, Universal and Enterprise, is one of the largest telecommunications services transitions ever undertaken by the federal Government. It will involve more than 135 agencies, more than 50 services, and thousands of voice and data circuits. The Networx contracts are valued at $68.2 billion, divided between Networx Universal and Networx Enterprise.

In a May 2010 U.S. House of Representatives Committee on Government Oversight and Reform meeting, GSA management acknowledged Government delays early in transitioning, but also stated that current measures indicate agencies are doing everything possible to meet transition schedule deadlines. Meeting the transition schedule deadlines will require coordination among agencies, GSA, and a host of telecommunications contractors.

AGENCY ACTIONS: In an effort to decrease the immediate transition burden on agencies migrating from the existing FTS2001/Crossover contracts, GSA awarded bridge contracts that provide for continued service beyond the expiration of FTS2001 in 2006 and 2007. The bridge contracts expired in May and June 2010; however, GSA exercised the continuity-of-service contract provisions allowing the contracts to be extended until May/June 2011. While management believes that most agencies will complete the transition by June 2011, there is a significant risk that some will not. In anticipation of some agencies not completing the Networx transition by the deadline, GSA management stated it is in the process of creating follow-on sole source contracts to FTS2001 contractors.

FINANCIAL REPORTING

ISSUE: *Controls over budgetary accounts and transactions, financial reporting, and controls over certain note disclosures need improvement.*

Since FY 2004, the Independent Public Accountant (IPA) has noted deficiencies in GSA's accounting process for reporting budgetary account balances. While improvements have been observed during the fiscal year 2010 audit, similar

[1] Lean Six Sigma combines the principles of two proven process improvement methodologies: **(1)** Lean (reducing and eliminating non-value activities); and **(2)** Six Sigma (reducing variation, increasing quality) to improve process effectiveness and alignment with customer needs.

deficiencies noted in the past continue to be observed. A contributing factor to GSA's deficiencies is the non-existence of a single acquisition system that ties directly into Pegasys.

AGENCY ACTIONS: The Office of the Chief Financial Officer is working in partnership with the business and Office of the Chief Information Officer (OCIO) staffs across GSA to ensure that we continue to implement an integrated financial management system for use by program offices to promote consistency and reliability of budgetary and financial information.

INFORMATION TECHNOLOGY

ISSUE: *Improved planning, development, and implementation of IT systems and services are needed to ensure quality data and to support business decisions.*

Planning, developing, and implementing cost-effective, customer-focused, and performance-based IT systems in support of GSA's strategic business goals and various missions has never been more important. The GSA Chief Information Officer (CIO) has stated that providing effective and reliable IT systems and solutions and providing balanced stewardship of information and technology are key agency-wide IT strategic goals related to supporting GSA's implementation of the Recovery Act. GSA management faces challenges in meeting these two goals because GSA systems often do not integrate with each other, resulting in duplication of business processes, cost inefficiencies, and customer dissatisfaction. Challenges in reengineering business processes across the agency and implementing enterprise architecture have lead to duplicative systems that are costly to maintain and operate. Duplicative business processes and systems make it difficult for the Agency to track and report management information needed to make strategic system decisions and support the Recovery Act.

Shared services and integrated information systems are also needed to enhance data quality and ensure that transparency and accountability goals are achieved. GSA's initial information and data quality plan, prepared in response to the OMB's *Open Government Directive: Framework for the Quality of Federal Spending Information*, notes that the role of enterprise architecture and the use and management of IT are critical factors to consider for ensuring a sustainable data quality program. GSA IT systems, however, do not always use effective data models, business rule validation checks, or data exchange specifications to ensure data quality.

AGENCY ACTIONS: To guide agency IT investment decisions and communicate long-term goals and objectives, the GSA CIO has developed an IT Strategic Business Plan covering FYs 2010 – 2012. The plan is intended to enable the planning, decision making, acquisition, and execution of IT services by individual Services/Staff Offices and business-level program areas. GSA Services and Staff Offices have requested funding for new IT programs and initiatives, as part of the Agency's FY 2011 budget. These new IT programs and initiatives seek to better manage risks with GSA's legacy systems environment and relate to: (1) modernizing the Agency's acquisition management systems (2) providing a wider selection of web-based services and facilitating electronic data exchange (3) enhancing IT security practices and (4) implementing a new billing and accounts receivable function within the Agency's financial management system of record.

ISSUE: *Improvements are needed in GSA's IT Security Program to protect sensitive Agency information and address emerging risks.*

Improved processes and controls to address evolving IT security risks and requirements established with the Federal Information Security Management Act of 2002 (FISMA), pose long-term challenges for GSA leadership. GSA continues to have issues with Information Technology (IT) system access, separation of duties, and monitoring of controls. For several years, deficiencies related to the aforementioned have been noted by the IPA. During FY 2010, the IPA noted improvements in this area; however, additional improvements are necessary.

Ensuring that system security officials comprehensively evaluate risks and implement necessary controls for GSA IT systems through the Agency's certification and accreditation process remains a key challenge for GSA's IT Security Program. Specifically, the certification and accreditation process oftentimes is not providing senior Agency management with the information needed to make risk-based decisions about the IT systems for which they are responsible. Further, GSA's IT Security Program should improve processes for coordination, collaboration, and accountability across the Agency to address high priority risk areas related to: (1) oversight of contractor supported systems, (2) integration of security into the systems development lifecycle, and (3) controls for sensitive data.

The use of cloud computing technologies is an emerging risk area that must be managed with GSA's IT Security Program. GSA is evaluating the use of cloud computing technologies for e-mail services, citizen engagement, and data center consolidation. Potential benefits to be achieved with cloud computing technologies include cost efficiencies, "green" efficiencies such as lower power consumption and a reduction in carbon footprints, and enhanced security. However, GSA must address risks with using cloud computing related to records management, privacy, security, continuous monitoring, and e-discovery to realize potential benefits.

AGENCY ACTIONS: GSA has been named the managing partner of the Federal Risk and Authorization Management Program (FedRAMP). FedRAMP is a government wide initiative to provide joint security certifications and accreditations and continuous monitoring services for large, outsourced, and multi-agency systems. The initial focus of FedRAMP will be on cloud computing deployments. GSA is also the lead agency for seven cloud computing pilot projects that are funded by the FY 2010 electronic government fund: Apps.gov, Citizen Engagement Platform, USASpending.gov, Federal Risk and Authorization Management Program, Open Innovation Challenge Platform, FedSpace, and Email as a Service.

ISSUE: *Increased contract oversight and coordination is needed for successful implementation of government wide systems.*

As a managing partner for four electronic government initiatives (Federal Asset Sales, USA Services, Integrated Acquisition Environment, and E-Travel) and IT programs designed to make government operations more transparent, GSA plays a leading role in improving IT for the federal government, citizens, and businesses. As such, GSA is responsible for ensuring that these initiatives are cost effective, streamline government operations, increase efficiency, and meet the needs of a diverse customer. Success for GSA as a managing partner for these initiatives will require innovation and the ability to respond quickly to changing customer requirements and risks. Contract oversight and governance to ensure that systems supporting these initiatives are developed, maintained, and operated in accordance with federal policy, standards, and guidelines are key challenges facing GSA. Further, ensuring system usability and satisfaction remains a challenge to ensuring broad adoption of these initiatives.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

ISSUE: *Challenges exist to safeguard federal facilities and to provide a secure work environment for federal employees.*

Providing a safe, healthy and secure environment for over one million employees and visitors to approximately 9,600 owned and leased federal facilities nationwide is a major multifaceted responsibility of GSA. Increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. Nonetheless, ensuring that federal employees have a secure work environment and that building assets are adequately safeguarded must remain a primary consideration for GSA.

GSA's mission of housing federal agencies calls for the Agency to closely interact with security personnel. The Federal Protective Service (FPS) is the primary agency responsible for providing protection to GSA buildings and facilities. Prior to becoming a part of the Department of Homeland Security (DHS) in 2003, FPS was actually part of GSA's Public

Building Service (PBS). Since then, GSA and FPS have operated under a Memorandum of Agreement (MOA) for obtaining building security services.

We remain concerned about the protection of federal buildings because of the shortcomings that have been identified by the GAO in FPS's ability to provide security and the amount of funds available for building security measures. In FY 2010, GAO identified significant issues with FPS's ability to provide security, including critical weaknesses in the Contract Guard program, the lack of a risk management framework that couples threats and vulnerabilities with resource requirements, and the lack of a systematic approach for using technology to reduce risk to federal buildings and facilities. Further, GAO determined that FPS was inconsistent in sharing information and coordinating security with GSA and tenant agencies. In addition, GAO found that limited information about risks and the inability to control common areas and public access pose challenges to protecting GSA leased space. (GAO-10-873)

The availability of funds for security measures is also an ongoing issue. Under the existing MOA, security fixtures and mandatory security equipment countermeasures valued above the prospectus-level, or installed in prospectus-level projects, have been purchased and installed by GSA on a prioritized, funds-available basis. PBS Regional Commissioners reserve the right not to implement mandatory measures, after consulting with DHS. With the exception of prospectus-level equipment or projects, security equipment determined by FPS to be a mandatory countermeasure is supposed to be funded by DHS or tenant agencies through Security Work Authorizations, on a prioritized, funds-available basis. FPS has been experiencing major funding shortfalls which could affect the availability of future funding for upgrades and replacement of the security countermeasure equipment initially authorized directly by Congress.

AGENCY ACTIONS: GSA formed a Security Division within the PBS Office of Facilities Management and Services Programs, including a Regional Security Network. The Security Division has taken an active role on Interagency Security Committee (ISC) working groups which have been addressing significant areas such as revised standards for facility security level determinations and baseline standards for existing facilities. The agreement between GSA and FPS addressed the roles, responsibilities, and operational relationships between FPS and GSA concerning the security of GSA controlled space. Negotiation of a new MOA has been on hold, pending the recent shifting of FPS from the Immigration and Customs Enforcement bureau into the National Protection and Programs Directorate and FPS's ability to demonstrate improved delivery of the Contract Adjudication Program. The new MOA will have to take into account numerous areas, including ISC security standards, security equipment maintenance, and the impact of FPS's policy change to transition to an inspector-based workforce.

FEDERAL BUILDINGS FUND

ISSUE: *Challenges exist for long-term funding of the Federal Buildings Fund (FBF).*

PBS is one of the largest real property organizations in the world. Its building inventory consists of over 9,600 assets, mostly general purpose office space in federal buildings and leases, with almost 370 million square feet of rentable space. Approximately 51 percent of the PBS building portfolio is leased space. Real property operations are funded through the FBF, a revolving fund comprised of rent collected by PBS. These funds are used to make lease payments and operate government-owned buildings, as well as for investment in the capital program to repair and modernize facilities and to construct new buildings within the limits set annually as part of the budget process. The buildings in PBS's government-owned portfolio have an average age of 46 years and require approximately $5 billion in reinvestment for repairs and alterations. We are concerned that long-term funding issues need to be addressed since future funding may not meet GSA's needs to ensure that buildings are properly maintained.

Long-term Funding Issues

In recent years, the funding for capital projects had been decreasing. This funding decrease was exacerbated by increasing construction costs, which led to fewer projects at the same funding level. Although the Recovery Act provided a temporary influx of funds in 2009, the long-term funding for capital projects is still dependent on the PBS's ability to generate revenues for the FBF.

To replenish the FBF and provide funds for the capital program, PBS will continue to rely on its operations. However, PBS's net revenue fell from $974 million in FY 2005 to $370 million in FY 2009. Likewise, PBS's primary measure for tracking the incoming Funds from Operations (FFO), which is essentially net revenue before depreciation, has also dropped. PBS's FFO peaked in FY 2005 at $1.762 billion, and dropped to $1.550 billion in FY 2009. In addition, net revenue has been impacted by PBS's leasing operations, which lost $82 million in FY 2007 $68 million in FY 2008, and $51 million in FY 2009. Amid its falling revenues, PBS's operating costs for its government-owned buildings are increasing.

PBS's revenue and expense picture for the future is mixed. PBS rental rates for government-owned space are based on market appraisals that are set well in advance of taking affect, and leases are intended to be priced so that they are revenue neutral, incurring neither a profit nor a loss. PBS revenue from owned space should increase as new buildings and renovated buildings are put into operation. However, the increase may be limited as the current market appraisals used to establish future rental rates are affected by the current economic downturn. Additionally, PBS's leasing revenue will be affected by the reduction of its leasing fee from 8 percent to 7 percent (and from 6 to 5 percent for non-cancelable leases) that took effect in FY 2008.

Conversely, the rise in PBS's operating expenses is expected to slow. The current economic decline could help to slow the rise in operating costs, such as cleaning and maintenance, as competition in the current environment should lead to lower contract costs. Also, PBS could see its future energy consumption reduced as it uses Recovery Act funds to convert its buildings into high performance green buildings. However, until these measures are in place and operating, energy costs will likely continue to impact PBS.

The capital reinvestment needs of PBS's government-owned buildings have been growing. Without the necessary funding for reinvestment, buildings will continue to deteriorate, and as a result, lower rent prices as the building conditions are reflected in the rent appraisals, and even lower revenue. Using leasing as a long-term solution may not be feasible, as lease operations are only expected to break even, and have recently been losing money.

AGENCY ACTIONS: PBS is taking short term and long term steps to address this challenge. In the short term, PBS has requested $291.9 million in new appropriations in its FY 2011 budget request. These funds are needed to ensure PBS's capital program stays on track in the near term.

PBS is working to improve its revenue by maximizing the use of its building inventory by consolidating agency requirements in government-owned space and backfilling existing underutilized buildings. PBS is also hoping that it can generate additional revenue through its out-leasing authorities and the disposal of unneeded buildings and assets. Finally, PBS is hoping that the timely collection of rent will also improve its revenue stream.

PBS is also focusing on minimizing its costs. PBS hopes that the implementation of green building technologies will improve building efficiencies in energy and water usage, which will lead to reduced operating costs. PBS is also hoping to reduce its overhead costs by evaluating its business processes to find improvements and efficiencies. Finally, PBS is working with customer agencies to improve their operational efficiencies and space utilization.

As part of these activities, PBS has focused a lot of effort on its leasing program. PBS completed a review of its leasing process in an effort to streamline, standardize, and simplify the process; improve responsiveness to customers; and partner more effectively with the private sector. PBS is working to (1) identify leases with negative financial results and take steps to mitigate the losses; (2) address its lease extensions and holdovers that impact its leasing workload; and (3) find opportunities for reduced lease rates in the current economic environment and take advantage of these opportunities to reduce its leasing costs.

AMERICAN RECOVERY AND REINVESTMENT ACT IMPACT

ISSUE: *GSA will continue to be challenged by the implementation of the American Recovery and Reinvestment Act of 2009.*

The Recovery Act provides the General Services Administration with $5.55 billion for the Federal Buildings Fund. In accordance with the Recovery Act, the GSA Public Buildings Service (PBS) is using these funds to convert federal buildings into High-Performance Green Buildings, as well as to construct federal buildings, courthouses, and land ports of entry. The Recovery Act mandates that $5 billion of the funds must be obligated by September 30, 2010, and that the remaining funds be obligated by September 30, 2011. To implement the Recovery Act, GSA is required to obligate approximately four times its normal construction budget within a 20-month period. When the Recovery Act was enacted into law, the projects that GSA undertook varied in their state of readiness; while some projects were already under construction, others were still in the early planning stages. Given the need to expedite the contracts, GSA established obligation milestones to ensure contracts were awarded within the obligation deadlines. As such, GSA's project teams have had to plan and contract for many Recovery Act projects within extremely short timeframes. Even with the addition of new employees and contract support staff, meeting these deadlines has strained the capabilities of the project teams even before the beginning of actual construction for these projects.

Current Impacts

With the passing of the deadline for the obligation of the majority of the funds, the project teams will need to move into the construction phase of the projects and focus on achieving the project objectives, which entails managing the construction project, monitoring contractor performance, and administering the contracts. However, like the planning and contracting stages, these efforts will come with their own challenges.

Project management issues will likely result from the shortened planning timeframes. Already we have identified a lack of project management plans as well as contracting issues associated with using the construction-manager-as-constructor project methodology. Other project-specific issues are likely to arise due to the shortened planning timeframes. In addition, the Recovery Act language did not provide for the funding of these contingencies as all funds were to be obligated by the Recovery Act deadlines. However, pending legislation,[2] if passed, will allow GSA to retain its Recovery Act funding for use on Recovery Act projects in GSA's spending plan until the funds are expended.

Monitoring contractor performance may also be a problem. With hundreds of Recovery Act projects added on top of its normal workload, GSA will need additional contractors and agency personnel to monitor contractors' performance to ensure the quality of the construction as well as to ensure that the project meets its schedule and stays within budget. In addition to the need for staff to monitor contractor performance on the projects, the energy savings measures present a potential risk. As many of the measures have not been used on a large scale basis, not all project teams will have the expertise to oversee the work and may need assistance to effectively ensure that the measures are installed correctly and perform effectively.

[2] See Senate Bill S.3677.

Finally, the contract administration workload is likely to remain high. As construction projects often result in continuing contracting actions, primarily modifications but also potentially terminations and claims, the Recovery Act projects are likely to result in a continued higher workload for the contracting staff for a prolonged period.

Long Term Impacts

In the long term, GSA will have to incorporate the Recovery Act measures into its facility management program and track the benefits of implementing measures to convert existing facilities to High Performance Green Buildings, especially energy savings and reduced green house gas emissions.

GSA's buildings should benefit from the new equipment and energy savings measures funded through the Recovery Act. However, GSA will need to incorporate the new equipment into its operations and maintenance program. As the features are new to many building managers and current facility operations contractors, GSA will need to take special steps, including inventorying the equipment, to identify the new equipment and determine the additional operations and maintenance requirements for the equipment. In some cases, this may lead to higher building costs to ensure the equipment is operating properly.

Finally, GSA also needs to capture the benefits and savings of taking measures to convert its buildings to High Performance Green Buildings. As reported by GAO,[3] when the Recovery Act projects were started, GSA did not have a program to gather information on what measures were being implemented, how they were expected to impact the building, and whether the measures were effective. There are many different characteristics of High Performance Green Buildings, ranging from reduced consumption of water, energy, or material resources, to increased use of reuse and recycling programs, to reducing the transportation impact on the environment. GSA will need to find ways to identify the measures that are being taken, quantify the results of their implementation, and evaluate their effectiveness.

AGENCY ACTIONS: GSA has recognized the impact of the Recovery Act and is taking steps to assess, monitor, and manage it. GSA's Recovery Act focus is moving from the contract award phase of the project to the construction phase. As part of this shift, GSA will be merging the Program Management Office (PMO) for the Recovery Act implementation with the Public Buildings Service's Office of Design and Construction. PMO Recovery Act responsibilities, such as monitoring contractor reporting, will be retained by the new organization and will be performed in tandem with oversight of the project delivery.

GSA also plans to monitor the contract administration workload and procurement actions on Recovery Act contracts. GSA has recognized that it will need to learn how to manage the new technologies and will be incorporating these efforts into its overall initiatives to "Green" federal buildings.

With regard to evaluating the effectiveness of the Recovery Act projects' High Performance Green Building measures, the PMO is currently working on a tool to collect information on energy and water conservation performance. The tool will collect the project level data so that it can be aggregated and generate customized reports upon request. In the future, the tool may be integrated with other internal project management systems.

[3] Federal Agency Management: GSA's Recovery Act Program is on Track, but Opportunities Exist to Improve Transparency, Performance Criteria, and Risk Management (GAO-10-630)