



Audit Report



OIG-09-046

GENERAL MANAGEMENT: The Mint Subleased Excessive Space in Its Headquarters Building (Corrective Action Verification on OIG-02-074)

September 3, 2009

Office of
Inspector General

Department of the Treasury

Contents

Audit Report

Background	1
Objective, Scope, and Methodology.....	3
Corrective Actions Taken by the Mint	4
Analysis of Space Needs	6
Conclusion	8

Appendices

Appendix 1: Management Response	9
Appendix 2: Report Distribution.....	10

Abbreviations

JAMES	Joint Audit Management Enterprise System
OIG	Office of Inspector General
PBIC	Planning, Budget and Internal Control Division
PCA	planned corrective action
PROC	procurement
TD	Treasury Directive

This page intentionally left blank.

*The Department of the Treasury
Office of Inspector General*

September 3, 2009

Edmund C. Moy
Director
United States Mint

This report presents the results of our review of corrective actions taken by the United States Mint in response to our March 2002 report on the Mint's excessive leased space for its headquarters in Washington, DC.¹ The Mint leased two buildings, one at 801 9th Street, N.W., in 1997, and another at 799 9th Street, N.W., in 1999, with the total leased space of 381,600 square feet. In our March 2002 report we recommended that the Mint identify excess space and sublease that space or put it to other appropriate and authorized use, and ensure that sound business practices are followed for future space acquisitions.

In brief, we found that the Mint has taken steps to eliminate the excess space in these buildings. It consolidated its headquarters operation, sublet more space to federal agencies, and during our review awarded a sublease for the remaining excess space in the 801 9th Street building.

Background

According to Office of Management and Budget Circular A-50, audit follow-up is an integral part of good management and a shared responsibility of management and auditors.² Each agency should establish an audit follow-up system to assure the prompt and proper resolution and implementation of audit recommendations. Treasury requires bureau staff to ensure that

¹ *The Mint Leased Excessive Space for Its Headquarters Operation*, OIG-02-074 (Mar. 29, 2002).

² Office of Management and Budget Circular A-50, revised, "Audit Follow-up" (Sep. 29, 1982).

(1) audit recommendations are resolved on a timely basis; (2) resolved audit recommendations (i.e., those agreed to by bureau management) are promptly acted upon and that progress with respect to proposed and ongoing corrective actions is adequately monitored; and (3) statistical information and other data are appropriately reported pursuant to all statutory and regulatory requirements.³

The status of audit recommendations is tracked in Treasury's Joint Audit Management Enterprise System (JAMES), an interactive system accessible to both the Treasury Office of Inspector General (OIG) and bureau management. JAMES contains tracking information on audit reports from their issuance through completion of all actions related to the findings and recommendations.

At the bureau level, the Mint uses its own internal tracking process, which contains more detailed information than JAMES. The Mint's Planning, Budget and Internal Control Division (PBIC) coordinates the development of Mint responses to audit findings and recommendations. The PBIC Division Chief validates the planned corrective actions (PCA) developed by responsible program officials, and PBIC staff record, monitor, and track implementation of the PCAs by using the Mint's internal tracking process. For audit recommendations related to information technology, PBIC receives technical support from the Mint's Information Security Division.

PBIC staff also enter PCAs in JAMES, monitor the status of audit recommendations, update the status, and, with the approval of the PBIC Division Chief, close recommendations.

³ TD 40-03, "Treasury Audit Resolution, Follow-Up, and Closure" (Feb. 2, 2005).

Objective, Scope, and Methodology

The objective of this corrective action verification was to determine whether the Mint's management had taken corrective actions responsive to our recommendations to sublease excess space at its two leased headquarters buildings or put it to other appropriate and authorized use and to ensure that sound business practices are followed for future space acquisitions. This corrective action verification addresses the PCAs associated with the two recommendations in our March 2002 report.



801 9th Street



799 9th Street

We met with the audit liaison Program Manager and staff from PBIC to obtain an understanding of the process used to monitor the status of recommendations recorded in JAMES. We queried JAMES to review the status of the recommendations. We reviewed the Mint's updated procurement policy, space plans, sublease documents, data on the number of employees and contractors, and other documents related to the Mint's lease. We conducted a space-needs analysis for the Mint's headquarters operation based on the same criteria and methodology used in our previous audit with the updated information provided by the Mint.

We conducted our fieldwork at Mint headquarters in Washington, D.C., from July 2008 to September 2008. However, due to a congressional mandate to complete a material loss review of a failed bank, this audit was suspended in October 2008. We

resumed the audit in April 2009 and completed the fieldwork in May 2009.

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

Corrective Actions Taken by the Mint

Before March 2002, the Mint had sublet a part of its excess space to the Internal Revenue Service and the legacy U.S. Customs Service.⁴ Since the audit, the Mint has sublet space to additional federal agencies—the Bureau of the Public Debt, the U.S. Marshals Service, the Treasury Executive Institute, and Treasury Departmental Offices. All together, the Mint sublet about 200,000 square feet to the six agencies. In addition, the Mint signed an agreement with a retail service company to find a subtenant for its retail space in the 801 9th Street building. The company received bids from potential subtenants and engaged in negotiations with an interested party. In June 2009, the Mint awarded the sublease to the party.

To address the second recommendation, a Mint-wide policy memorandum on procurement (PROC) guideline, PROC-06, was issued on January 29, 2004. The policy identifies appropriate management controls governing competitive source selections, supporting documentation sufficient to record the basis for key decisions made and actions taken during all phases of the procurement, internal reviews, and financial analyses. In particular, it states that in areas where the Mint does not have resident expertise, the responsible procurement professional will request outside advice from experts. For example, in the case of leasing requirements, it states that the Mint would use the General

⁴ The Homeland Security Act of 2002 moved the U.S. Customs Service to the Department of Homeland Security, effective in March 2003.

Services Administration or a commercial real estate consultant to help plan and execute the procurement. PROC-06 also calls for competition in source selection and documentation of the selection decision that shows the relative differences between proposals and the comparative judgments that led to the selection decision.

In addition, on September 19, 2008, a Mint-wide policy memorandum, PROC-09, was updated to implement the Federal Acquisition Certification in Contracting, Warrant, and Training requirements for Mint procurement personnel.⁵ The updated memorandum incorporated new requirements established by the Office of Federal Procurement Policy.

Efforts to Consolidate the Headquarters Operation

The Mint began to occupy the 799 9th Street building in December 2001. A part of the space was soon sublet to the U.S Customs Service. More space in that building was subsequently sublet to other agencies as the Mint attempted to consolidate its headquarters operation in the 801 9th Street building. As of May 2009, all but approximately 4,000 square feet had been sublet. The remaining space is occupied by the Mint's Chief Information Officer's data center, which is also in the process of being consolidated to the data center in the 801 9th Street building. According to Mint officials, the consolidation is expected to be completed by the end of 2010. The lease on the 799 9th Street building expires October 31, 2011. According to Mint officials, the Mint does not have plans to renew or extend its lease of that building.

Efforts to Sublease the Retail Space

The retail space on the first floor of the 801 9th Street building contains approximately 9,700 square feet and has never been occupied or used by the Mint since the Mint leased the building in December 1997. In April 2007, acting on the Director of the Mint's desire to have the vacant retail space filled by a subtenant or

⁵ Original policy statement was issued December 3, 1999, updated May 8, 2001 and updated again effective September 19, 2008, to address new government-wide procurement training requirements.



Vacant retail space on the first floor of the 801 9th Street building

subtenants, the Mint's contracting office formed an acquisition management team to put together a statement of work and begin the request for proposal process. The Mint then solicited bids from management companies to find potential subtenants. The Mint signed a contract with a company on November 26, 2007.

Through the company, three potential subtenants expressed interest in subleasing the retail space, but none of them signed a contract. The efforts to find a subtenant continued, and in June 2009, the Mint awarded a sublease to an interested party. Under the planned sublease, the new tenant is expected to begin occupancy of approximately 8,000 square feet of space in 12 to 18 months. The Mint has never occupied or used the space since it leased the building, leaving the space vacant for nearly 12 years. The Mint has foregone approximately \$5 million in rental income by not leasing the space earlier.

Analysis of Space Needs

The Mint's leased space in the 799 9th Street building is 150,000 square feet. The Mint's leased space in the 801 9th Street building

is 232,000 square feet. Total leased space is 382,000 square feet. The previous audit report concluded that this amount of space exceeded the Mint's needs by approximately 33,800 square feet. The excessive space was calculated based on an allotment of 342 square feet of needed space per person. At the time of the 2002 audit report, 714 persons occupied the leased space—521 employees of the Mint and 193 contractors. The Mint had sublet 61,400 square feet to the Internal Revenue Service and 42,200 square feet to the U.S. Customs Service.⁶ Therefore, the excess space was calculated as follows:

**382,000 square feet – (714 persons x 342 square feet) –
61,400 square feet – 42,200 square feet =
approximately 33,800 square feet**

Based on information provided by the Mint, as of May 2009, 499 persons—342 employees and 157 contractors—occupied the headquarters buildings. Excluding the space the Mint has sublet to the six federal agencies, it is now occupying 182,000 square feet, about 48 percent of the total leased space. We find it is still excessive. Applying the same benchmark per-person space allotment (342 square feet) to the number of persons working in the headquarters buildings, we estimate that 171,000 square feet is adequate to meet the Mint's space needs (499 persons x 342 square feet = approximately 171,000 square feet). Accordingly, 11,000 square feet remained as excessive space before the Mint sublet the vacant retail space:

**182,000 square feet – 171,000 square feet = 11,000
square feet**

A significant part of the excess is now eliminated with the sublease of the retail space.

⁶ Since then, the space occupied by the Internal Revenue Service and U.S. Customs and Border Protection has changed to approximately 47,000 square feet and 95,000 square feet, respectively.

Conclusion

The Mint has taken steps to eliminate the excess space in headquarters. It has consolidated its headquarters operation, sublet more space to federal agencies, and in particular, finally awarded a sublease for the spacious retail space in the 801 9th Street building. While we are not making a specific recommendation, in light of the 12- to 18-month timeframe for the new tenant to occupy the retail space, Mint management should take prompt action to re-sublease the space should the occupancy not occur or the sublease is otherwise broken.

Management Response

In a written response dated August 21, 2009, the Mint Director stated that he is aware of the current environment associated with the sublease for the retail space in the 801 9th Street building, and is monitoring progress of the lessee to ensure the Mint can take prompt action should the sublease be broken. The response is included as Appendix 1.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-6512. The major contributor to this report was Myung Han, Program Analyst.

/s/

Michael J. Maloney
Director, Fiscal Service Audits



DIRECTOR
OF THE
MINT

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

August 21, 2009

MEMORANDUM FOR MICHAEL J. MALONEY
DIRECTOR, FISCAL SERVICE AUDITS

FROM: Edmund C. Moy
Director / S /
United States Mint

SUBJECT: Draft Audit Report "Corrective Action Verification on the Mint
Lease"

The United States Mint has reviewed the Treasury Department Office of Inspector General (OIG) draft audit report, "GENERAL MANAGEMENT: The Mint Subleased Excessive Space in Its Headquarters Building (Corrective Action Verification on OIG-02-074)."

We are pleased that the corrective actions taken by the United States Mint have been validated by your office and found to be appropriate to correcting the previously reported conditions. We are aware of the current environment associated with the sublease for the retail space in the 801 9th Street building, and we are monitoring progress of the lessee to ensure we can take prompt action should the sublease be broken.

The United States Mint is committed to working with the OIG and ensuring audit recommendations are promptly acted upon and that progress with respect to proposed and ongoing corrective actions are adequately monitored. We appreciate this opportunity to confirm that our efforts have been effective in addressing the noted lease space issues.

Department of the Treasury

Deputy Secretary of the Treasury
Deputy Chief Financial Officer
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

United States Mint

Director
Audit Liaison Official

Office of Management and Budget

OIG Budget Examiner