

**The Internal Revenue Service Faces
Significant Challenges to Reduce
Underused Office Space Costing
\$84 Million Annually**

September 2004

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DEPARTMENT OF THE TREASURY
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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Faces
Significant Challenges to Reduce Underused Office Space
Costing \$84 Million Annually (Audit # 200310007)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) Agency-Wide Shared Services (AWSS) Real Estate and Facilities Management (REFM) Division effectively manages its office space to ensure efficient use. In Fiscal Year (FY) 2003, the IRS spent approximately \$633 million in rent costs for these facilities. We performed this review because space costs represent one of the largest nonpayroll expenditures for the IRS.

In summary, the IRS incurs significant rent costs for space it no longer needs. The IRS recognized that much of its office space was underused and took action to develop target space utilization rates and release some of the space. However, certain calculations used in the development of its overall space utilization rate did not have an adequate basis, causing the target rate to be too high. Further, the IRS did not set aside funds needed to pay the costs for releasing all of its underused space. We estimate that the annual cost for the underused space the IRS has not taken action to release is approximately \$64 million. Although REFM Division officials advised us they plan to place additional staff hired in FYs 2004 and 2005 in existing IRS space, the REFM Division requested \$40 million in additional rent funds for these employees.

IRS officials did not consistently compile building usage information or periodically validate the data. We identified examples of vacant workstations REFM Division personnel did not report as vacant. We also noted business unit personnel did not always report when changes had occurred, such as the acquisition or the release of real property. Local operating divisions and business units did not always cooperate with REFM Division personnel to ensure space usage information was accurate because

they had little incentive for reporting vacant space. In addition, the REFM Division had not established target utilization rates for each of its facilities.

Finally, the IRS did not take action to release office space for employees who telecommute. Although some of the operating divisions and business units considered telecommuting when configuring space and determining requirements, the REFM Division did not consider telecommuting when reporting vacancies. We estimate the IRS could save \$19.8 million each year by releasing the space reserved for the telecommuting employees.

We recommended the Chief, AWSS, adjust the target utilization rate for field offices by revising calculations in which numbers were rounded. The Chief, AWSS, needs to justify the request for additional rent funding for new employees, since the IRS has sufficient existing space in which to place them. In addition, the Chief, AWSS, should revise the plan for releasing unused space to include specific details on costs, savings, and benefits of reducing its unneeded leased space. We also recommended the Director, REFM Division, update guidance to include criteria for counting workstations that are prone to inconsistent reporting and include procedures for validating space usage. We recommended the Deputy Commissioner for Services and Enforcement require local officials in the operating divisions to coordinate with facility managers when making changes to space configurations, when hiring, and when there have been changes to occupancy rates. We recommended the Deputy Commissioner for Operations Support allocate rent funds to the operating divisions to help facilitate cooperation between the operating divisions and local facility managers when making changes to space and occupancy rates and help ensure more efficient use of space. In addition, the Director, REFM Division, should establish target utilization rates for each IRS facility. Finally, we recommended the Director, REFM Division, report vacancies based on division requirements for telecommuting employees and release space as appropriate.

Management's Response: IRS management disagreed with certain conclusions in our report. Management does not believe the IRS can achieve \$84 million of cost savings annually by releasing underused office space and expressed concern that such a conclusion could be detrimental to the IRS in obtaining the proper funding to support its mission. Management's response cited complexities in managing the IRS' space, including recent reductions in IRS staffing that have complicated efforts to optimize use of office space. It also cited a hiring trend that projects a 10 percent increase in the IRS workforce by FY 2006, which indicates the space may be needed. Management stated IRS space utilization compares favorably to that in private industry. Management did not agree with Recommendation 1 to adjust the target utilization rate due to concerns that revising the target rate would not allow for variances that were not accounted for, such as computer rooms, training facilities, and inefficient building designs. However, AWSS will reevaluate the target as the IRS' standards change. Management also did not agree with Recommendation 7, that the REFM Division establish target utilization rates for each facility to assess space efficiency, contending it would be resource-intensive and is not common industry practice.

The Acting Chief, AWSS, will work with the Office of the Chief Financial Officer to better clarify the increased funding request for new hires. The Acting Chief noted that the IRS does not plan to acquire new space with the rent funds requested for the new hires and that this was how the IRS and other agencies budgeted for initiatives. The additional funds could be used to reconfigure existing space, initiate rent reduction projects, or restore the rent budget to levels required to fund rent obligations for existing space because the rent budget has been historically underfunded. AWSS identified \$10 million in unneeded rent funding and plans to return these funds to the business units in FY 2005.

The REFM Division will clarify the current procedures for compiling the inventory of vacant workstations to ensure consistent reporting from all facility managers. In addition, AWSS will update and reissue the current policy requiring local business unit managers to coordinate personnel and space changes with facility managers. Further, the REFM Division's new system, Graphic Data Interface Portal, will improve business function financial accountability by allowing the REFM Division to track rent expenses to the business units based on the space actually occupied.

Based on the outcomes of the mid-term negotiations with the National Treasury Employees Union (NTEU) and completion of a tracking system by the Human Capital Office, the REFM Division will provide guidance to the facility managers' field offices on the identification of workstations vacated by approved full-time telecommuting participants to be considered in space reduction activities.

Management did not agree with our reported outcome measures. Management does not believe a 2-year return on investment is achievable for much of its underused space because of the costs involved to release space. In addition, AWSS does not believe all space for telecommuters can be released because the employees are not always conveniently or contiguously located in marketable pieces of space. Further, the REFM Division does not know where all of the telecommuting employees are located, and some of them could be in campuses.¹ Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: We continue to believe the conclusions and recommendations in this report are valid. We pointed out in the report that if the IRS is funded for the increases in staff which it projects to be needed (approximately 10,000 Full-Time Equivalent (FTE)² positions by FY 2006), the space utilization rate will be at an acceptable level. However, the IRS has no assurance that funding for increases in its staffing will be approved. One reason the IRS found itself in the position of having over 12,000 vacant workstations in 2003 was that it made incorrect assumptions about its ability to hire staff. Even if increases are approved, hiring choices and locations will be based on business needs, not on the location of excess

¹ The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2004, 1 FTE is equal to 2,096 staff hours.

space. Further, the IRS requested \$40 million in extra rent funding for the additional employees. The Acting Chief, AWSS, stated the \$40 million could be used for other needs, such as reconfiguring existing space; however, the Acting Chief also claimed to have identified \$10 million in unneeded rent funding and plans to return these funds to the business units in FY 2005. We do not believe the request for additional funding for new hires is justified if the IRS plans to accommodate new employees in existing space.

It is not appropriate to compare the IRS space utilization rate with that of private industry. The General Services Administration (GSA) notes that private industry and Federal Government agencies are driven by different priorities for space use. While private industry may wish to convey success and stability, Federal Government agencies should convey frugality. A better benchmark would be the GSA recommendation for the Federal Government utilization rate, which is 230 square feet per person. This target is significantly less than the IRS' current utilization rate (312 square feet), its target utilization rate (265 square feet), and our recommended target utilization rate (252 square feet). Based on concerns raised by REFM Division officials during the audit, we agreed not to include benchmark comparisons in the audit report because of differences in how agencies (and private industry) collect and report space utilization data.

We do not believe it is appropriate to increase the target utilization rate for unknown factors. The REFM Division acknowledged that it does not know how much space was not included in its target utilization rate computation. If the REFM Division identifies a need for such space, it should determine the amount and include the space in the target. The target rate was properly computed based on requirements (known as a Program of Requirements), not by measuring existing space. The existence of computer rooms, training space, and inefficient building designs does not constitute a requirement for the space. Some of the space occupied by these functions may be underused or not needed. For example, technology advances have reduced the need for large computer rooms. The IRS should not build inefficiency into a target utilization rate. Also, even using the REFM Division's target rate of 265 square feet per person, the IRS' actual utilization rate is still about 18 percent higher than the target, representing about \$45 million in underused space after considering the approved rent reduction projects. This measure is consistent with the reported number of vacant workstations and provides further evidence that the IRS has a significant amount of underused space.

We recommended the IRS develop target utilization rates by facility because it is clear from our review the IRS has encountered difficulty in determining space efficiency for each of its facilities. The IRS' target utilization rate of 265 square feet per person represents a combined target for all field offices in the IRS' inventory. Facility-specific target utilization rates, in conjunction with other measures such as workstation vacancies, would allow a better assessment of space efficiency for each facility. Workstation vacancies alone would not provide an accurate measure of space efficiency, since reducing the number of workstations would lower the reported vacancy rate but would not result in improved space utilization or efficiency.

The projection of the outcome measures is an estimate that assumes it would take 2 years for the IRS to recoup the cost of releasing the space. The REFM Division did not agree with this assumption but was unable to provide a reasonable estimate of the time needed to recoup these costs. The average annual cost of IRS office space is \$25 per square foot. If the IRS further evaluates its excess space and determines it would cost on average more than \$50 per square foot to release the space, we will consider the information in adjusting the estimated outcomes. Nonetheless, we projected the outcomes through 5 years only. When releasing underused office space, the IRS will realize the cost savings beyond 5 years, since rent costs are recurring. Also, for the cost savings related to telecommuting employees, we recognized that there could be some difficulties in releasing all the space for telecommuting employees and the fact that a small portion of the employees could be located in the campuses, which is why we used a ratio of 2 telecommuting employees for every workstation (a 2:1 ratio) instead of the 3:1 ratio allowable under the National Agreement with the NTEU. Our estimate is 33 percent lower than that allowable under the National Agreement.

We do not agree with the IRS' response to our recommendations on revising the target utilization rates (Recommendation 1) and establishing target utilization rates for each facility (Recommendation 7). We intend to elevate our disagreement related to these recommendations to the Department of the Treasury for resolution. We also plan to elevate our concern with AWSS management's denial of the cost-saving opportunities identified in this report. We believe this denial demonstrates a lack of commitment to be accountable for properly implementing our recommendations. The Deputy Commissioner for Operations Support is responsible for ensuring the IRS Commissioner submits a written reply to the Assistant Secretary for Management and Chief Financial Officer of the Department of the Treasury within 30 calendar days of the final report issuance date. This reply should explain the IRS' reasons for the lack of agreement with Recommendations 1 and 7 in this audit report. The IRS Commissioner will provide a copy of the reply to the Treasury Inspector General for Tax Administration (TIGTA). Resolution shall be made within a maximum of 6 months after issuance of a final TIGTA audit report, in accordance with Office of Management and Budget Circular A-50.

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 Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

The Internal Revenue Service (IRS) occupies approximately 30.6 million square feet of space in 796 facilities throughout the country.¹ In Fiscal Year (FY) 2003, the IRS spent approximately \$633 million in rent costs for these facilities. The majority of the IRS' space is used for its field offices. Table 1 shows the number of buildings and square footage for the three types of IRS facilities.

Table 1: Allocation of IRS Square Footage by Building Type

Building Type	Number of Buildings	Square Feet (in Millions)
Campuses ²	79	9.9
Field Offices ³	655	20.6
Other Facilities ⁴	62	0.1
Total	796	30.6

Source: May 2003 Foundation Information for Real Property Management (FIRM) database.

Treasury Directive 72-02, Acquisition, Utilization, and Disposal of Treasury Real Property Assets, requires all real property holdings to be fully used and put to optimum use. Agencies are required to complete annual reviews that identify property that is not needed or is not being put to its optimum use. Real property that is not needed should be promptly reported and released.

IRS Agency-Wide Shared Services (AWSS) has overall responsibility for space management. Within AWSS, the Real Estate and Facilities Management (REFM) Division provides space management support to all entities of the IRS.

¹ Based on the Foundation Information for Real Property Management database as of May 2003.

² The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

³ Field Offices include Headquarters, Computing Centers, and Area Distribution Centers.

⁴ Examples of other facilities include warehouse/storage, parking, and daycare centers.

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The audit assessed AWSS efforts to manage and reduce space holdings at its Headquarters and field office locations. We conducted this audit in the AWSS REFM Division at the National Headquarters in Washington, D.C., and facility manager offices at the following locations: Atlanta, Georgia; Laguna Niguel, California; Detroit, Michigan; Martinsburg, West Virginia; and Chicago, Illinois. Fieldwork was performed during the period February 2003 through March 2004. We performed limited validation on IRS data for converting usable space to rentable space because the IRS had lost some of the supporting documentation. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Additional Action to Release Underused Office Space Could Save Approximately \$64 Million Annually

It is common practice in industry and the Federal Government to measure the efficiency of space use by determining the “utilization rate,” which is the number of square feet rented divided by the number of employees assigned to the space. Based on information obtained from selected agencies, the General Services Administration (GSA) recommended agencies use a target utilization rate of 230 square feet per employee.

In May 2002, the IRS performed an assessment of space use that identified an average vacancy rate of about 16 percent (approximately 12,000 vacant workstations) in its noncampus facilities such as Headquarters and field offices. To establish a better baseline to work toward, the IRS produced a Space Utilization Rate Proposal in March 2003, which established target space utilization rates. The proposal is an overall analysis of the IRS space requirements that considered workstation requirements, support space, and employee turnover. The Proposal recommended the IRS establish the field (noncampus) target utilization rate at 265 square feet per person. The target rate is for general office space and excludes space requirements for special use facilities such as warehouses.

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As of March 2004, the IRS' utilization rate for its noncampus facilities was 312 square feet per person, computed as shown in Table 2.

Table 2: FY 2004 IRS Utilization Rate for Noncampus Facilities

Space Inventory (square feet)	18,528,568
Peak Staffing ⁵	59,475
Utilization Rate	312

Source: REFM Division.

The IRS' current space utilization rate is 18 percent higher than its target rate. Further, we identified certain problems with the IRS calculations which indicate that its target utilization rate should be no greater than 252 square feet per person. The difference between this target rate and the IRS' current actual rate of 312 square feet per person represents approximately 3.5 million square feet, costing an estimated \$89 million annually. The IRS has approved space reduction projects that will reduce its underused space by approximately 935,000 square feet⁶ and its utilization rate to 296 square feet per person. However, the cost of the remaining underused space is approximately \$64 million annually.

To compute the IRS target utilization rate, the REFM Division performed the following steps:

1. Established a base rate – Using standards for space requirements recommended by its contractor, the REFM Division developed a target utilization rate for typical office space.
2. Made adjustments for certain IRS divisions – Some IRS divisions have space use requirements that are higher than typical. The REFM Division computed the utilization rate for these divisions and allocated those

⁵ Includes an estimated 1,000 contractor personnel.

⁶ General office space at its field office and Headquarters locations.

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rates to the base rate based on the number of employees.⁷

3. Added a factor for vacant workstations – To accommodate normal fluctuations in the size of the workforce, a small percentage of vacancy was allowed.
4. Converted to rentable square feet – The initial target was based on usable square feet.⁸ The Federal Government and industry measure space using rentable square feet.⁹

In general, the REFM Division used a logical approach and followed industry and Federal Government practices when developing its target rate. However, we have concerns with certain calculations used. The REFM Division increased the target utilization rate at intermediate steps in the computation as follows:

- After making adjustments for certain divisions, the REFM Division arrived at a utilization rate (in usable square feet) of 193 square feet per person. It rounded this up to 200 square feet per person.
- The conversion factor for rentable square feet was 24.5 percent, but the REFM Division used 25 percent.
- The final target rate of 262.5 square feet per person was rounded to 265 square feet per person.

The reason for rounding provided in the Space Utilization Rate Proposal was “for ease of calculating.” However, because of the adjustments, the REFM Division increased its target utilization rate by a total of 13 square feet per person. This represents a 5 percent increase in the target

⁷ Except Taxpayer Assistance Centers, which were allocated by the amount of space occupied.

⁸ Usable square feet includes areas assigned to building occupants but excludes unassigned building infrastructure space such as mechanical rooms, telephone closets, and restrooms.

⁹ Rentable square feet includes the square footage of areas occupied plus a prorated share of floor common areas such as elevator lobbies, building corridors, restrooms, utility closets, and machine rooms. It also includes a prorated share of the building common areas such as the ground floor entrance lobby, atrium, loading dock, and mailroom.

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rate and accounts for 794,456 square feet.¹⁰ At an average of \$25 per square foot, this space costs about \$19.9 million annually. If the REFM Division had carried its calculations through without these adjustments, its target utilization rate would have been 252 square feet per person.

The IRS has undertaken some projects to reduce space

IRS officials have pointed out the high percentage of unused office space is partially the result of the significant changes that have occurred in the IRS since the IRS Restructuring and Reform Act of 1998¹¹ was enacted. It has been difficult to forecast office space needs and take action to release excess space because the IRS operating divisions and business units were unsure how the reorganization would affect their staffing levels at each location and wanted to be prepared if they needed to hire or reassign employees. In addition, some of the underused space is fragmented throughout buildings. While larger blocks of underused space can be released cost effectively, smaller blocks require space in the buildings to be reconfigured, which significantly increases the cost of releasing space.

In FY 2002, the IRS established the Noncampus Rent Reduction Team to help reduce excess space and the associated rent costs in its field offices.¹² The Team planned to review all properties that had workstation vacancy rates over 5 percent and make recommendations on which properties could be released. The Team identified 431 noncampus¹³ sites that met this criterion. To evaluate the feasibility of releasing rented property, the Noncampus Rent Reduction Team considered short-term costs, such as the cost to return the rented space to its former condition, lease termination costs, and moving expenses. To maximize

¹⁰ Calculated by multiplying 13 square feet by the 61,112 employees the REFM Division used when it computed the target utilization rate.

¹¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

¹² The IRS also has a Service Center Action Team, which is responsible for space associated with the IRS campuses (formerly known as service centers).

¹³ Includes National Headquarters facilities.

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the cost savings, the Noncampus Rent Reduction Team recommended releasing only properties that would begin to show a return on investment in 2 or fewer years.

As of March 2004, the IRS had completed 19 rent reduction projects¹⁴ to release a total of 340,835 square feet, reducing rent by approximately \$8.8 million annually. The one-time cost to release this space was approximately \$7.2 million. As of April 2004, the IRS had approved an additional 130 projects, with estimated annual savings of about \$24.1 million. The one-time cost to release the additional 934,871 square feet was estimated at \$24.8 million. The REFM Division is continuing to evaluate leased buildings and recommend new rent reduction initiatives. Once the approved rent reduction projects are completed, the IRS' utilization rate should drop to 296 square feet per person.

REFM Division officials informed us that, in the past 3 years, they had budgeted \$8 million each year for the rent reduction projects. Although the REFM Division is continuing to identify space to be released, it has been limited to the projects that produce the quickest return on investment. REFM Division officials have advised us that they do not have funds for the major building reconfigurations necessary to help bring the utilization rate more in line with its goal. To avoid future rent expense for space that it does not use, the IRS needs to revise its plan for releasing unused leased space. The plan should include specific details on costs, savings, and benefits of reducing its unneeded leased space, as well as a strategy for obtaining or setting aside funds for this purpose.

The IRS has requested a \$40 million annual increase in rent funds to accommodate new hiring

The IRS has planned hiring initiatives that could increase its staffing levels over the next 2 to 3 years. The most current estimates identify an increase of 3,122 Full-Time Equivalent

¹⁴ Excluding warehouses.

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(FTE)¹⁵ positions in FYs 2004 and 2005 and an additional request of 7,137 new positions in FY 2006.

Because the IRS has space available throughout its building inventory, the REFM Division planned to place employees in space that is currently underused. This would lower its utilization rate and would be the most economical solution. If the IRS placed all 3,122 employees in existing space, its utilization rate would drop to 281 square feet per person,¹⁶ which is still well above the target. However, the REFM Division's FY 2005 budget request included \$40.2 million in new annual rent funding for these employees. IRS officials suggested the additional funds could be used to cover expected shortfalls in the rent budget.

The FY 2006 hiring initiative has not yet been approved. However, the current estimate of 7,137 new positions could also be accommodated in existing space. This would further reduce the utilization rate from 281 to 252 square feet per person. However, the IRS may not have available space in the same geographical locations where the new positions will be established. Moreover, the REFM Division has not been advised by the operating divisions of the most likely locations for increased staffing. Without this type of coordination, it is difficult for the REFM Division to plan and prioritize its rent reduction projects.

Recommendations

The Chief, AWSS, should:

1. Revise the target utilization rate for field offices. The target utilization rate should not include additional space that resulted from rounding the calculations.

Management's Response: The Acting Chief, AWSS, disagreed with the recommendation, stating that a precise target would not allow for variances not accounted for, such as computer rooms, training facilities, inefficient building

¹⁵ A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2004, 1 FTE is equal to 2,096 staff hours.

¹⁶ After completion of the approved rent reduction projects.

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designs, or cases where the IRS is forced to accept more than it requires. AWSS management stated the target utilization rates needed to be attainable and include some flexibility for varying building conditions. AWSS contends that rounding the target utilization rate provides this flexibility and an allowance for space not included in the target. Further, management stated that IRS space utilization compares favorably to that in private industry. AWSS will reevaluate the target as the IRS' standards change.

Management did not agree with our estimated cost savings from revising its target utilization rate and taking the necessary actions to achieve that rate. Management does not believe a 2-year return on investment is achievable for much of the underused space because of the costs involved to release space. Further, management plans to use the excess space to accommodate a planned increase in IRS staffing of approximately 10,000 people by the end of FY 2006.

Office of Audit Comment: We do not believe it is appropriate to increase the target utilization rate for unknown factors. The REFM Division acknowledged that it does not know how much space was not included in its target utilization rate computation. If the REFM Division identifies a need for such space, it should define that need and include the space in the target. The target rate was properly computed based on requirements (known as a Program of Requirements), not by measuring existing space. The existence of computer rooms, training space, and inefficient building designs does not constitute a requirement for the space. Some of the space occupied by these functions may be underused or not needed. For example, technology advances have reduced the need for large computer rooms. The IRS should not build inefficiency into a target utilization rate simply because it has inefficiency today. Also, even using the REFM Division's target rate of 265 square feet per person, the IRS' actual utilization rate is still about 18 percent higher than the target, representing about \$45 million in underused space after considering the approved rent reduction projects. This measure is consistent with the reported number of vacant

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workstations and provides further evidence that the IRS has a significant amount of underused space.

We do not believe it is appropriate to compare the IRS space utilization rate with that of private industry. The GSA notes that private industry and Federal Government agencies are driven by different priorities for space utilization. While private industry may wish to convey success and stability, Federal Government agencies should convey frugality. A better benchmark would be the GSA recommendation for the Federal Government utilization rate, which is 230 square feet per person. This target is significantly less than the IRS' current utilization rate (312 square feet), its target utilization rate (265 square feet), and our recommended target utilization rate (252 square feet). Based on concerns raised by REFM Division officials during the audit, we agreed not to include benchmark comparisons in the audit report because of differences in how agencies (and private industry) collect and report space utilization data.

We pointed out in the report that, if the IRS is funded for the increases in staff which it projects to be needed (approximately 10,000 FTEs by FY 2006), the space utilization rate will be at an acceptable level. However, the IRS has no assurance that funding for increases in its staffing will be approved. One reason the IRS found itself in the position of having over 12,000 vacant workstations in 2003 was that it made incorrect assumptions about its ability to hire staff. Even if increases are approved, hiring choices and locations will be based on business needs, not on the location of excess space. Further, the IRS requested \$40 million in extra rent funding for the additional employees. The Acting Chief, AWSS, stated the \$40 million could be used for other needs, such as reconfiguring existing space; however, the Chief also claimed to have identified \$10 million in unneeded rent funding and plans to return these funds to the business units in FY 2005. We believe the IRS' request for additional funding reflects more than the full cost of its hiring initiative if the IRS plans to accommodate new employees in existing space.

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The projection of the outcome measures is an estimate that assumes it would take 2 years for the IRS to recoup the cost of releasing the space. The REFM Division did not agree with this assumption but was unable to provide a reasonable estimate of the time needed to recoup these costs. The average annual cost of IRS office space is \$25 per square foot. If the IRS further evaluates its excess space and determines it would cost on average more than \$50 per square foot to release the space, we will consider the information in adjusting the estimated outcomes. Nonetheless, we projected the outcomes through 5 years only. When releasing underused office space, the IRS will realize the cost savings beyond 5 years, since rent costs are recurring.

2. Justify the funding request for space for anticipated new hires by maximizing the use of existing space to house the new employees and determining the funding request based on anticipated needs, including the reconfiguring of fragmented space to improve efficiency and reduce long-term lease holdings and costs.

Management's Response: The Acting Chief, AWSS, will work with the Office of the Chief Financial Officer to clarify the increased funding request for new hires. The Acting Chief, AWSS, stated the IRS did not intend to use requested funds to acquire expansion space, but it could use the funds to cover unfunded rent obligations for its existing inventory, initiate new rent reduction projects, or reconfigure existing space. The REFM Division identified \$10 million in rent funding to return to the business units in FY 2005.

Office of Audit Comment: The REFM Division identified several needs for its request for additional funding but plans to return \$10 million in unneeded rent funding to the business units in FY 2005. This action appears to contradict the assertion that these funds were needed.

3. Revise the IRS plan for releasing unused space to include specific details on costs, savings, and benefits of reducing its unneeded leased space. In prioritizing rent reduction projects, coordinate with the operating

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divisions to determine planned locations for staffing increases.

Management's Response: The Acting Chief, AWSS, responded that the REFM Division continually revises its plans for releasing unused space. The Acting Chief stated that the Strategic Long Range Space and Housing Plan included the concept of recurring strategic investment based upon return on investment calculation. In January 2004, the REFM Division issued a Rent Management Guidance memorandum to begin the process of ongoing rent reduction/containment initiatives.

Information Needed to Effectively Manage Facilities Was Not Accurate

In September 2001, AWSS developed a centralized Workstation Count Database to help identify vacant workstations. The Database provides information on the use and availability of workstations in IRS field office and Headquarters buildings. AWSS management uses the Database to help identify available space and to assist in its rent reduction efforts. As of February 2003, the Database showed 12,503 (17 percent) of the IRS' 73,285 noncampus workstations were vacant. While this Database serves a useful purpose in helping identify overall vacancy rates, we identified errors in the data that reduce its reliability for determining which workstations are vacant.

We compared the Workstation Count Database with two other databases the IRS uses to track buildings and employee information: 1) the FIRM database and 2) the Totally Automated Personnel System (TAPS). We also visited certain locations to validate the information reported.

The FIRM database was developed by the GSA to help Federal Government agencies manage their real property assets and to provide a reporting mechanism for meeting the GSA and the Office of Management and Budget reporting requirements. The IRS uses the FIRM database to track inventory and reconcile rent bills. We compared the FIRM database to the Workstation Count Database to determine whether all IRS buildings were accounted for on both. The comparison identified the following differences:

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- Four buildings totaling 42,000 square feet were on the FIRM database but not on the Workstation Count Database.
- Three buildings that were not on the FIRM database because they had been vacated were still shown on the Workstation Count Database with a total of 99 workstations.

We also compared the Workstation Count Database with the TAPS. The TAPS is an online personnel system that maintains current and historical information on each IRS employee, including the employees' building assignments. The REFM Division recommended facility managers update the Workstation Count Database by using employee information in the TAPS if physical validation was not possible. Of the 589 buildings included on both databases, 157 (27 percent) had at least a 20 percent difference in the number of employees assigned to the buildings. Table 3 provides some examples of buildings with differences.

Table 3: Examples of Differences Between the TAPS and the Workstation Count Database (as of March 2003)

Building Location	Employees Listed on the TAPS	Employees Listed on the Workstation Count Database	Difference	Percentage
New York, NY	837	1,145	308	37%
Norwalk, CT	95	38	57	60%
Hato Rey, PR	167	100	67	40%
Cheektowaga, NY	721	538	183	25%

Source: Comparison of the TAPS and the Workstation Count Database.

In addition to the above analyses, we reviewed the reports for selected buildings from April through October 2003. This analysis indicated no changes had been made in the Workstation Count Database even though rent reduction projects were being completed in some of the buildings, which would cause a change in the workstation count on the database.

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Guidance for compiling workstation information needs to be improved

AWSS issued the Workstation Database Users Guide, followed by the Supplemental Workstation Count Guidelines. This guidance provided the facility managers with details on how to define a workstation and how to count the number of vacancies. However, facility managers were not interpreting or consistently applying the guidance when completing building usage information. Even within the same office, the individuals performing the counts were inconsistent in their interpretation of the workstation criteria.

To determine the number of workstations, the facility managers compiled building usage data and reported it to AWSS. During our site visits, we noted similar situations were reported differently. For example, one facility manager designated seven workstations for visiting employees and did not count them as vacant. However, another facility manager for a similar building counted all unassigned workstations as vacant and did not exclude those used by visitors. Additional discrepancies included:

- Space for 21 managers' offices was included in 1 workstation count, but 23 of the same type of managers' offices were excluded from the count of a different building.
- Workstations being used for common use equipment, such as printers and fax machines, were not consistently counted. Locations varied as to the percentage of workstations used for this purpose.
- Unassigned workstations used to store reference material were not counted.

AWSS should provide the facility managers with guidance that addresses those situations subject to individual interpretation.

Facility managers did not adequately validate the accuracy of the Workstation Count Database

Facility managers are responsible for ensuring the accuracy of the Workstation Count Database, but the facility

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managers advised us they did not have the time or resources to visit each of the buildings. They had to rely on alternate methods. Some facility managers developed local procedures to validate the information, but the local procedures did not provide adequate assurance that the workstations were properly counted and maintained on the Workstation Count Database.

AWSS guidance does not adequately address validation of the Workstation Count Database. AWSS guidance recommended facility managers use the TAPS to populate and update the Database to reflect changes in employee assignments. However, as noted previously, our analysis showed significant differences between the TAPS and the Workstation Count Database.

AWSS needs to revise guidance to ensure the facility managers periodically validate the information in the Workstation Count Database. This should be accomplished by physical inspection since the alternate techniques for validation, such as using the TAPS, did not ensure accuracy.

Operating divisions and business units did not always provide updated information

To ensure workstations and vacant space are accounted for properly, the IRS needs the local operating divisions to actively participate and support AWSS efforts to identify this space. Nonetheless, local IRS officials in the operating divisions and business units did not always notify facility managers when they made floor plan changes or had changes to their vacancy rates. For example, the Atlanta Facility Manager was not informed when one division decided not to hire employees to fill its renovated space. As a result, the Facility Management Office was left with excess space for about 200 workstations. In addition, some divisions made changes to their office space without AWSS involvement or notification, and one division restricted Facility Management Office personnel from performing onsite inspections to validate the occupancy data.

IRS operating divisions and business units may be reluctant to disclose excess space because there is no benefit to them to report it. When the IRS reorganized, AWSS was given

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responsibility for managing space and paying the rent bills from a centralized rent budget. Operating divisions do not realize the benefit of savings if they reduce rent costs. Although AWSS has the responsibility for managing space, it is often difficult to gain the cooperation of the IRS operating divisions to reduce their office space.

Although there was some cooperation between local officials in the operating divisions and the Facility Management offices, the IRS needs to establish better communication between the offices to ensure consistent and reliable information. The IRS should consider incentives and consequences to ensure better cooperation.

Target utilization rates should be established for each facility

In addition to the Workstation Count Database, the REFM Division collects information on the space usage for each of its facilities. This allows the REFM Division to assess the reasonableness of the vacancies reported on the Workstation Count Database and assists the Division in identifying underused space. The IRS' target utilization rate of 265 square feet per person represents a combined target for every field office facility in the inventory, but it is not always practical when measuring space efficiency on a building-by-building basis. Each facility has unique space requirements, depending on such factors as the types of divisions in and the size of the facility. Facility-specific target utilization rates would allow the REFM Division to make a better assessment of space efficiency for each facility.

Recommendations

4. The Director, REFM Division, should update criteria on how facility managers should count workstations and vacancies. The guidance should include examples of situations that have been prone to inconsistent reporting, as well as criteria on what types of buildings should be included and when buildings should be added or removed. It should include a methodology that will

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allow periodic validation of the accuracy of the Database, such as physical inspections of the property.

Management's Response: The Acting Chief, AWSS, will clarify the current procedures for compiling the inventory of vacant workstations to ensure consistent reporting from all facility managers. The guidance will consist of the type of workstations to be inventoried, how to determine what a shared workstation should be, and which workstations meet the National Workstation Standards.

5. The Deputy Commissioner for Services and Enforcement should require local officials in the operating divisions to coordinate with the facility managers when making changes to space configuration, when hiring, or when there have been changes to the occupancy rates.

Management's Response: AWSS will update and reissue the current policy requiring local business unit managers to coordinate personnel and space changes with facility managers for signature by the Deputy Commissioner for Operations Support.

6. The Deputy Commissioner for Operations Support should consider allocating the rent funds to the operating divisions, to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions, and should consider incentives and consequences to ensure better cooperation.

Management's Response: The REFM Division's new system, Graphic Data Interface Portal, will improve business function financial accountability by attributing rent expenses to the business units based on actual occupancy. It will require support from the Chief Financial Officer for interface with the IRS' new Integrated Financial System.

7. The Director, REFM Division, should establish target utilization rates for each facility and assess space efficiency by comparing the target rate with the actual utilization rate for each facility.

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Management's Response: The Acting Chief, AWSS, disagreed with this recommendation. The Acting Chief contended that it would be resource-intensive and is not common industry practice. The REFM Division developed workstation/office standards for each position and function in the IRS that should be used in determining individual building results.

Office of Audit Comment: Facility-specific target utilization rates, in conjunction with other measures such as workstation vacancies, would allow a better assessment of space efficiency for each facility. Workstation vacancies alone would not provide an accurate measure of space efficiency, since reducing the number of workstations would lower the reported vacancy rate but would not result in improved space utilization or efficiency.

Office Space for Employees Who Telecommute Could Be Released, Saving \$19.8 Million Annually

The IRS offers many of its employees the opportunity to work away from the office in the field or at home. This arrangement can benefit both the employee and the IRS by reducing the overhead costs of maintaining office space. However, the IRS has not maximized its benefits because it has not realized cost savings by releasing space assigned to telecommuting employees.

The National Agreement between the IRS and the National Treasury Employees Union (NTEU) requires employees who are participating in a full-time telecommuting¹⁷ agreement to give up individually assigned workspace in the traditional office. Instead, management will provide them a common work area, which will be configured on a space ratio of not less than three telecommuting employees to one workstation. Full-time telecommuting employees are also expected to continue in a telecommuting status for a period of at least 12 months, given the impact that their return could have on office space.

The IRS does not maintain a centralized database of the number of employees actively participating in the telecommuting program, but a 2002 managers' survey

¹⁷ The National Agreement refers to this as "Occupational Flexiplace."

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identified 6,597 participating employees.¹⁸ Using the target utilization rate of 240 square feet per person¹⁹ and a more conservative ratio of 2 employees for each workstation, the IRS could release approximately 792,000 square feet of space for telecommuting employees. At an average of \$25 per square foot, we estimate that this could save \$19.8 million annually.

While the criteria and requirements established in the National Agreement would allow the IRS to achieve substantial cost savings for telecommuting employees, the AWSS Project Investment Guide²⁰ instructs Facility Management office personnel not to consider telecommuting when reporting building occupancy, in case employees decide to return to regular duty at the office. AWSS National Headquarters management reasoned that employees could switch to an hourly telecommuting agreement with 30 days' notice; therefore, the IRS needed to be prepared. In addition, officials in the REFM Division noted it would need to ensure the cooperation of the NTEU before releasing space because employees could switch their telecommuting designation from occupational to situational. By switching designation, the employees would keep their space but would still not be required to come into the office very often because they spent the majority of their time conducting field visits.

Although some of the operating divisions considered telecommuting when configuring space and determining requirements, the facility managers did not consider telecommuting when reporting vacancies. For example, a division in Santa Ana, California, determined its workstation requirements by applying a ratio of three telecommuting employees for each workstation. However, the facility manager was required to disregard

¹⁸ Based on a September 2002 Booz-Allen Hamilton report entitled *IRS Flexiplace Survey*.

¹⁹ This target represents the rentable square feet target utilization rate if Taxpayer Assistance Centers are not included.

²⁰ The Project Investment Guide is a tool used by all Facilities Management office personnel in the management of their projects. The manual is to assist personnel in the budget estimates, timelines, cost tracking, and evaluation of projects.

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telecommuting status and report workstation vacancies based on one employee to one workstation.

AWSS needs to revise its policy so workstation vacancies are reported consistently with the operating divisions' requirements for telecommuting employees. The policy should recognize the costs and benefits of releasing leased space and encourage the operating divisions to take advantage of the agreed upon ratios. The Workstation Count Database should be updated to reflect the policy, and AWSS should take action to release the additional excess space.

Recommendation

8. The Director, REFM Division, should require facility managers to report vacancies based on division requirements for telecommuting employees. The policy should take full advantage of the cost-saving provisions established in the National Agreement between the IRS and the NTEU and ensure the Union is in agreement with policy changes. The policy change should identify additional excess space, and the IRS should take action to release space where appropriate.

Management's Response: Based on the outcomes of the mid-term negotiations with the NTEU and completion of a tracking system by the Human Capital Office, the REFM Division will provide guidance to the facility managers' field offices on the identification of workstations vacated by approved full-time telecommuting participants and to be considered in space reduction activities. The implementation date is dependent upon the completion of mid-term negotiations and the implementation of the tracking system. The REFM Division will monitor the progress of these activities with the Human Capital Office.

Management did not agree with our estimated savings from implementing this recommendation. Management believes it will be difficult to release space because telecommuting employees are not always contiguously located in marketable pieces of space. Management also believes it may take longer than 2 years to recoup the costs of releasing space. Moreover, the IRS currently has no method to

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identify the location of the participants or to determine whether the participants are in field or campus offices.

Office of Audit Comment: We recognized that there could be some difficulties in releasing all the space for telecommuting employees and the fact that a small portion of the employees could be located in the campuses, which is why we used a ratio of 2 telecommuting employees for every workstation (a 2:1 ratio) instead of the 3:1 ratio allowable under the National Agreement with the NTEU. Our estimate is 33 percent lower than that allowable under the National Agreement. Management was not able to provide a better estimate than the 2 years we assumed would be needed to recoup the costs of releasing space. Finally, we computed the outcomes for a 5-year period. However, when releasing underused office space, the IRS will realize the cost savings beyond 5 years, since rent costs are recurring.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) Agency-Wide Shared Services (AWSS) Real Estate and Facilities Management (REFM) Division effectively manages its office space to ensure efficient use. Specifically, we addressed whether REFM Division personnel ensure the IRS space is used properly.

To accomplish our objective, we:

- I. Determined whether the IRS developed strategies to ensure its efforts to manage space needs were in accordance with Federal Government rules and regulations regarding the use of Federal Government office space.
 - A. Identified the Federal Government rules and regulations and determined whether the IRS implemented these in its program.
 - B. Reviewed REFM Division policies and procedures to determine compliance with laws and regulations.
 - C. Reviewed the National REFM Division Strategic Space and Housing Plan to determine whether the Plan addressed all laws and regulations.
 - D. Reviewed the Business Performance Reviews to determine whether AWSS efforts were focused on the appropriate use of IRS leased space.
- II. Assessed whether REFM Division processes and procedures ensure effective space use and management of costs.
 - A. Reviewed the analysis that identified unused or underused office space and identified actions taken to resolve those conditions.
 - B. Reviewed the methodology and analysis in the March 2003 Space Utilization Rate Proposal.
 - C. Visited a judgmentally selected sample of 5 of the 21 Noncampus Facility Management offices. A judgmental sample was used because we did not plan to project the results to the universe. The facility managers' offices visited were Atlanta, Georgia; Martinsburg, West Virginia; Detroit, Michigan; Chicago, Illinois; and Laguna Niguel, California.

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- D. Reviewed the IRS Workstation Count Database¹ to determine whether significant levels of unused space were evident.
 - E. Interviewed General Services Administration officials to determine requirements for space use.
 - F. Reviewed the status of projects approved for implementation and the potential savings of the projects that have been initiated.
- III. Assessed the accuracy of data related to space utilization maintained on the Foundation Information for Real Property Management (FIRM) database.
- A. Reviewed the standard operating procedures and quality review manual.
 - B. Interviewed AWSS personnel to determine whether the operating and quality review procedures were used to ensure the continued accuracy of the FIRM database.
 - C. Compared the Totally Automated Personnel System² data to buildings listed in the FIRM database to determine whether employees occupied the buildings identified in the FIRM database.
 - D. Reviewed the FIRM database to assess the accuracy of the data. We selected a judgmental sample of 5 to 10 buildings at each of the 5 Facility Management offices we visited and verified the lease expiration, monthly costs, and square footage of each building. A judgmental sample was used because we did not plan to project the results to the universe.

¹ In September 2001, AWSS developed a centralized Workstation Count Database to help identify vacant workstations. The Database provides information on the use and availability of workstations in IRS field office and Headquarters buildings.

² The Totally Automated Personnel System is an online personnel system that maintains current and historical information on each IRS employee, including the employees' building assignments.

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Reduce Underused Office Space Costing \$84 Million Annually**

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Michael E. McKenney, Director

Carl L. Aley, Audit Manager

Barbara A. Sailhamer, Lead Auditor

David P. Robben, Senior Auditor

Angela Garner, Auditor

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Chief, Agency-Wide Shared Services OS:A
Director, Real Estate and Facilities Management OS:A:RE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M

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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 the Congress.

Type and Value of Outcome Measure:

- Cost Savings - Funds Put to Better Use – Potential; \$64.4 million per year; \$193.2 million over a 5-year period as described in the methodology below. This represents rent costs that could be avoided if the Internal Revenue Service (IRS) released unneeded, noncampus¹ office space (see page 2). We recognize this savings would be reduced if the IRS placed new employees in existing space; however, the Fiscal Year 2005 budget request included \$40 million in new annual rent costs for these employees.

Methodology Used to Measure the Reported Benefit:

To estimate the funds that could be put to better use, we revised the target utilization rate to 252 square feet per person, which represents the target without the increases for rounding. We computed the actual utilization rate by dividing the total square feet for office space (18,528,568 square feet) by the number of positions during peak 2003 (59,475 including an estimated 1,000 contracting personnel), to arrive at 311.5 square feet per person. We computed the difference between the target of 252 square feet per person and the actual utilization rate of 311.5 square feet per person (59.5 square feet) and multiplied by the number of positions (59,475) to arrive at an estimated 3,538,763 square feet of underused space. We multiplied the underused space by the estimated cost of \$25 per square foot to arrive at approximately \$88.5 million in underused space. We then reduced the savings by the approved rent reduction projects (\$24.1 million), to compute the estimated annual savings of \$64.4 million, or \$322 million over 5 years. Finally, we reduced the 5-year savings by approximately \$128.8 million to estimate the cost of releasing the space assuming an average 2-year return on investment. This computation resulted in a 5-year cost savings estimate of \$193.2 million.

Type and Value of Outcome Measure:

- Cost Savings - Funds Put to Better Use – Potential; \$19.8 million per year; \$59.4 million over a 5-year period as described in the methodology below. This represents rent costs that could be avoided if the IRS considered the telecommuting status of employees when determining space requirements (see page 17).

¹ The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

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Methodology Used to Measure the Reported Benefit:

To estimate the funds that could be put to better use, we used the September 2002 Booz-Allen Hamilton report² to estimate 6,597 employees who participate in telecommuting full-time. We applied a ratio of 2 telecommuting employees for every workstation to estimate the IRS could reduce space for 3,299 employees. We reduced the target utilization rate to 240 square feet per person, to remove the overlay factor for Taxpayer Assistance Centers, since these facilities would not be released to accommodate the telecommuting employees. We multiplied the 3,299 telecommuting employees by the 240 square feet per person utilization rate and \$25 per square foot to estimate annual cost savings of \$19.8 million, or \$99 million over 5 years. We then reduced the 5-year savings by approximately \$39.6 million to estimate the cost of releasing the space, assuming an average 2-year return on investment. This computation resulted in a 5-year cost savings estimate of \$59.4 million.

² Based on a September 2002 Booz-Allen Hamilton report entitled *IRS Flexiplace Survey*.

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Appendix V

Management's Response to the Draft Report



CHIEF
AGENCY-WIDE
SHARED SERVICES

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

RECEIVED
AUG 30 2004

August 30, 2004

MEMORANDUM FOR GORDON C. MILBOURN III
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: James P. Falcone *James P. Falcone*
Acting Chief, Agency-Wide Shared Services

SUBJECT: Draft Audit Report – The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually (Audit # 200310007)

I have reviewed the report and recommendations; attached is our response to your recommendations. The objective of the audit was to determine whether IRS effectively manages its office space. The report suggests that IRS does not. We take exception to this general conclusion and with the conclusion that \$84 million in space could be released. The report does not give fair recognition to the many systems, processes and actions implemented by Agency-Wide Shared Services (AWSS) to manage space. A list of 23 space utilization activities was provided during the audit, but the majority of these were not considered in the draft report. Additionally, we have aggressively pursued space reduction for the past three years, following the space changes that occurred to support the stand-up of the modernized IRS organization.

We disagree with your assessment that \$84 million in potential annual cost savings will accrue from releasing underused office space. In fact, TIGTA's own report acknowledges that implementation of planned space reduction, coupled with planned hiring over the next 2 to 3 years, would completely address TIGTA's concern over the excess space. Based on the space reduction and planned hiring, concluding that IRS can release \$84 million in underused space is an invalid assumption. Additionally, to imply to Congress that \$84 million in measurable benefits will accrue to tax administration is detrimental to IRS in obtaining the proper funding to support the mission of the Service.

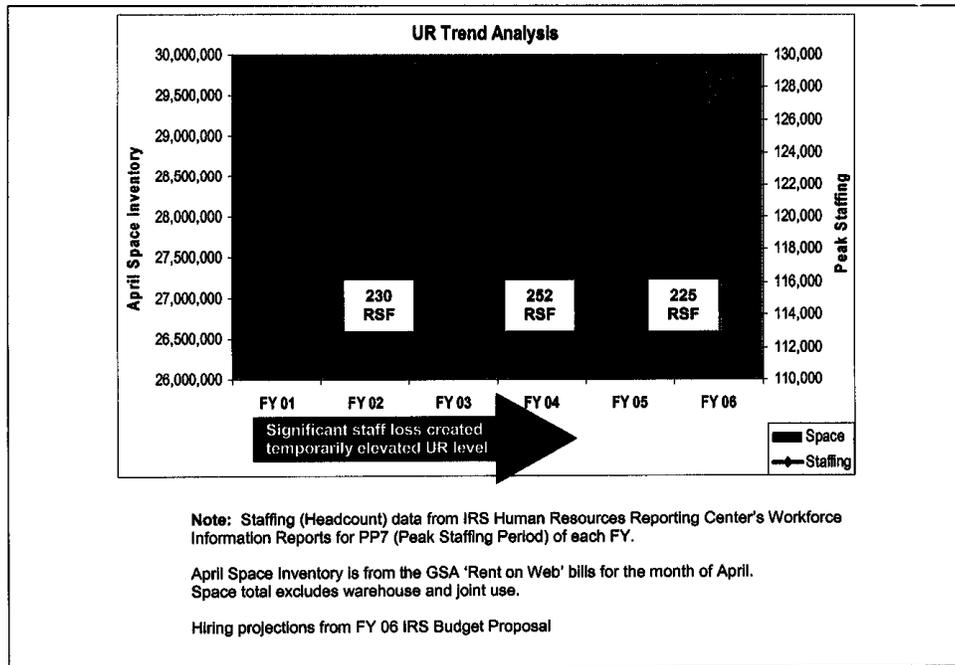
Throughout this audit we have stressed the complexity involved in managing and assessing efficiency in a \$700 million real estate portfolio. IRS has recently accomplished its most comprehensive reorganization in recent history. In fact, many of the resulting space adjustments are still underway. However, the audit fails to cast a fair assessment of our situation. Balancing Business Unit (BU) housing flexibility against ongoing "right-sizing" and rent reduction strategies is a substantial challenge. IRS staffing has experienced temporary declines over the last two years; while not a permanent condition, it complicates achieving space management efficiencies. Regardless, IRS targets are in line with those of professional organizations

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(International Facility Management Association Report #23, Project Management Benchmarks) and our current field baseline of 312 square feet (sf) is well below the average 322 sf per occupant in the private sector.

The audit oversimplifies business decisions and implies that current conditions were preventable yet acceptable to management. This is not the case as IRS has undergone significant staffing reductions over the last two years which is not recognized in the report. Our FY 2002 utilization rate was at an acceptable level (i.e., 230 sf per person), but with the loss of almost 10,000 employees, utilization rates increased by 9.6 percent to 252 sf. Since FY 2002, well before the commencement of this audit, we have aggressively worked to reduce space; however, the current hiring trend is projected to increase the workforce by 10%, as presented in the chart below. The chart demonstrates that the staffing decrease and resultant higher utilization rate was a temporary condition.



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The monetary benefits identified in this audit are based on the assumption that all space can be released based on a 2-year payback period. This is an errant assumption. Our current initiative to release approximately 935,000 sf considered projects whose maximum return on investment was up to a 4-year payback period. We have already evaluated and approved projects with the shortest payback and are currently considering projects with longer term paybacks, potentially up to five years. As contrary as it sounds, in some cases it is more cost effective to keep excess space. At the expiration of leases, prior to commencing a new long term lease for space, we routinely assess rent reduction potential and perform a cost benefit analysis to determine if it will be cost effective to reduce space or not. Often times the costs involved to effect a minimal space reduction outweigh the reduction in rent costs. Additionally, in some cases GSA may not consider space to be marketable and will not accept it back from IRS.

Another consideration is that we do not want to be in a situation of releasing space at a significant expense only to lease more space, or the same space, later that may be at higher market rates than we are currently paying. Accordingly, we need to carefully balance the cost benefits of releasing space against projected staffing needs.

We will aggressively pursue telecommuting space saving opportunities; however, we must cautiously approach this strategy. Current NTEU agreements allow considerable flexibility for employees to change their tour-of-duty/post-of-duty, while maintaining dedicated office space while they exercise the Flexiplace option. Reclaiming underutilized space from Flexiplace has the potential for yielding dollar savings, but yield rates cannot be projected until detailed participant information is available. While discussions are frequently held with local officials, it is impossible for us to determine tour-of-duty/post-of-duty options for employees without a system of record. Mid-term discussions with NTEU should clarify and tighten up contract provisions to provide us better opportunities for reclaiming space.

Working the telecommuting issue is a challenge, particularly since we cannot predict labor/management negotiation outcomes. But I need to make this point -- your telecommuting cost savings projections are based on incorrect assumptions. First, telecommuting employees are not always conveniently or contiguously located in marketable pieces of space -- they are spread between 655 field office locations; second, again, your 2-year payback period for releasing space is unsupportable; and third, you are assuming that all telecommuting participants are in field offices, which is not supportable as there is no method for identifying the location of the participants and we know some are in campus offices.

Finally, the statement "REFM requested \$40 million in additional rent for FY 2004 and FY 2005 hires" misrepresents the intended use of these funds, if provided (page 11 of

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the TIGTA Audit). This is how IRS and other agencies budget for initiatives by reflecting the full cost of implementation and is consistent with the President's Management Agenda (PMA). These funds would be used to reconfigure existing space to accommodate the requirements of the business units related to their respective initiatives. We have repeatedly said we do not intend to use these funds to acquire expansion space for new hires. Although we may expand in some areas, we expect to give up space in others, and project no net growth in space. In addition, these funds would be to restore the base rent budget to levels required to fund rent obligations for existing space. The rent budget has historically been under funded and funds were diverted from critical programs to cover rent inflation in the past (approximately 7% instead of 2.6% allowed by OMB, which represents the average increase in rent due to rate increases, re-measurements, reappraisals, taxes, operating costs, security increases, tenant improvement allowance, and GSA fees during the period FY 2003 - 2005). After covering these costs, any excess would be returned to the Business Units for use in IRS core programs. We have already identified \$10 million to return to the Business Units in FY 2005.

While we recognize the need for continuous improvement in our business practices, we simply cannot agree with the bottom line statements in this audit. The IRS inventory contains some 30 million square feet in over 790 buildings, housing over 100,000 employees. The portfolio and the organizations served by that portfolio are in a constant state of flux. The complexities involved in properly assessing the potential cost savings on a portfolio of this magnitude do not lend themselves to broad generalizations and assumptions, such as an assumption that all excess space can be released with a 2-year payback period. This makes TIGTA's statement (Page 20, Appendix IV of the TIGTA Audit) that the 5-year cost savings estimates total \$252.6 million incorrect and unacceptable.

If you have any questions please contact me at (202) 622-7500 or Norris Walker, Acting Director, Real Estate and Facilities Management at (202) 283-9400. For matters concerning audit follow-up, call Greg Rehak at (202) 622-3702.

Attachment

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

ATTACHMENT

RECOMMENDATION 1:

The Chief, AWSS should revise the target utilization rate for field offices. The target utilization rate should not include additional space that resulted from "rounding" the calculations.

WE DISAGREE:

The basis of the IRS target utilization rates is the IRS workplace standards. Revising target utilization rates for field offices to 252 sf will not allow for variances not accounted for in those standards, such as computer rooms and training facilities.

Such a precise target will not allow for other anomalies, such as inefficient building designs, and cases where IRS is forced to accept space a bit larger than its exact requirement. The latter could be due to the size of blocks of available space, or the flexibility GSA builds into square foot ranges in their Solicitation for Offers.

We need to consider attainable targets that account for all requirements and give some flexibility to address varying building conditions. The rounding in the measure does this.

The utilization rate targets we set are corporate in nature and are generally used as a broad indicator of the efficiency of the IRS portfolio. Utilization rates are only a measure, and not used for space allocation purposes. As such they have no bearing on the amount of space IRS acquires or releases.

Overall we feel this is a credible target based on our current standards and how the measure is used, but will reevaluate it as our standards change.

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RECOMMENDATION 2:

The Chief, AWSS should justify the funding request for space for anticipated new hires by maximizing the use of existing space to house the new employees and determining the funding request based on anticipated needs, including the reconfiguring of fragmented space to improve efficiency and reduce long-term lease holdings and costs.

CORRECTIVE ACTION:

AWSS will work with the CFO's office to better clarify, through the budget process, what the \$40 million will be used for and how it is portrayed.

The budget cycle is 2 years in advance, and only broad program initiative objectives are known at the time the budget request is made. In this case, the placement of new hires is unknown at this time. It would be impossible to determine the funding request for new hires based on specific needs. In addition, this is how IRS and other agencies budget for initiatives by reflecting the full cost of implementation and is consistent with the President's Management Agenda (PMA). These funds would be used to reconfigure existing space to accommodate the requirements of the business units related to their respective initiatives.

We have repeatedly said we do not intend to use these funds to acquire expansion space for new hires. Although we may expand in some areas, we expect to give up space in others, and project no net growth in space. If received, these funds will be used to maximize the use of existing space by reconfiguring it to accommodate new hires. It may also be used to effect space reduction projects as IRS personnel migrate.

These funds will also be used to restore the rent budget to levels required to fund rent obligations for existing space. The rent budget has historically been under funded and funds were diverted from critical programs to cover rent inflation in the past (approximately 7% instead of 2.6% allowed by OMB, which represents the average increase in rent due to rate increases, re-measurements, reappraisals, taxes, operating costs, security increases, tenant improvement allowance, and GSA fees during the period FY 2003 - 2005). After covering these costs, any excess will be returned to the Business Units for use in IRS core programs. We have already identified \$10 million to return to the Business Units in FY 2005.

IMPLEMENTATION DATE:

October 1, 2005

RESPONSIBLE OFFICIAL:

Director, REF M

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 3:

The Chief, AWSS should revise the IRS plan for releasing unused space to include specific details on costs, savings, and benefits of reducing its unneeded leased space. In prioritizing rent reduction projects, coordinate with the Operating Divisions to determine planned locations for staffing increases.

CORRECTIVE ACTION:

REFM continually revises our plans for releasing unused space. REFM's Strategic Long Range Space and Housing Plan includes the concept of recurring strategic investment based upon Return-On-Investment calculation. In January 2004 REFM issued a Rent Management Guidance memorandum to begin the process of on-going of rent reduction/containment initiatives.

All real estate projects are now viewed as potential rent reduction projects, leveraging all available funding to support these efforts. Careful coordination does occur between each Business Unit and the REFM Customer Advocates to ensure that Business Unit hiring has been accounted for in rent reduction project planning. All projects are evaluated for full costs, savings, and the return on investment.

COMPLETED:

January 12, 2004

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:REFM

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 4:

The Director, REFM Division, should update criteria on how facilities managers should count workstations and vacancies. The guidance should include examples of situations that have been prone to inconsistent reporting, and criteria on what types of buildings should be included and when buildings should be added or removed. It should include a methodology that will allow periodic evaluation of the accuracy of the database, such as physical inspections of the property.

CORRECTIVE ACTION:

We will clarify the current procedures for inventorying vacant workstations to ensure consistent reporting from all Facilities Management Officers. The guidance will consist of the type of workstations to be inventoried, how to determine what a shared workstation should be and which workstations meet the National Workstation Standards.

IMPLEMENTATION DATE:

January 31, 2005

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:RE

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 5:

The Deputy Commissioner for Services and Enforcement should require local officials in the operating divisions to coordinate with the facility managers when making changes to space configuration, when hiring, or when there have been changes to the occupancy rates.

CORRECTIVE ACTION:

The IRS currently has two procedures in place that directly address this recommendation. A memo, signed by Bob Wenzel, Deputy Commissioner of Internal Revenue on November 20, 2001, directed to the business units, identifies the procedures for the movement of employees and functions between POD's. This specifies that the business unit must coordinate any such move with REFM offices and the SCR.

A second memo was issued by Jim Falcone, Director, Facilities Operations on August 6, 2003, outlining the procedures for relocation of employees between POD's. This was established to facilitate changes in the TAPS/HR Connect database to reflect the relocation of IRS employees from one duty station to another.

AWSS will update and reissue the current policy requiring local Business Unit managers to coordinate personnel and space changes with facility managers for signature by the Deputy Commissioner for Operations Support.

IMPLEMENTATION DATE:

December 1, 2004

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:RE

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 6:

The Deputy Commissioner for Operations Support should consider allocating the rent funds to the operating divisions to help ensure more efficient use of space and more communication between the facility managers and the local operating divisions, and should also consider incentives and consequences to ensure better cooperation.

CORRECTIVE ACTION:

REFM has obtained organizational support and funding for an IT system to support this recommendation. We have been an advocate of this proposal for several years. True Business Unit involvement in the management of their real estate resources will come only when we have the ability to reflect their holdings based on actual, real time assignment of this resource, but current automation and financial systems don't support it.

REFM's new system, Graphic Data Interface Portal (GDI/Portal), will improve business function financial accountability by being able to attribute rent expenses to the Business Units based on actual occupancy. It will require support from the Chief Financial Officer for interface with IRS's new Integrated Financial System. Efforts are underway.

IMPLEMENTATION DATE:

October 1, 2006

RESPONSIBLE OFFICIAL:

Acting Director, Facilities Operations OS:A:RE:O

CORRECTIVE ACTION MONITORING PLAN:

REFM has a schedule in place and will monitor it to ensure that the targeted implementation date is met.

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 7:

The Director, REFM should establish target utilization rates for each facility and assess space efficiency by comparing the target rate with the actual utilization rate for each facility.

WE DISAGREE:

It is not practical, highly resource intensive, and this is not common industry practice.

For each of our 791 facilities, this would require staffing validation, discussion with each BU located at the facility and their unique staffing and housing requirements, and the development of individualized application standards. As staffing and programs change in each facility, continuous target changes would occur and require multi-coordination among BUs at the facility. The amount of resources required to set initial targets and perform constant updates for all our buildings outweigh any potential benefit derived from this measure. Given the labor intensive actions required for minimal return on investment, and FY 2005 and out year budget constraints, we will not pursue this recommendation.

The utilization rate is used as a broad measure of the efficiency of our portfolio. It was never intended to be building specific. We have developed a comprehensive set of workstation/office standards for each position and function in the IRS. Individual building results should be determined by using those standards, not a utilization rate.

We are using the overall targets to identify a subset of the inventory as potential candidates for rent reduction. After identifying potential candidates, we will then go through a more thorough analysis of what space is excess and could be released.

Additionally, we do individual building assessments in planning for lease expirations, based on application of our workplace standards to current and future staffing plans. The resulting information is factored into an analysis to determine the most cost effective housing solution for the long term.

The Internal Revenue Service Faces Significant Challenges to Reduce Underused Office Space Costing \$84 Million Annually

RECOMMENDATION 8:

The Director, REFM, should require facility managers to report vacancies based on division requirements for telecommuting employees. The policy should take full advantage of the cost-savings provisions established in the National Agreement between the IRS and NTEU and ensure that the Union is in agreement with policy changes. The policy change should identify additional excess space and IRS should take action to release space where appropriate.

CORRECTIVE ACTION:

Based on the outcome of mid-term negotiations on the flexiplace article of the National Agreement, and the completion of a tracking system by the Human Capital Office, REFM will provide guidance to FM field offices on the identification of workstations vacated by approved occupational flexiplace participants and to consider them targets in space reduction activities. Not all vacated workstations will result in the release of space since it is subject to evaluating the return on investment (ROI), ability to release and hiring needs of other business units. The implementation date is dependent upon the completion of mid-term negotiations and the implementation of the tracking system. REFM will monitor the progress of these activities with the Human Capital Office.

IMPLEMENTATION DATE:

October 2, 2006

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:RE