TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases

July 24, 2009

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 24, 2009

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES
IRS CHIEF HUMAN CAPITAL OFFICER

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases (Audit # 200810017)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is efficiently and effectively managing its office space and whether the IRS has taken adequate corrective actions in response to our September 2004 report.[1] This review was part of the Treasury Inspector General for Tax Administration's Fiscal Year 2008 Annual Audit Plan risk-based coverage under the major management challenge of Using Performance and Financial Information for Program and Budget Decisions.

Impact on the Taxpayer

As a result of its ongoing space reduction efforts, the IRS has reduced its office space 7 percent since 2004. However, the IRS still faces a number of challenges in its ongoing efforts to effectively manage its space and associated costs. Most significantly, in February 2009, the IRS actively began planning for a hiring initiative which could increase the non-campus staffing by as much as 9 percent over the next 2 years. In addition, long-term space planning needs to consider the impact of workstation sharing, which could result in $6 million in future annual rent savings.

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[1] *The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing $84 Million Annually* (Reference Number 2004-10-182, dated September 27, 2004).

Synopsis

In order to improve its ability to effectively manage rent costs and address the issues we identified in our 2004 report, the IRS implemented two new management information systems. The two new management information systems allow for ready access to detailed building information including space measurements, characteristics, usage, and occupancy data, as well as centralized schedule and cost information regarding in-process space acquisition/reduction projects. In addition, as a result of its ongoing space reduction efforts, the IRS was able to reduce its overall non-campus office space[2] from 18.5 million square feet at the time of our 2004 report to 17.2 million square feet as of January 2009. This reduction represents an overall space decrease of 7 percent.

Despite these improvements, the IRS still faces a number of challenges in its ongoing efforts to effectively manage its space and associated costs. Most significantly, although IRS non-campus staffing has trended steadily downward since 2004, in February 2009 the IRS actively began planning for a hiring initiative which is calculated to result in a net increase in staffing of 3,411 employees by September 30, 2009. Approximately 70 percent of those new employees are currently projected to be housed in non-campus office space. The IRS informed us that they are planning for an additional similarly sized increase in staffing by September 30, 2010. Although the IRS has unused office space currently available, additional efforts are needed to ensure the space related challenges created by this hiring initiative are effectively addressed. For example, until the IRS develops an overall estimate of planned hiring by location for Fiscal Years 2009 and 2010 and compares this estimate to its existing space, it will be unable to fully plan for the hiring initiative.

We also found that controls over the IRS' long-term space planning process need to be improved. For example, although the IRS identified in December 2008 that it had 600,000 square feet of space that it could eliminate, we found no evidence that the methodology used by Real Estate and Facilities Management (REFM) Division staff in calculating its long-term space needs routinely considered the impact of workstation sharing by IRS staff. In our 2004 review, we similarly identified that the IRS could achieve savings by releasing the space associated with employees who share workstations as part of the flexi-place program.[3] Had REFM Division staff fully considered the impact of workstation sharing in calculating its anticipated future space needs, we estimate that $6 million in future annual rent could potentially be saved based on workstation sharing levels at the time of our review.

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[2] The IRS' non-campus facilities include field offices, the IRS Headquarters building, and a small number of related facilities such as employee child care centers.
[3] The IRS flexi-place program allows IRS employees, with approval from their managers, the opportunity to work at home or other approved locations.

Furthermore, while periodic, building-focused assessments performed by the IRS are a useful tool and are required by Federal Real Property Council guidelines, the IRS needs to better link workspace sharing data with both the building assessment process and the resulting space reduction efforts. In addition, given the changes in non-campus staffing anticipated over the next 2 years, it is critical that the IRS perform a complete reassessment of its long-term non-campus space requirements.

Finally, we found improvements are needed to ensure the accuracy of key management information regarding space. In order for the new systems to enable the IRS to effectively track and monitor space management projects to meet the goal of reducing excess space, the systems need to have complete and accurate data.

Recommendations

We recommended that the Chief, Agency-Wide Shared Services, in coordination with the IRS Chief Human Capital Officer, develop an overall estimate of planned hiring by location for Fiscal Years 2009 and 2010 and compare this estimate to existing space and develop a comprehensive national policy regarding workstation sharing for flexi-place employees. In addition, we recommended the Chief, Agency-Wide Shared Services, reevaluate and modify, as needed, all significant in-process and planned space reduction projects based on the additional space needs created by the planned hiring initiative, perform a reassessment of the projected long-term space requirements for non-campus facilities, and revise the IRS' overall space utilization goal to 85 percent. The Chief, Agency-Wide Shared Services, should also develop procedures requiring that future building level space needs assessments include the documented consideration of the impact of workstation sharing and be periodically reconciled to agency-wide projected staffing levels. Finally, we recommended the Director, REFM, reinforce the need for field managers to perform periodic validations of space data, further expand guidance to require that the information from the validations be evaluated on an ongoing basis to identify error trends, and require the space project tracking system be updated to include key information for significant in-process projects.

Response

IRS management agreed with all of our recommendations. The IRS is in the process of capturing information to identify sites where space deficiencies exist and formulating housing solutions. In addition, the IRS plans to develop a telework (flexi-place) policy that will address shared workstations for telework employees. The IRS has also begun to revise the asset management plans for all non-campus buildings to reflect the impact of the hiring initiative. This includes communicating new strategies with the REFM Division Territories and validating projects in progress. The IRS will develop procedures to document the consideration of workstation sharing in each building's asset management plan and develop procedures to annually reconcile the aggregate asset management plan's staffing projections against total agency-wide projected staffing levels. The IRS will establish an overall space utilization goal of 85 percent as measured by the percentage of workstations utilized for non-campus buildings. The IRS has also issued a memorandum to formalize the recurring validation of space data and will compile and analyze error trend and accuracy rate data and issue reports, findings, and guidance to the Territories as necessary. Lastly, the IRS updated the nine significant in-progress rent reduction projects in the space project tracking system to include project schedules, overall project costs, and projected rent savings as appropriate. Management's complete response to the draft report is included in Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

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Abbreviations

ePIP	Electronic Project Investment Process
GDI	Graphic Database Interface system
IRS	Internal Revenue Service
REFM	Real Estate and Facilities Management

Background

Federal agencies are confronted with difficult challenges in managing their office space needs. They must effectively integrate the Federal Government's budget process, anticipate hiring and retirement/separation trends, continually adjust to changes in the real estate market, and implement space acquisition/reduction processes which require significant planning and intensive oversight. In addition, accounting for these variables may not always result in obtaining optimal additional space or reducing space in the time period needed.

Rental costs represent one of the largest nonpayroll expenditures of the Internal Revenue Service (IRS). In Fiscal Years 2007 and 2008, total rent costs were $633 million and $629 million, respectively. The majority of the space the IRS rents is used for its non-campus facilities. The IRS' non-campus facilities include field offices, the IRS Headquarters building, and a small number of related properties such as employee child care centers. The Agency-Wide Shared Services function has overall responsibility for space management. Within the Agency-Wide Shared Services function, the Real Estate and Facilities Management (REFM) Division provides space management support to all entities in the IRS.

In September 2004, the Treasury Inspector General for Tax Administration reviewed[1] the IRS' management of its office space. This review identified that the IRS incurs significant costs for rental space it no longer uses. The review also identified that the target utilization rate[2] used by the IRS for identifying unneeded space was not correctly calculated and as a result was too high. In addition, the review identified that the IRS does not maintain a centralized database of employees who are participating in flexi-place[3] and, therefore, can share workstations. Finally, the report identified that the IRS did not consistently compile building usage information or periodically validate the data.

Since our September 2004 review, the Office of Management and Budget's Federal Real Property Council has issued new guidance for asset management. This guidance requires each agency to identify and categorize all their real property, prioritize actions to be taken to improve the management of the property, and develop an Asset Management Plan. Each Asset Management Plan must include an accurate inventory and description of all assets and promote appropriate utilization. Agencies must also identify goals, with appropriate deadlines, that are consistent with and supportive of the agency's asset management plan. In support of this

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[1] *The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing $84 Million Annually* (Reference Number 2004-10-182, dated September 27, 2004).
[2] The utilization rate is the number of square feet rented divided by the number of people assigned to the space.
[3] The IRS flexi-place program allows IRS employees, with approval from their managers, the opportunity to work at home or other approved locations.

process, the IRS developed its own Asset Management Plan policy guidance in May 2005. This guidance outlines the principles and procedures governing the development of individual Asset Management Plans for the buildings the IRS occupies. In May 2008, additional guidance was issued which further clarified the IRS' asset management policies.

This review was performed at REFM Division Headquarters office in Arlington, Virginia. The review was also performed at the REFM Division field offices in Plantation, Florida; Atlanta, Georgia; Chicago, Illinois; Cherry Hill and Springfield, New Jersey; Cincinnati and Independence, Ohio; Philadelphia, Pennsylvania; Providence, Rhode Island; and Austin, Texas, during the period February 2008 through February 2009. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Overall, we found that controls over real property management have improved since our review in 2004. Specifically, the IRS implemented two new management information systems to allow for ready access to detailed building information including space measurements, characteristics, usage, and occupancy data, as well as centralized schedule and cost information regarding in-process space acquisition/reduction projects. In addition, as a result of its ongoing space reduction efforts, the IRS was able to reduce its overall non-campus office space from 18.5 million square feet at the time of our 2004 report to 17.2 million square feet as of January 2009. This reduction represents an overall space decrease of 7 percent.

Despite these improvements, the IRS still faces a number of challenges in its ongoing efforts to effectively manage its space and associated costs. Most significantly, although IRS non-campus staffing has trended steadily downward since 2004, in February 2009 the IRS actively began planning for a hiring initiative which is calculated to result in a net increase in staffing of 3,411 employees by September 30, 2009. Approximately 70 percent of those new employees are projected to be housed in non-campus office space. By hiring thousands of employees, the IRS plans to enhance taxpayer compliance and move forward on its emerging strategic priorities. For example, some of these positions will be dedicated to increasing compliance in international and offshore initiatives. The IRS informed us that they are planning for a similarly sized increase in staffing by September 30, 2010. As a result of this hiring initiative IRS non-campus staffing could increase as much as 9 percent over the next 2 years.

Although the IRS has unused space currently available, additional efforts are needed to ensure the space related challenges created by this hiring initiative are effectively addressed. If the IRS does not effectively address these challenges, delays could potentially occur in the hiring of new employees due to the lack of available space. In addition, controls over the IRS' space planning process need to be enhanced, and improvements are needed to ensure the accuracy of key management information regarding space.

Both Short-Term and Long-Term Space Planning Efforts Could Be Enhanced

As stated previously, effective space management in the Federal Government is especially challenging given the many variables that must be considered and the difficulties in determining precise estimates for these variables over the long-term. In making this determination, the IRS needs to take into account historical trends in hiring, retirements, and other employee separations as well as anticipated future needs. For example, the IRS Workforce of Tomorrow study[4] identified that the IRS faces a significant challenge in replacing the employees it is expected to lose to attrition during the next 5 years.

Prior to the hiring initiative more office space was rented than needed

In September 2004, we reported that the IRS incurred significant rent costs for space it does not need and that the IRS' target space utilization rate of 265 square feet per person was too high. In order to address this condition, we recommended a 252 square feet per person target utilization rate. At the time of the 2004 review, the IRS had an actual utilization rate of 312 square feet per person, which significantly exceeded both its own target and our recommended target. In January 2009, we found that the average square footage per person actually increased from 312 in March 2004 to 319 in 2009 despite the IRS reducing its overall non-campus office space from 18.5 million square feet to 17.2 million square feet during the same period. This occurred because decreases in IRS' staffing have occurred at a faster pace than its space reduction efforts.

When we initiated our current audit, the IRS advised us that they no longer use square footage based utilization rates and have instead established Percent of Workstations Utilized as their overall strategic measure. The IRS established this measure in 2008 and set an overall goal of 75 percent occupied. The IRS' goal for Fiscal Year 2009 remained at 75 percent occupied. Federal Real Property Council guidelines state that more than 95 percent occupied is considered overutilized and less than 75 percent occupied is considered underutilized, making the suggested range between 75 and 95 percent occupied. The Guidelines also state that it is up to each agency to determine the most appropriate unit of measure for occupancy and design capacity.

In December 2008, the IRS reported the actual Percent of Workstations Utilized was 68 percent. Our analysis indicates that the results reported are slightly underreported because not all people were assigned to a specific workstation at the time this result was reported. The REFM Division estimates the actual occupancy rate is closer to 74 percent. However, even at its target occupancy of 75 percent occupied, IRS would still have 17,414 empty workstations nationwide, which we believe is too much given the historically declining staffing trend and non-campus staffing of approximately 54,000.

Toward the conclusion of our audit, the IRS began a hiring initiative which will change the IRS' future space needs. Our calculations indicate that the planned hiring initiative could result in an increase of IRS' occupancy rate to as much as 77 percent by the end of Fiscal Year 2009 and to as much as 81 percent by the end of Fiscal Year 2010.[5] In our opinion, a goal of 85 percent occupied represents a more reasonable balance between the IRS' need to maintain sufficient excess space to support additional hiring while still minimizing costs than the IRS' current goal

[4] *Planning a Dynamic People Strategy* (IRS Workforce of Tomorrow Task Force report, dated December 10, 2008).
[5] These percentage estimates are based on the assumption that the newly hired employees are placed in existing, vacant workstations.

of 75 percent. Although the IRS may very well achieve an occupancy rate approaching 85 percent in Fiscal Year 2010, by revising its overall goal to 85 percent it will be better positioned to guide its long-term space planning efforts.

Additional efforts are needed to address the hiring initiative

To ensure it is adequately prepared to address the hiring initiative, we believe the IRS needs to take two key steps. First, although the IRS clearly has sufficient space overall to accommodate the hiring initiative, the REFM Division needs to determine whether the space it has available is in the locations where the hiring will most likely occur. As of April 2009, the IRS had determined only the occupations in which it planned to hire and had not fully estimated in what locations the hiring will occur. Some of the occupations in which the IRS plans to hire include the revenue agent[6] and revenue officer[7] positions. Identifying the amount of hiring by location would be the responsibility of the business units, not the REFM Division.

Second, the REFM Division needs to reevaluate its in-process and planned space reduction projects in light of the additional space needs created by the hiring initiative. Until the IRS develops an overall estimate of planned hiring by location for Fiscal Years 2009 and 2010 and compares this estimate to its existing space, it will be unable to fully plan for the hiring initiative. As a result, the IRS is at risk of not having sufficient space available in the correct locations to adequately accommodate all of the new employees it plans to hire.

Long-term space planning could be enhanced

Controls over the IRS' long-term space planning process could also be enhanced. Although the IRS identified in December 2008 that it had 600,000 square feet of space that it could eliminate, we found no evidence that the methodology used by REFM Division staff in calculating its long-term space needs routinely considered the impact of workstation sharing. In our 2004 review, we similarly identified that the IRS could achieve savings by releasing the space associated with employees who share workstations as part of the flexi-place program. In response to that report, the IRS agreed to implement a nationwide system to track employees in the flexi-place program and provide guidance regarding the consideration of flexi-place participation during space planning. The IRS flexi-place program consists of three levels of involvement: 1) occupational flexi-place where an employee works full time from a location other than the traditional office; 2) situational-recurring flexi-place where an employee works up to 80 hours per month, *on a regular schedule*, at a location other than the traditional office; and 3) situational-nonrecurring flexi-place where an employee works up to 80 hours per month, *on an ad hoc basis*, at a location other than the traditional office.

[6] Revenue agents examine and audit the financial records of corporate and individual taxpayers, helping to ensure that these taxpayers pay the appropriate taxes and comply with Federal tax laws.
[7] Revenue officers are responsible for collecting delinquent taxes and tax returns.

Although the IRS did implement a flexi-place program tracking system and also tracks people who share workstations, we were unable to substantiate that this information is routinely and fully considered in calculating future space needs or identifying potential areas for space reductions. For example, the building specific Asset Management Profiles, which the REFM Division uses to document its analysis of current and future space strategies for all non-campus real property, have no provisions to either record data about workstation sharing or include this data in the overall calculation of future space needs. The Asset Management Profiles do, however, document numerous other detailed data elements used in the calculation of future space needs such as the number of visitor workstations needed and the number of seasonal employees.

Asset Management Plan policy guidance regarding long-term space planning similarly does not provide clear instruction as to specifically how shared workstations should be considered in evaluating future space needs. In addition, although the IRS developed a National Shared Workspace Initiative panel to evaluate workstation sharing initiatives, the REFM function's ability to accurately factor workstation sharing into its long range space planning is also compromised by the lack of a current comprehensive national policy regarding 1) the instances when workstation sharing is appropriate for employees participating in flexi-place and 2) the appropriate ratio of flexi-place employees to a shared workstation. The IRS informed us that the current National Agreement with the National Treasury Employees Union, which will be effective August 2009, does not specifically require workstation sharing by employees participating in the flexi-place program. The National Agreement in place at the time of our review in 2004 did include a requirement that employees participating in a full-time telecommuting agreement give up individually assigned workspace and instead work in a common work area in a ratio of not less than three employees to one workstation. Until IRS management clarifies its current policy regarding workstation sharing and ensures the National Treasury Employees Union is in agreement with this policy, it will be unable to effectively realize the potential cost savings available as a result of its flexi-place program.

In January 2009, the IRS had a total of 3,557 non-campus employees participating in occupational flexi-place, 8,779 employees participating in situational-recurring flexi-place, and 7,404 employees participating in situational-nonrecurring flexi-place. The Graphic Database Interface (GDI) system, the IRS' real property management system, indicated there were 4,785[8] persons in non-campus facilities who were sharing workstations during approximately the same time. Had REFM Division staff routinely considered the impact of existing workstation sharing in calculating its long-term space needs we estimate that $6 million in future annual rent could be saved based on workstation sharing levels and current square footage rent costs at the time of our review.

[8] The 4,785 individuals identified in the GDI system as sharing workstations include all persons who share a workstation for any reason.

We also believe that controls over the IRS' long-term space planning efforts could be enhanced by periodically reconciling the building level staffing estimates used in the development of future space needs to projected agency-wide staffing to validate their reasonableness. The control would assist the IRS in ensuring the reliability of planning assumptions on which the building level space needs assessments are based. In response to a February 2009 Treasury Inspector General for Tax Administration report on recruiting,[9] the IRS agreed to develop long-term hiring goals and projected attrition rates which, when completed, should significantly assist in the IRS' long-term space planning.

Periodic building-focused assessments performed by the IRS are a useful tool and are required by Federal Real Property Council guidelines. However, if the IRS is going to effectively plan for its future space requirements, it needs to enhance controls over its building assessment process and the space reduction efforts that are developed as a result of this process. In addition, given the significant increases in non-campus staffing anticipated over the next 2 years, it is critical that the IRS perform a complete reassessment of its long-term non-campus space requirements. Effective space reduction is a difficult task complicated by numerous factors, such as the cost to reconfigure consolidated space, the length of existing lease terms, and the overall availability of space within a given geographic location. However, until the IRS 1) improves the process it uses for its long-term space planning and 2) performs a complete reassessment of its long-term space needs as a result of the current hiring initiative, it is at risk of not effectively addressing excess space. Improving the process and completing the reassessment will allow the IRS to make better use of taxpayer dollars, while still providing people with sufficient workspace to carry out their day-to-day tax administration duties.

Recommendations

The Chief, Agency-Wide Shared Services, in coordination with the IRS Chief Human Capital Officer, should:

Recommendation 1: Develop an overall estimate of planned hiring by location for Fiscal Years 2009 and 2010 and compare this estimate to its existing space in order to identify potential gaps in space availability.

> ***Management's Response:*** The IRS agreed with this recommendation. For Fiscal Year 2009, the IRS is using a variety of tools to estimate and monitor planned hiring by location and capture that information to itemize hiring projections and space availability by building. This will enable the IRS to identify sites where space deficiencies exist and to formulate housing solutions.

[9] *An Agency-Wide Recruitment Strategy and Effective Performance Measures Are Needed to Address Future Recruiting Challenges* (Reference Number 2009-10-025, dated February 23, 2009).

Recommendation 2: Develop a comprehensive national policy regarding 1) the instances when workstation sharing is appropriate for employees participating in the flexi-place program and 2) the appropriate ratio of flexi-place employees to a shared workstation. Development and implementation of this policy should be coordinated with the National Treasury Employees Union.

> ***Management's Response:*** The IRS agreed with this recommendation. Development of a telework policy is currently underway by the IRS Chief Human Capital Officer. The policy will address shared workstations for telework (flexi-place) employees.

The Chief, Agency-Wide Shared Services, should:

Recommendation 3: Reevaluate and modify, as needed, all significant in-process and planned space reduction projects based on the additional space needs created by the planned hiring initiative and perform a reassessment of the projected long-term space requirements for non-campus facilities.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS began addressing this recommendation in May 2009, when the Real Estate Portfolio staff started revising asset management plans for all non-campus buildings to reflect the impact of the hiring initiative. This reassessment includes communicating new strategies with REFM Division Territories and validating projects in progress. Three of the nine significant in-process space reduction projects reviewed in this audit are only minimally impacted by the hiring initiative, while the scopes of work for the remaining six projects have been revised accordingly.

Recommendation 4: Develop procedures requiring that building level projected space needs assessments 1) include the documented consideration of the impact of workstation sharing and 2) be periodically reconciled in total to agency-wide projected staffing levels in order to validate the reasonableness of the staffing estimates used in the building level estimates. When implementing these procedures, the IRS should adjust its space needs to reflect workstation sharing and take action to release any unneeded space identified, where appropriate.

> ***Management's Response:*** The IRS agreed with this recommendation. The REFM Division will develop procedures to document the consideration of workstation sharing in each building's asset management plan. The IRS will also develop procedures to annually reconcile its aggregate asset management plan's staffing projections against total agency-wide projected staffing levels.

Recommendation 5: Revise the IRS' overall space utilization goal to 85 percent.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will establish an overall space utilization goal of 85 percent as measured by the percentage of workstations utilized for non-campus buildings.

Management Information Regarding Real Property Has Been Enhanced; However, Improvements Are Needed to Ensure Data Accuracy

The *Standards for Internal Control in the Federal Government*[10] state that managers need reliable and timely operational data to ensure the effective use of resources. These standards also require the periodic validation of operational data to ensure reliability. To improve the management of its real property space, the IRS implemented the GDI system. The GDI system provides REFM Division employees with access to building and property information, space measurements, space characteristics, and usage and occupancy data. The GDI system is also the data source for many REFM Division measures/performance metrics.

In addition, the IRS implemented the Electronic Project Investment Process (ePIP) system to improve management oversight and accountability over space projects. The ePIP system is a web-based application that is designed to provide immediate access to complete and current information regarding all ongoing projects. The ePIP system also supports the tracking of project-related costs and is designed to provide data to support performance metrics using measures such as adherence to project schedule dates and accuracy of cost estimates. The ePIP system also supports the calculation of projected annual savings and total project cost to assist in analyzing project viability.

While these new systems do improve the IRS' ability to manage its real property, we identified inaccuracies in both systems. For the new systems to enable the IRS to effectively track and monitor space management projects to meet the goal of reducing excess space, the systems need to have complete and accurate data. Conversely, inaccurate data may cause management to make incorrect decisions regarding space planning.

Validations of GDI system data need to be routinely performed

Our review identified that 37 (11 percent) of 338 randomly sampled workstations from GDI system records contained inaccuracies. The inaccuracies included 24 workstations (7 percent) identified as vacant that were actually occupied, and 11 workstations (3 percent) identified as occupied that were actually vacant. In addition, space type information was misclassified regarding 2 workstations (1 percent). For example, a space classified as a private office per the GDI system was actually a conference room, and spaces classified as workstations per the GDI system were actually either small support areas or areas being used to store equipment or reference material and generally could not serve as workstations.

In addition, we judgmentally selected 330 workstations during our onsite reviews and compared them to GDI system records as a second test of the GDI system's accuracy and completeness and

[10] *Standards for Internal Control in the Federal Government* (GAO AIMD-00-21.3.1, dated November 1999).

identified that 26 (8 percent) of these records also contained similar significant inaccuracies. The inaccuracies included 10 workstations (3 percent) identified as vacant that were actually occupied, and 7 workstations (2 percent) identified as occupied that were actually vacant. In addition, space type information was misclassified regarding 9 workstations (3 percent).

During our onsite reviews of three REFM territories,[11] we found that key information in the GDI system, such as workstation occupancy and room type, was either not subject to routine, periodic review or, if reviewed, the review results were not tracked to identify error trends and accuracy rates. Although the Agency-Wide Shared Services function has developed procedures requiring that field program managers perform quarterly validations, managers we interviewed were not always aware of the procedures. In addition, the procedures do not require that the information from the reviews be evaluated to identify error trends and track accuracy rates.

Periodic validations are critical to ensuring that data discrepancies are timely identified and resolved and accurate information is maintained. During our audit fieldwork, the REFM Division took a number of actions to enhance controls over the accuracy of its management information, including providing additional guidance on the classification of workstations in the GDI system and additional guidance on the type of information that should be reviewed during the GDI system validations. While both of these efforts should help in improving the validation process and the accuracy of data in the GDI system, we believe that additional guidance is still needed to ensure that an ongoing analysis of the review results is performed to identify error trends and track accuracy rates.

Additional efforts are needed to ensure in-process project information is completely migrated to the ePIP system

Our review of nine large ongoing rent reduction projects identified that key information needed to effectively manage the projects had not always been entered into the ePIP system. The IRS informed us that all future projects will have complete data added to the ePIP system but that only partial data were added for the in-process projects due to resource concerns. At the time of our audit fieldwork, these 9 projects represented the population of all projects where the amount of space to be released was greater than 10,000 square feet each and were scheduled to be completed in Fiscal Year 2009 or 2010. For these nine projects, we found:

- The project schedule or information regarding the current status of the project was not entered into the ePIP system for eight projects, which hampers the IRS' ability to readily track the project through all stages of the project lifecycle and analyze its performance.
- Estimated total project cost and anticipated rent savings associated with the project were not entered into the ePIP system for four projects. Without this information, the IRS cannot

[11] The REFM Division is divided into 14 geographical areas called territories.

subsequently evaluate the performance of the project in terms of rent savings or the accuracy of the original estimates on which the project was based.

As a result, REFM Division management must review both the pre-ePIP project file and the limited case file on the ePIP system in order to fully monitor the status of all ongoing projects. Incomplete information regarding current projects significantly diminishes the ability of the ePIP system to serve as a basis for the calculation of key performance metrics such as the accuracy of the cost estimates on which the project was based. In addition, management's ability to readily monitor the overall status of its space reduction efforts is compromised because the review of information regarding all ongoing projects requires the cumbersome analysis of data from two different sources.

At the time of our review, seven of the nine projects still had a significant amount of work to be done before completion and as such would benefit from having accurate and complete information necessary for effective financial management included as part of the ePIP system. The IRS estimated the annual savings for the 9 projects we reviewed at $3.4 million.

Recommendations

The Director, REFM, should:

Recommendation 6: Reinforce the need for field managers to perform periodic validations of GDI system data, further expand guidance to require that the information from the reviews be evaluated on an ongoing basis to identify error trends and track accuracy rates, and correct the inaccuracies we identified.

> ***Management's Response:*** The IRS agreed with this recommendation. A memorandum to formalize the recurring validation of GDI system data was issued May 20, 2009. All REFM Division Territories are required to develop an annual plan for quarterly validation of GDI data and the plan will ensure approximately one-eighth of a Territory's inventory is validated each quarter. Each Territory will certify their completed validations and submit the results for review and analysis. Required documentation includes relevant building and space details, review findings, and planned corrective actions. The REFM Division will compile and analyze GDI system error trend and accuracy rate data and issue reports, findings, and guidance to the Territories, as necessary. Shortly after receiving the results of our GDI system data accuracy reviews, the IRS began correcting all inaccuracies identified and has completed this process.

Recommendation 7: Ensure the ePIP system is updated to include key information such as project schedules and estimated overall project cost and project rent savings for the nine significant in-process projects we identified.

> ***Management's Response:*** The IRS agreed with this recommendation. The nine significant in-progress rent reduction projects have been updated in the ePIP system and

now include project schedules, overall project costs, and projected rent savings as appropriate.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS is efficiently and effectively managing its office space and whether the IRS has taken adequate corrective actions in response to our September 2004 report.[1] To accomplish this objective, we:

I. Determined the amount of office space the IRS currently leases and the number of employees housed in that space.

A. Identified the costs and amounts of rented space used by the IRS.

B. Identified the projected future costs and amount of rented space needed by the IRS.

C. Determined the actual utilization rate for IRS office space.

II. Determined whether management information used by the IRS to monitor ongoing efforts to reduce underused office space and achieve cost savings is adequate. We selected and reviewed a 100 percent sample of the 9 approved rent reduction projects, where 10,000 or more square feet were to be released by the end of Fiscal Year 2010.

III. Evaluated the corrective actions implemented by the IRS in response to the Treasury Inspector General for Tax Administration's September 2004 report to determine whether the IRS effectively and efficiently manages their office space.

A. Identified the IRS' plans and strategies for releasing unused space and reviewed the specific details on costs, savings, and benefits.

B. Randomly selected 3 out of the 14 REFM Division territories and visited 11 buildings near the territory offices to determine whether building usage data are now being reported consistently. We visited buildings in Plantation, Florida; Atlanta, Georgia; Cherry Hill, New Jersey; Cincinnati and Independence, Ohio; and Philadelphia, Pennsylvania. We used data provided by the IRS from the GDI system[2] and selected a random sample of workstations and offices to visit, verifying 338 out of 5,137 workstations at 11 buildings. In addition, we judgmentally selected

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[1] *The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing $84 Million Annually* (Reference Number 2004-10-182, dated September 27, 2004).

[2] The GDI system provides REFM Division employees with access to building and property information, space measurements, space characteristics, and usage and occupancy data. The GDI system is also the data source for many REFM Division measures/performance metrics.

330 workstations during our onsite reviews and compared them to GDI system records.

C. Determined whether the REFM Division GDI system is providing the needed data to track specific workstation information regarding the location, occupancy, size, and attributable business units.

D. Determined whether the IRS has implemented a flexi-place tracking system to track telecommuting employees for the purpose of identifying additional excess space for release where appropriate.

E. Evaluated any changes the IRS has made to target utilization rates since our review in 2004.

As part of our evaluation of the IRS' management of its space, we reviewed computer-processed data from the GDI system, which was developed to promote effective asset and information stewardship for the rent management processes. To assess the reliability of these data, we tested for missing data and values outside expected ranges.

We also compared GDI system data with workstations onsite to test for completeness and further validate our results. In addition, we evaluated the operation of controls over the accuracy of this data. This testing did identify some weaknesses in both the accuracy of the data regarding workstation occupancy status and type, as well as in the controls designed to assure its validity. The effect of these weaknesses is discussed in detail in the second finding within the report. Because the GDI system is the only source of information available on workstation occupancy, which is a key strategic measure, we did utilize information from this system in our report and outcome measure. However, when this information is presented, we note the impact of the weakness we identified on its accuracy. In addition, our outcome measure has been adjusted to reflect IRS personnel not assigned to a specific workstation so as not to overstate the amount.

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Alicia P. Mrozowski, Director
Anthony J. Choma, Audit Manager
Kevin P. Riley, Audit Manager
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
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Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons: Agency-Wide Shared Services OS:A
Human Capital Officer OS:HC

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings – Funds Put to Better Use – Potential; $6 million per year; $30 million over a 5-year period. This represents rent costs that could be avoided if the IRS considers the impact of workspace sharing in calculating its anticipated future space needs (see page 3).

Methodology Used to Measure the Reported Benefit:

To estimate the funds that could be put to better use, we determined the existing workstation sharing level as indicated in the GDI system of 4,785 persons sharing 2,063 workstations. We then calculated the difference between the number of workstations required for the 4,785 persons as a result of this sharing (2,063 workstations) and the number of workstations required for 4,785 persons if sharing is not considered (4,785 workstations). The difference is 2,722 workstations (4,785 workstations – 2,063 workstations). We then calculated the cost of an average workstation using an estimate of the average space occupied by a workstation provided by the IRS REFM Division. The average cost of rentable square feet of non-campus space is $24.16. Multiplying the average workstation size of 90 square feet by the average cost of $24.16 per square foot gives a cost per workstation of $2,174. Multiplying $2,174 by the calculated workstation sharing difference of 2,722 shows an annual cost savings of approximately $6 million a year.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; records regarding 63 workstations (see page 9).

Methodology Used to Measure the Reported Benefit:

Our review found that 37 (11 percent) of 338 randomly sampled workstations from GDI system records contained significant inaccuracies. The inaccuracies included: 24 workstations (7 percent) identified as vacant which were actually occupied and 11 workstations (3 percent) identified as occupied which were actually vacant. In addition, space type information was misclassified regarding 2 workstations (1 percent). For example, a space classified as a private office per the GDI system was actually a conference room, and spaces classified as workstations per the GDI system were actually either small support areas or areas being used to store equipment or reference material and generally could not serve as workstations.

In addition, we judgmentally selected 330 workstations during our onsite reviews and compared them to GDI system records as a second test of the GDI system's accuracy and completeness and identified that 26 (8 percent) of these records also contained similar significant inaccuracies. The inaccuracies included: 10 workstations (3 percent) identified as vacant which were actually occupied and 7 workstations (2 percent) identified as occupied which were actually vacant. In addition, space type information was misclassified regarding 9 workstations (3 percent).

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF
AGENCY-WIDE
SHARED SERVICES

July 9, 2009

RECEIVED
JUL - 9 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant *David A. Grant*
Chief, Agency-Wide Shared Services

SUBJECT: Draft Audit Report – Controls Over Real Property Management Have Improved; However, Additional Efforts Are Needed to Address Planned Staffing Increases (Audit # 200810017)

Thank you for the opportunity to comment on the draft audit report. The overall objective of this audit was to determine if the IRS is efficiently and effectively managing office space and if we have taken adequate corrective actions in response to your September 2004 report (# 2004-10-182).

We are pleased TIGTA found our controls over real property management have improved since 2004 and appreciate your recognition of our success in releasing 1.3 million square feet of space during the past 4 years. We continue to revise and adapt our policies and procedures to ensure we provide the correct amount of space to support the tax administration duties of the IRS.

Although we have made numerous improvements to our space management program, we agree additional procedural checks and balances would further strengthen controls over our inventory and associated costs. To meet the demands of the IRS' aggressive 2009 and 2010 enforcement hiring initiative, a task force was created to establish a single line of communication between the Business Units and AWSS. For 2009, we created a consolidated spreadsheet detailing hiring plans and space availability by building. This has enabled us to identify sites where space deficiencies exist and to formulate and implement projects or procurement actions necessary to accommodate new employees. This model has proven successful and will remain in place as we have already begun planning for 2010 hiring.

Once planned hiring by location was finalized, the Real Estate Portfolio staff began revising asset management plans for all non-campus buildings to reflect the impact of the hiring initiative. This comprehensive reassessment includes communicating new strategies with REFM Territories and validating projects in progress. As recommended

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in the audit report, our updated building specific staffing projections will be totaled and reconciled against overall IRS staffing projections to validate these baseline planning assumptions.

We acknowledge there is potential to derive greater space efficiencies from employees who work flexi-place. Our routine space planning procedures require the consideration of workstation sharing opportunities, which includes field agents who spend little time in the office, shift units, virtual office participants, and even flexi-place employees.

Thank you for your continued support and guidance. We appreciate the comprehensive analysis and independent perspective your team provides. If you have any questions, please contact me, or a member of your staff may contact Naida Meares at (202) 435-6363.

Attachment

RECOMMENDATION #1:
Develop an overall estimate of planned hiring by location for Fiscal Years 2009 and 2010 and compare this estimate to existing space to identify potential gaps in space availability.

CORRECTIVE ACTIONS:
For fiscal year 2009, we are using a variety of tools to estimate and monitor planned hiring by location: PeopleTrak, customer contacts, and service requests submitted through the OS Get Services help desk. Data is captured in a consolidated spreadsheet that itemizes hiring projections and space availability by building. This enables us to identify sites where space deficiencies exist and to formulate housing solutions. This process will continue for 2010.

IMPLEMENTATION DATES:
An estimate of planned hiring by location was completed May 30, 2009, and is currently being monitored and revised as changes occur. We have also completed a gap analysis of space availability versus planned hiring for 2009. Initial hiring projections for 2010 are expected to be developed by September 30, 2009. REFM will complete an initial gap analysis for 2010 no later than January 31, 2010.

RESPONSIBLE OFFICIALS:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services
Human Capital Officer

RECOMMENDATION #2:
Develop a comprehensive National policy regarding: 1) the instances when workstation sharing is appropriate for employees participating in the flexi-place program, and 2) the appropriate ratio of flexi-place employees to a shared workstation. Development and implementation of this policy should be coordinated with the National Treasury Employees Union.

CORRECTIVE ACTION:
Development of a telework policy is currently underway by the Human Capital Office. The policy is scheduled to be completed and implemented following the final outcome of term negotiations with NTEU and ratification of the NTEU agreement. The policy will address shared workstations for telework (flexiplace) employees.

IMPLEMENTATION DATE:
June 2010

RESPONSIBLE OFFICIALS:
Human Capital Officer
Support: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

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RECOMMENDATION #3:
Re-evaluate and modify, as needed, all significant in-process and planned space reduction projects based on the additional space needs created by the planned hiring initiative and perform a reassessment of the projected long-term space requirements for non-campus facilities.

CORRECTIVE ACTIONS:
The IRS began addressing this recommendation in May 2009, when the Real Estate Portfolio staff started revising asset management plans for all non-campus buildings to reflect the impact of the hiring initiative. This comprehensive reassessment includes communicating new strategies with REFM Territories and validating projects in progress. Three of the nine significant in-process space reduction projects reviewed by TIGTA are only minimally impacted by the hiring initiative, while the scopes of work for the remaining six projects have been revised accordingly.

IMPLEMENTATION DATES:
Full assimilation of 2009 hiring into the asset management plan: October 31, 2009.
Changes in the scopes of work for in-progress space reduction projects: completed.

RESPONSIBLE OFFICIAL:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services

RECOMMENDATION #4:
Develop procedures requiring that building level projected space needs assessments:
1) Include the documented consideration of the impact of workstation sharing, and
2) Be periodically reconciled in total to agency-wide projected staffing levels to validate the reasonableness of the staffing estimates used in the building level estimates. When implementing these procedures the IRS should adjust its space needs to reflect workstation sharing and take action to release any unneeded space identified where appropriate.

CORRECTIVE ACTIONS:
1) REFM will develop procedures to document the consideration of workstation sharing in each building's asset management plan within 6 months after the successful negotiation and ratification of a flexi-place workstation sharing agreement with NTEU.
2) The IRS agrees to develop procedures to annually reconcile our aggregate asset management plan's staffing projections against total agency-wide projected staffing levels.

IMPLEMENTATION DATES:
1) Contingent upon an approved agreement with NTEU.
2) December 31, 2009

RESPONSIBLE OFFICIAL:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services

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RECOMMENDATION #5:
Revise the IRS' overall space utilization goal to 85 percent.

CORRECTIVE ACTION:
The IRS agrees to establish an overall space utilization goal of 85% as measured by the percentage of workstations utilized for non-campus buildings.

IMPLEMENTATION DATE:
October 1, 2009

RESPONSIBLE OFFICIAL:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services

RECOMMENDATION #6:
Reinforce the need for field managers to perform periodic validations of GDI system data, further expand guidance to require that information from the reviews is evaluated on an ongoing basis to identify error trends and track accuracy rates, and correct the inaccuracies we identified.

CORRECTIVE ACTIONS:
A memorandum to formalize the recurring validation of GDI system data was issued May 20, 2009. All REFM Territories are required to develop an annual plan for quarterly validation of GDI data. These plans will specify a schedule of buildings to be reviewed along with implementation procedures to ensure approximately 1/8 of a Territory's inventory is validated each quarter. This places buildings on pace to be reviewed every two years. All plans will be submitted to the Associate Director, Systems Management, and Associate Director, Operations, for review and approval. The CAFM Program manager will continue to conduct a minimum of three on-site Territory reviews each year to assess the accuracy of GDI data.

Each Territory will certify their completed validations and submit the results to the CAFM Program Manager for review and analysis. Required documentation includes relevant building and space details, review findings, and planned corrective actions. Review results will be captured on a standard certification form which was issued as an attachment to the May 20, 2009 memorandum.

The CAFM Program Manager will compile and analyze GDI error trend and GDI accuracy rate data and issue reports, findings, and guidance to the Territories as necessary.

Shortly after receiving the results of TIGTA's GDI data accuracy reviews, we began correcting all inaccuracies identified and have completed this process. Having recognized that similar inaccuracies were likely in all Territories, our CAFM field staff has concentrated their efforts on improving the accuracy of GDI space data across our entire building inventory.

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IMPLEMENTATION DATES:
Reinforce periodic validations in the field: completed May 20, 2009.
Expand guidance to track error trends and accuracy rates: completed June 30, 2009.
Correct specific inaccuracies identified in the audit report: completed June 30, 2009.

RESPONSIBLE OFFICIAL:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services

RECOMMENDATION #7:
Ensure the ePIP system is updated to include key information such as project schedules, estimated overall project cost, and project rent savings for the nine significant in-process projects we identified.

CORRECTIVE ACTIONS:
The nine significant in-progress rent reduction projects have been updated in ePIP and now include project schedules, overall project costs, and projected rent savings as appropriate.

IMPLEMENTATION DATE:
Recommendation completed July 2, 2009

RESPONSIBLE OFFICIAL:
Director, Real Estate and Facilities Management, Agency-Wide Shared Services