



U.S. GENERAL SERVICES ADMINISTRATION  
Office of the Inspector General

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OCT 14 2011

MEMORANDUM FOR MARTHA N. JOHNSON  
ADMINISTRATOR (A)

FROM: BRIAN D. MILLER   
INSPECTOR GENERAL (J)

SUBJECT: GSA's Management Challenges

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

We are providing you with our most recent assessment. Please review it at your earliest convenience. We welcome any comments you may wish to add.

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

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# OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES

OCTOBER 2011

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.

The following issues constitute what we believe to be GSA's most serious challenges: the Greening Initiative, Acquisition Programs, Financial Reporting, Information Technology, Protection of Federal Facilities and Personnel, the Federal Buildings Fund, and the Impact of the American Recovery and Reinvestment Act.

Some of these challenges represent an inherent risk to GSA's mission or programs; not necessarily a deficiency in performance. As such, GSA management may not be able to eliminate those challenges, but should continue to take steps to mitigate them.

## GSA'S "GREENING" INITIATIVE – SUSTAINABLE ENVIRONMENTAL STEWARDSHIP

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**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. GSA has received additional responsibilities to lead change towards sustainability in these areas with the enactment of the Energy Independence and Security Act of 2007, the American Recovery and Reinvestment Act (Recovery Act), and Executive Order 13514. 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 (FY) 2010-2015 Strategic Sustainability Performance Plan (Plan). However, GSA faces challenges in executing its Plan because the Plan requires a cohesive and coordinated implementation of diverse functions and initiatives throughout GSA and the 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 four obstacles for GSA's sustainability initiatives including: (1) developing a management framework that GSA can use; (2) developing metrics that demonstrate the impact of GSA's changes; (3) collecting data to support goals and evaluate return on investment; and (4) funding specific programs.

### *Management Framework for Sustainability*

To implement its Plan successfully, GSA needs a transparent management framework that uses a collaborative approach to “drive things down” throughout the organization, and to coordinate efforts with customer agencies and contractors. GSA’s sustainability initiative spans all of the Agency’s business lines, but there is no clear process to merge the disparate parts and implement overall program management. Success is highly dependent on communication that cuts across program lines and extends to external partners. When GSA began its sustainability initiatives it did not have a management framework that could be used to lead its efforts and evaluate results. There were individual achievements, but little follow-up once a measure was implemented. For example, GSA required construction projects to seek Leadership in Energy and Environmental Design certification and installed building upgrades aimed at improving energy efficiency. However, there is still no program 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 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, developing and adopting 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 measures taken will likely 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 influencing a specific metric such as building tenants’ operations.

### *Capturing Accurate and Complete Data*

As GSA invests in and implements new sustainable technologies, which tend to cost more than conventional technologies, it needs to be able to demonstrate the benefits achieved; therefore, accurate, complete, and replicable data is crucial. This is particularly true for the benefits and savings associated with converting its buildings to High Performance Green Buildings. However, capturing this data may prove to be a challenge.

As the U.S. Government Accountability Office (GAO)<sup>1</sup> reported, when the Recovery Act projects started, the Agency did not have a program to gather information on what measures were being implemented, how the measures 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 applications of reuse and recycling programs, to reducing the transportation impact on the environment. Further, GSA, in its government-wide contracts, has the additional responsibility of verifying that the products and services it provides are accurately certified. This task is complicated by the proliferation of environmental certifications in the marketplace. As outlined in a recent GAO report, even the processes used by the Department of Energy and the Environmental Protection Agency have control weaknesses that allow products to be erroneously certified.

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<sup>1</sup> 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)

### *Funding for Sustainability Programs*

To date, GSA has had difficulty in funding specific sustainability programs, especially for building-related programs. For example, the Office of Federal High-Performance Green Buildings was established by the Energy Independence and Security Act of 2007, but was not funded until the Recovery Act provided \$4 million for the program in FY 2009. The Office of Federal High-Performance Green Buildings has plans to provide standards for green federal building, and to disseminate practices, technologies, and research results through outreach, education, and technical assistance government-wide. However, the Office of Federal High-Performance Green Buildings will again rely on the annual appropriations process to finance these objectives.

In addition, GSA has established a Green Proving Ground program under its Chief Greening Officer. This program will identify, acquire, implement, and evaluate the performance of innovative technologies. However, since funding to accomplish these goals has not been available through the appropriations process, the Green Proving Ground leverages its staff and operations via other funded divisions.

**AGENCY ACTIONS:** GSA has been making efforts to address these issues as well as emphasizing steps toward the implementation of sustainable practices in its daily operations.

In its FY 2012 congressional budget justification, GSA established a vision of achieving a Zero Environmental Footprint. To accomplish this, GSA has placed an emphasis on pursuing environmentally friendly practices in its operations. These practices range from increasing employee telework and hoteling at agency worksites, to purchasing green information technology equipment vehicles, and greening the federal supply chain.

GSA has also taken several steps to address the challenges to its overall sustainability program. GSA has developed the Recovery Act High-Performance Green Building Database Online to track sustainability data for both Recovery Act and non-Recovery Act projects. The Public Buildings Service (PBS) recently estimated that 30 to 40 projects have been completed, resulting in output data for tracking and analysis. The life cycles of the projects underway determine when additional output data will be available. PBS also issued a white paper on green building performance. The white paper was a post occupancy evaluation of 22 GSA owned and leased sustainably designed buildings. Performance metrics evaluated included water use, carbon dioxide emissions, energy costs, and occupancy satisfaction.

The Office of Federal High-Performance Green Buildings developed the Sustainable Facilities Tool website and mobile application to provide guidance for greening projects. The Office also took initial steps in measuring greenhouse gas (GHG) emissions, using a survey to measure GHG emissions related to employee commutes. The Office is also developing a plan to assess GHG emissions in GSA's leased portfolio.

The Green Proving Ground (GPG) program selected 16 technologies and practices from Recovery Act projects for enhanced measurement and verification. The GPG will perform enhanced testing, monitoring, and evaluating on these selected technologies and the findings will be used to determine whether to deploy the technologies and practices in the future.

## ACQUISITION PROGRAMS

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The Multiple Award Schedule (MAS) Program remains one of GSA's largest procurement programs with approximately 19,000 contracts and \$38.9 billion in sales in FY 2010. The program is intended to provide federal agencies and other authorized users the best value through a simplified procurement process for purchasing over 11 million commercial items and services.

**ISSUE:** *In the MAS Program, we identified challenges related to pricing, compliance with contract terms, contract workload management, and proposed changes to the General Services Administration Acquisition Manual.*

*We also remain concerned about the timely transition from FTS2001/Crossover contracts to the Networx contracts.*

### *Pricing*

Price analysis is the key step a contracting officer performs in arriving at fair and reasonable prices. Given the volume of MAS Program sales, even minor changes in pricing can have a substantial impact. We are concerned that the emphasis on MAS Program fundamentals – including pricing objectives and other pricing tools – has diminished. These fundamentals are set by regulation and require the contracting officer to seek products or services that provide the best value, to perform meaningful price and cost analysis when awarding or extending contracts, and to use field pricing assistance in negotiating contracts.

In the MAS Program, contractor pricing is not based on direct competition. Rather, the Federal Acquisition Service (FAS) evaluates a contractor's offer by comparing it to pricing the contractor offers to other customers. The MAS Program operates under the premise that contractors routinely sell commercial products and services in competitive markets, and that market forces establish fair and reasonable prices. Therefore, the requirement to seek the contractor's best prices provides an essential link to the commercial market while harnessing the Federal Government's collective buying power at the contract level.

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 does not require that contractors actually sell their products or services in the commercial market, thus removing the critical link between the MAS Program and competitively established market pricing. It has been our experience that many MAS contractors sell exclusively to the Federal Government. In addition, some contractors create corporate structures, which organizationally segregate their commercial business from their government business. 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 GSA schedule clients are mainly offered time and material type task orders. All these scenarios present challenges in terms of comparability, and impact a contracting officer's ability to perform valid price analyses.

OIG preaward audits are meant to provide contracting officers with details regarding a contractor's pricing and sales practices prior to negotiations, and should be the main tool a contracting officer uses to be assured that a contractor's pricing is appropriate. In FY 2010 alone, we recommended over \$432 million in proposed contract price reductions and over \$3.35 million in recoveries.

However, we are concerned that the results of our audits are not being used effectively. We have noted that contracting officials are not consistently negotiating the contractors' best prices, are extending many MAS contracts without adequate price analysis, and are not effectively using available tools to negotiate better MAS prices.

### *Contract Compliance*

We are also concerned that some MAS contractors do not fully comply with the terms and conditions of their contracts. We previously reported to the MAS Advisory Panel that 70 percent of Commercial Sales Practices documents provided by contractors contained data that was not current, accurate, or complete. Additionally, we found that contractors went to great lengths to misrepresent their actual selling prices. For 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 not disclosing higher discounts granted to its commercial customers.

### *Contract Workload Management*

Managing the workload associated with awarding and administering approximately 19,000 contracts is a challenge for the MAS Program. This workload includes processing contract actions such as new offers, modifications, and options to extend existing contracts, as well as the need for ongoing contract oversight. We are concerned that such a large workload could potentially affect the timeliness and quality of contract actions. In analyzing this workload, we previously reported that a significant number of contracts without sales remain in the MAS Program. We have recommended that such contracts be eliminated from the program to reduce the cost of administering unused and underutilized contracts.

### *Proposed Changes to the General Services Administration Acquisition Manual (GSAM)*

We have concerns in two areas with regard to the rewrite of the GSAM. First, we believe the proposed changes will greatly weaken the controls over the MAS Program, will make the MAS Program less useful to customer agencies, and will 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 published proposed rule warrant a further round of public comment.

**AGENCY ACTIONS:** GSA has provided written comments to GAO stating that it will make additional efforts to improve the MAS Program pricing and management. These efforts will include using preaward 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 responsibilities, and price analysis to a panel for evaluation.

### *Transition to Networx*

**ISSUE:** *As part of the largest telecommunications services transition ever undertaken by the Federal Government, FAS is managing the conversion from the FTS2001/Crossover contracts to the Networx contracts. This transition involves 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 hearing, GSA management acknowledged delays in this transition. However, they stated that agencies are doing everything possible to meet transition schedule guidelines.

**AGENCY ACTIONS:** Because some agencies were not able to fully transition to Networx, FAS awarded “bridge” contracts to provide service beyond the expiration of FTS2001/Crossover contracts in 2006 and 2007. FAS Management knew that some agencies would not complete the transition prior to the expiration of the bridge contracts. In May and June 2011, FAS awarded 6-month continuity bridge contracts to Sprint, Verizon, AT&T, and Qwest to run through November and December of 2011. Each contract has a 6-month option to run through May or June 2012. FAS has started planning efforts to gather information for the Network Services 2020 (NS2020) Program Acquisition, which will replace Networx.

## FINANCIAL REPORTING & INFORMATION TECHNOLOGY

### *Budgetary, Financial Reporting and Acquisition Systems*

**ISSUE:** *As reported in prior years, controls over budgetary and financial reporting need improvement. The absence of a single acquisition system that interfaces directly with GSA's financial system (Pegasys) plays a role in this management challenge.*

The Independent Public Accountant continues to observe deficiencies in GSA's accounting process during the annual audit of GSA's financial statements. Financial reporting, specifically the absence of an integrated procurement and acquisition system for PBS and FAS, has been a relevant management challenge since FY 2004. While GSA continues to make improvements concerning this issue, similar deficiencies regarding the controls over budgetary accounts still exist.

**AGENCY ACTIONS:** In partnership with the Office of the Chief Information Officer, the Office of the Chief Financial Officer works to promote the reliability of budgetary and financial information. GSA is also considering taking an agency-wide approach to acquisition systems. While FAS is developing a comprehensive acquisition system for itself, PBS may partner with FAS to address PBS's requirements for its current system development.

### *Accounting Policies over Environmental Liabilities*

**ISSUE:** *As noted in prior year financial statement audits, accounting policies and the due care process over environmental liabilities needs improvement.*

Federal regulations require GSA to assess and report on whether environmental contamination exists on government properties and to determine the costs to clean-up the contaminated site. On a quarterly and annual basis, GSA's environmental assessments consist of: (1) identifying new environmental contamination sites and determining the related remediation costs; (2) updating the status of existing contamination sites; (3) classifying liabilities as probable, reasonably possible, or remote; (4) quantifying liabilities for accounting purposes; and (5) reporting liabilities in the annual financial statements. As noted in the current and prior year's financial statement audits, challenges in improving accounting policies and the due care process for recording clean-up costs persist for PBS. GSA has been working to revise its accounting policies for recording cleanup costs; however, missing supporting documentation and the potential for liabilities not captured in Cost Estimation Questionnaires continue to pose challenges to PBS's due care process. Without a process in place to review and verify the documentation supporting reported environmental liability estimates, the amounts accrued and reported in the financial statements and related note disclosures may be inaccurate.

**AGENCY ACTIONS:** PBS, in conjunction with the Office of the Chief Financial Officer, has been working to revise the accounting policies governing environmental cleanup costs. In addition, PBS has performed analyses to determine the correct accounting treatment of environmental cleanup costs incurred during renovation projects, and for future estimated cleanup costs charged to land. PBS's environmental division has also developed training materials to aid in addressing this challenge.

### *Information Technology*

**ISSUE:** Improved planning, development, and implementation of information technology 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 information technology (IT) systems are key to providing both effective and reliable IT systems.

GSA management faces challenges 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 led to duplicative systems that are costly to maintain and operate and make it difficult for GSA to track and report management information needed for decision making. 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 Office of Management and Budget'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 GSA IT investment decisions and communicate long-term goals and objectives, the CIO developed an IT Strategic Business Plan covering FYs 2010 through 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 has requested funding for new IT programs and initiatives, as part of its FY 2012 budget. The budget includes the following requests for IT modernization efforts: (1) Identity, Credential, and Access Management program to improve security, provide single sign-on capabilities, and increase HSPD-12 and E-Authentication compliance; (2) IT Modernization program to conduct IT planning and assessment; (3) Electronic Records Management program to create digital archives; and (4) End User Productivity program to create a centralized portal for frequently used applications.

**ISSUE:** *Improvements are needed to protect sensitive GSA information and to address emerging risks associated with cloud computing.*

Improvements are needed in coordination, collaboration, and accountability across GSA to address five high priority risk areas: (1) configuration management, (2) social media technologies, (3) security documentation labeling, (4) contractor background investigations, and (5) warning banners.

In addition, GSA's migration to cloud computing environments is an emerging risk area that must be managed. Potential benefits 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 the risks of using cloud computing related to records management, privacy, security, continuous monitoring, e-discovery, and application portability to realize these potential benefits.

**AGENCY ACTIONS:** GSA is moving its email and communications infrastructure to a cloud provider and is planning to migrate thousands of small applications to Platform as a Service<sup>2</sup> cloud environments.

The GSA CIO has created and updated its IT security guides covering such areas as managing enterprise risk, conducting penetration testing, and securing various platforms. These changes include revising the CIO's security authorization procedures to streamline the process for specific Software as a Service cloud computing solutions.

GSA has awarded an Infrastructure as a Service contract to 12 contractors to provide government entities with cloud storage, virtual machines, and web hosting services. This is intended to support a continued expansion of agencies' IT capabilities into cloud computing environments.

In its role as a provider of cloud computing services, 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 FedRAMP program has solicited comments from government and industry on security assessment and authorization procedures for use by U.S. Government cloud computing solutions.

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<sup>2</sup> Platform as a Service (PaaS) solutions are development platforms for which the development tool itself is hosted in the cloud and accessed through a browser. With PaaS, developers can build web applications without installing any tools on their computer and then deploy those applications without any specialized systems administration skills.)

The FY 2012 budget identifies a cloud computing initiative intended to establish secure, easy-to-use, rapidly provisioned IT cloud computing services for the Federal Government that is cost-effective, green, and sustainable. GSA also intends to provide government-wide program management to assist other federal agencies in adopting cloud solutions and assistance in four areas: (1) on-line purchase of cloud services; (2) Security as a Service; (3) email in the cloud; and (4) data center optimization.

## PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

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**ISSUE:** *Challenges exist in safeguarding federal facilities and providing a secure work environment for federal employees.*

Providing a safe, healthy, and secure environment for over one million employees and visitors at approximately 9,600 government-owned and leased facilities nationwide is a major, multifaceted responsibility of GSA. Increased risks of unauthorized access and terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. Nonetheless, ensuring that federal employees have a secure work environment while maintaining open and accessible public buildings that are adequately safeguarded must remain a primary consideration for GSA.

GSA's mission of housing federal agencies calls for it to interact closely with security personnel. The Federal Protective Service (FPS) is the primary agency responsible for providing law enforcement, security, and emergency response services to GSA buildings and facilities. Prior to becoming a part of the Department of Homeland Security in 2003, FPS was part of GSA's PBS. Since then, GSA and FPS have operated under a Memorandum of Agreement for obtaining building security services.

We remain concerned about the protection of federal buildings because of shortcomings 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 and that FPS was not providing GSA with analyses of the cost effectiveness of alternative security measures. 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.

In 2010, the Interagency Security Committee issued new physical security standards that permit agencies to accept certain levels of risk when determining the installation of security countermeasures. However, the availability of funds for the countermeasures remains an issue. Security fixtures and 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. However, the source of funding for additional security equipment and equipment maintenance needs to be determined and included in future budgets.

**AGENCY ACTIONS:** GSA currently has a Security Division within the PBS Office of Facilities Management and Services Programs, which includes the Regional Security Network. The Security Division has taken an active role on Interagency Security Committee working groups, which have been addressing significant areas such as revised standards for facility security level determinations and the development of a risk management process that balances the acceptance of risk with the achievable level of

protection for all GSA facilities. The Security Division and Regional Security Network have also adopted a proactive liaison role to mitigate the communication gaps with FPS as identified in the GAO reports.

Negotiations are underway on a new Memorandum of Agreement that takes into account the roles and responsibilities of PBS and FPS, risk assessments, security systems installation and maintenance, and the contract adjudication program.

## FEDERAL BUILDINGS FUND

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 federally owned and leased buildings. PBS manages over 370 million square feet of space, housing over a million federal employees. Approximately 52 percent of the PBS building portfolio is leased space. Real property operations are funded through the Federal Buildings Fund (FBF), a revolving fund that is financed by 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 \$5.5 billion in reinvestment for repairs and alterations.

**ISSUE:** *Challenges exist in managing budget cuts to the FBF.*

The FY 2011 FBF budget request was significantly reduced. PBS had requested \$9.2 billion for FY 2011 but received only \$7.6 billion in spending authority. When compared to the FY 2010 budget (approximately \$8.5 billion), the FY 2011 budget included a slight increase for lease and building operations, but severe cuts in new construction and building repair and alterations. The construction budget was reduced from the requested \$676 million to \$82 million and the repair and alteration budget was reduced from \$703 million to \$326 million.

The FY 2012 budget may be cut even further. PBS requested \$9.5 billion; however, the House Report (112-136) currently reduces the total budget to \$7.2 billion with no funds for new construction, \$280 million for repairs and alterations, and over \$292 million in reductions to the budgets for lease costs and building operations.

These cuts are exacerbated by the resource needs of projects funded by the Recovery Act. All funding for these projects had to be obligated by September 30, 2011. Consequently, the funding needed to perform administration and oversight on these projects after that date will have to come out of future budgets. In addition, funding for contingencies and cost overruns may not be readily available even with PBS's plans to de-obligate and re-obligate Recovery Act funds between projects.

In recent years, revenue for FBF has been stagnant with leasing operations losing money.

New appropriations were often used to supplement the construction and renovation program. However, with the reduced spending authority, the FBF will likely build up a financial cushion, as revenues may significantly exceed the approved budgets.

However, the operational impact of the reduced funding has the potential to create major challenges. PBS will need to reconsider current housing plans for customer agencies and for its portfolio. Without funding for new construction, PBS may need to continue leasing space and in some cases, this may result in costly lease holdovers and extensions. Likewise, without funding for new leases, consolidation of agencies' space may be required. Additionally, PBS's \$5.5 billion maintenance and repair inventory will not be adequately addressed. Finally, PBS has multiple phased renovation projects in process, which it may not be able to complete on schedule and as a result, the costs to complete the project will likely increase.

**AGENCY ACTIONS:** According to PBS management, a number of actions have been taken to stay within the FY 2011 budget including cutting travel funds and site testing for planned projects as well as reducing staffing.

Due to the uncertainties related to the FY 2012 budget, PBS is taking a multi-faceted approach to its funding problems. PBS is working with its budget stakeholders to ensure the viability of the budget. Further, it is examining how it can economize on its contract workforce as well as on its IT costs. It is also looking at ways to identify potential efficiencies in its building operations contracts. Lastly, PBS is working with customer agencies to identify ways to consolidate and reduce their space requirements.

## AMERICAN RECOVERY AND REINVESTMENT ACT IMPACT

The Recovery Act provided GSA with \$5.55 billion for the FBF. In accordance with the Recovery Act, 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 mandated that \$5 billion of the funds must be obligated by September 30, 2010, and that the remaining funds be obligated by September 30, 2011.

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

To implement the Recovery Act, PBS was required to obligate approximately four times its normal construction budget within a 20-month period. When the Recovery Act was enacted, the projects that PBS undertook varied in their states of readiness; while some projects were already under construction, others were still in the early planning stages. Given the need to expedite the contracts, PBS 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 tight timeframes. Despite adding 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.

In some cases, trying to meet the obligation deadlines has led to improper project management and contracting. In multiple projects, PBS violated competition laws and regulations so that the deadlines could be met. In particular, projects using the Construction Manager as Constructor methodology were problematic. For example, in some cases GSA implemented the methodology incorrectly resulting in sole source contract negotiations with contractors when open competition was required. On some projects, neither the scope of work nor the design was ready so contracts were awarded without complete project information and with no basis for determining the acceptability of the bids. In other cases, GSA improperly used MAS contracts for complex construction projects. Because of the lack of competition, the price reasonableness of these contracts cannot be assured.

The shortened planning and contracting timeframes creates the potential for additional project, contracting, and funding issues. During our oversight, we identified the lack of project management plans as well as incomplete scopes of work mentioned above. These deficiencies may lead to changes in the project. However, the Recovery Act language did not provide for funding these contingencies as all funds were to be obligated by the Recovery Act deadlines. Without contingency funds, PBS is planning to de-obligate and re-obligate Recovery Act funds between projects. However, there is no assurance that PBS will be able to meet all of its project needs.

In addition, monitoring contractor performance may prove to be a challenge. In addition to its normal workload, PBS needs to monitor contractors' performance on hundreds of Recovery Act projects to ensure the quality of the construction as well as to ensure that the project meets its schedule and stays within budget. Many of the energy saving measures have not been used on a large scale and expertise may be needed to ensure that the measures are installed correctly and perform effectively. PBS will need to ensure adequate staff to monitor contractor performance on the projects, despite a declining budget and no additional Recovery Act funds.

Further, the contract administration workload is likely to remain high. As discussed above, construction projects often result in continuing contracting actions, primarily modifications but also potentially terminations and claims. As a result, the Recovery Act projects may result in an increased workload for the contracting staff for a prolonged period.

**AGENCY ACTIONS:** PBS management has been preparing for these issues. With regard to contingency funds, it has a plan to de-obligate and re-obligate between projects. GSA management also believes that reductions to its construction budget in 2011 and 2012 may enable it to meet its staffing requirements for the Recovery Act projects by reassigning staff from the unfunded projects.