OFFICE OF
INSPECTOR GENERAL

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Audit Report

Review of USITC's Space Utilization Charges

Report No. IG-03-92

August 1992

Date Issued

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

August 24, 1992

REVIEW OF USITC'S SPACE UTILIZATION CHARGES

Space utilization charges are the second largest expense incurred by the Commission; the fiscal year 1992 expenses are estimated to be over $7 million. The objectives of this review were to determine whether the Commission's policies, procedures and practices for monitoring space utilization charges are appropriate and properly administered and to identify any potential areas for savings.

This review was conducted by Cotton & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The results of their review are presented as an attachment to this report. They found that the Commission's procedures were sufficient, in all material respects, to provide for the proper payment of its space utilization charges.

The auditors had three findings. First, the Commission does not monitor to ensure that it is receiving fair value for extra payments for special temperature settings. Second, the storage area at the Navy yard includes many items that are in disrepair or are no longer of use that need to be excessed before the Commission is forced to vacate this space. Third, quarterly billings for space utilization charges are not reviewed and approved by the cost center manager.

Two matters were noted for management's consideration. The charges for extra services were established through negotiations and cannot be tied to a determination of the true value of the services; similar intensive negotiations should be conducted in the future. In addition, from August 1989 through October 1990, taxes were improperly paid as part of the payments for employee parking spaces. This situation has since been corrected through formal negotiations which should be the approach used in the future.

Recommendations relating to the findings are presented on pages 10 and 11 of the report. In summary, we recommend that the Director of Administration instruct the Director of the Office of Management Services to establish policy and procedures to monitor building temperatures and promptly dispose of all excess property located in the Navy Yard; and instruct the Director of Finance and Budget to provide the rent bill to the cost center manager for review and approval.

The Director of Administration generally agreed with the findings and recommendations. A summary of the Director's comments on the findings and our responses are presented on pages 6 and 7 of the report. The Director's comments are presented in their entirety as an appendix to the report.

Jane E. Altenhofen
Inspector General

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Appendix - Memorandum from Director, Office of Administration, dated July 31, 1992, on Draft Report

Attachment

REPORT ON THE REVIEW OF THE UNITED STATES INTERNATIONAL TRADE COMMISSION'S SPACE UTILIZATION CHARGES

Prepared by:

Cotton & Company
Certified Public Accountants
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April 16, 1992

Ms. Jane E. Altenhofen
Inspector General
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Ms. Altenhofen:

We reviewed the United States International Trade Commission's (ITC) procedures for managing its space utilization charges. This review was limited to determining if the Commission is properly monitoring space utilization charges and identifying any potential areas for savings.

Our review was performed in accordance with generally accepted Government auditing standards. The review covered space utilization charges for Fiscal Years 1991 and 1992 and included such tests and procedures as we deemed necessary to meet the review objectives described above.

Our review was made for the limited purposes described above and, as such, would not disclose all material weaknesses in ITC's internal control system. Accordingly, we do not express an opinion on ITC's internal control system taken as a whole.

Based on our review for the limited purposes described above, ITC's procedures were sufficient, in all material respects, to provide for the proper payment of its space utilization charges. Our review did, however, disclose several conditions that we believe warrant corrective action. In addition, we noted certain other matters for management's consideration. The review's results are described in detail in the accompanying report.

We discussed review results with the Director, Office of Administration; the Director, Office of Management Services; the Director, Office of Finance and Budget; and other headquarters personnel responsible for the overall management of ITC's space utilization charges.

The accompanying report is intended solely for ITC's information and use and should not be used for any other purpose.

Very truly yours,

COTTON & COMPANY

By: Kevin P. McFadden
Kevin P. McFadden, CPA

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REPORT ON THE REVIEW OF THE UNITED STATES INTERNATIONAL TRADE COMMISSION'S SPACE UTILIZATION CHARGES

PART 1: INTRODUCTION

In this part, we discuss the review background, objectives, scope, and methodology.

BACKGROUND

The United States International Trade Commission (ITC) is an independent Federal agency with six commissioners, a staff of about 500, and Fiscal Years (FY) 1991 and 1992 budgets of $40,299,000 and $42,434,000, respectively.

The General Services Administration (GSA) is responsible for acquiring and managing space for Federal customers. The Public Buildings Amendments of 1972 (Public Law 92-313) authorized GSA to finance its real property management activities through user charges, set at commercially comparable rates, collected from agencies occupying space. The current Rent System used to set commercially comparable rates was implemented at the start of FY 1987, replacing the earlier Standard Level User Charges or "SLUC" system. The revenue generated from the Rent System is deposited in the Federal Buildings Fund. The Fund is used for the operation, maintenance, protection, and repair of GSA-owned and -leased buildings as well as for building improvements and acquisition of space through lease, purchase, or construction.

Space utilization charges are the second largest expense incurred by ITC. For FYs 1988 through 1991, this annual expense was approximately $5.1 million, $6.2 million, $6.2 million, and $6.4 million, respectively; GSA estimates FY 1992 charges to be $7.1 million. Virtually all of this expense is paid to GSA for ITC's main building. Additional minor amounts are expended for Navy Yard storage, parking spaces, cleaning, and utilities.

GSA entered into a 10-year lease with Boston Properties on April 18, 1986, for the offices and related space at 500 E Street, SW. GSA and ITC signed a Memorandum of Understanding (MOU) in November 1987, delegating lease management responsibilities to ITC. As set forth in USITC Directive 1022.1, dated October 31, 1988, the Office of Management Services (OMS) is responsible for providing management and administrative support to ensure the efficient day-to-day operation of the agency, including space management.

The GSA Rent System is based on a 5-year cycle. Every 5 years, GSA sends ITC a Rent Information Package that establishes commercially comparable rates. GSA can adjust rents annually, which would be reflected in the Rent Budget Estimate provided for each fiscal year. Until FY 1992, GSA processed its rent bill for ITC through the Department of Treasury's On-Line Payment and Collection (OPAC) system. Under the OPAC system, GSA electronically sent its billing information to the Department of Treasury where the rent bill amount

was deducted from ITC's accounts and credited to GSA. ITC was provided similar billing information.

As a result of Public Law 102-140 (FY 1992 Appropriation Act for the Departments of Commerce, Justice, and State, the Judiciary and related agencies), ITC is to pay its FY 1992 rent through the Billed Office Address Code (BOAC) system by having a check issued to GSA.
In addition to paying rent to GSA, ITC also incurs additional annual costs related to its space needs that are beyond the services normally included as a part of the GSA rent charge. These annual charges, which, with the exception of certain Navy Yard storage space, are also paid to GSA, have been the subject of numerous negotiations with GSA over an extended period of time and are subject to annual renegotiation. The total FY 1991 charges for rent (including Navy Yard storage), extra utilities, and cleaning services are:

Purpose	Amount
Rent (including Navy Yard storage of $142,968)	$6,424,890
Heating, ventilation, and air conditioning (HVAC) for evenings, Saturdays, Sundays, and holidays	151,703
Daytime cleaning services	52,416
Proportionate share of submeter costs for certain areas	23,450
Total	$6,652,459

ITC also incurs an added monthly cost of about $1,100 for temperature control beyond what GSA includes as a part of its normal rent charges. ITC makes these payments directly to Boston Properties, which manages the ITC building.

OBJECTIVES

We reviewed the Commission's policies, procedures, and practices for monitoring space utilization charges to determine if they were appropriate and properly administered and to identify any potential areas for savings.

SCOPE

We conducted our review at ITC headquarters in Washington, DC, between March 30 and April 16, 1992. The review focused on ITC's space utilization charges for FYs 1991 and 1992. At the completion of our fieldwork, invoices for rent charges for FY 1992 had not been received from GSA nor had any payments been made. The commitment and obligation of funds, however, had properly been made based on GSA's estimate of FY 1992 rent charges.

We conducted numerous discussions with the Director, Office of Administration (AD) and his special assistant; the Director, Office of Management Services (OMS) and his staff; and the Director, Office of Finance and Budget (OFB) and his staff. We obtained and reviewed various records and documents from the staff of these offices. We also obtained an understanding of their activities for carrying out their responsibilities related to building management and space utilization charges. In addition, we interviewed GSA personnel familiar with, and responsible for, the issues related to the ITC building. Also, we discussed GSA's audit efforts in leasing operations in the National Capital Region with a GSA Office of Inspector General audit manager.

METHODOLOGY

We gathered data for our review through structured interviews; physical inspection of the ITC building and the offsite property storage locations; reviews of pertinent space utilization records, such as the MOU between ITC and GSA, the lease between GSA and Boston Properties, rent invoices from GSA and the related payment; invoices, and payments for ITC staff parking; and communications among all parties involved including GSA, ITC, and Boston Properties.

The major guidelines and operating regulations we used to evaluate ITC's management of its responsibilities for the ITC building and the related space utilization charges included:

- GSA's publication *The Federal Buildings Fund and Rent System* (1990).
- USITC Directive 1022.1, *Office of Management Services Mission and Function Statement* (1988).
- GAO's *Standards for Internal Controls in the Federal Government* (1983).
- Public Law 92-313, *Public Building Amendments of 1972*, dated June 16, 1972.
- 40 USC *Public Buildings, Property, and Works*:
  - Chapter 10, Management and Disposal
  - Chapter 12, Construction, Alteration, and Acquisition of Public Buildings
- 41 CFR, Subchapter D, *Public Buildings and Space*

The review was conducted in accordance with the Comptroller General's *Government Auditing Standards* (1988 revision).

REPORT ON THE REVIEW OF THE UNITED STATES INTERNATIONAL TRADE COMMISSION'S SPACE UTILIZATION CHARGES

PART 2: REVIEW RESULTS

Our findings, other matters for consideration, conclusions, and recommendations are discussed in this part.

FINDINGS

Our review of ITC's management of its system for monitoring space utilization charges and related items, such as charges for parking spaces and utilities, shows that the Director, AD, and Director, OMS, and staff have been actively and aggressively involved with GSA in an extensive negotiation process resulting in the occupancy of the ITC building and in agreements on charges related to extra services that ITC calls for. We noted, however, certain areas in the management of space utilization and other related charges that warrant management's attention. These areas are discussed below.

1. Arrangements have been made between ITC and Boston Properties, the owner and property manager for the ITC building, for temperature settings outside the range normally provided by GSA. The related additional charges are estimated to be about $1,100 a month and provide for the building to be warmer in winter and cooler in summer. Although OMS responds to complaints from ITC staff about the temperatures in the building, it does not have a monitoring program to ensure that it is receiving fair value for the extra payments. The lack of availability of this information could result in ITC incurring costs for services that it may not be receiving in full. A policy to require periodic measurement of the building temperatures, evaluating these measurements against GSA requirements, determining if ITC's requirements are being met, and, if not, meeting with the building owner to arrange for corrective action would assist OMS in carrying out its responsibilities in this area.

2. ITC's storage area at the Navy Yard in Southeast, Washington, DC, contains many items that are in disrepair or are no longer of use and should be excessed to GSA. We are aware that certain actions have been taken in this regard, and that ITC needs the cooperation of GSA to effectively manage this activity. Our concern is that if decisive action is not taken in the near term to reduce the items stored to only those most necessary and in usable condition, the Government will have to incur unnecessary relocation costs when the pending move to the new storage site is finalized.

   Federal regulations require agencies to continuously survey property and promptly make excess property available for transfer [41 CFR 101-43.101 and 102(b)]. Failure to do so complicates ITC property management functions, increases storage requirements and costs, restricts the use of Government funds, and increases the likelihood of property being lost or

misappropriated. We encourage OMS to aggressively pursue the removal of all but the most necessary items presently in storage. We also recognize that the majority of the property (exclusive of records) in storage is such that it will result in disposal and will probably not be of use to other agencies.

3. At the present time, OMS, which is responsible for facility management and space management for ITC, is not involved in reviewing and approving the quarterly billings from GSA for space utilization charges. Because OMS is the most knowledgeable unit in the area of space utilization, and is responsible for this area, its Director is the cost center manager for this activity. Accordingly, OMS should evaluate and approve the GSA charges for space. USITC Directive 2103, *Cost Center Managers*, requires the approval of the appropriate cost center manager on the procurement documents prior to the procurement being made.

   The billing process for space charges should be treated the same as other invoices processed by OFB for payment and should meet the Finance Division's standard operating procedures. For compliance with these procedures, OMS should review the GSA billings, determine if they are correct, and authorize OFB to make the payment or initiate action to obtain a corrected billing. This action by OMS will provide OFB with the appropriate authorization for payments to GSA for space charges and is consistent with the approval process in effect for other payments made by OFB.

OTHER MATTERS FOR CONSIDERATION

We noted certain other matters that the Director, AD, should consider for appropriate action.

1. ITC has agreed to pay GSA for charges for certain extra services related to its occupancy of the ITC building. Although the cost of these extra services was arrived at as a result of GSA's negotiations with Boston Properties and agreed to by ITC over an extended period of time as a result of numerous and lengthy discussions, the true value of the services is not readily determinable. As opportunities arise to renegotiate the existing charges with GSA or Boston Properties or to negotiate any additional charges, we believe that the same aggressive action that the Director, AD, and the Director, OMS, and his staff previously displayed should be applied to these future discussions to ensure that the Government's interests are protected to the fullest extent.

2. Taxes of about $7,100 for ITC's share of employee parking at Colonial Parking garages were improperly paid during the period August 1989 through October 1990. Generally, purchases and leases made by the Federal Government are immune from state and local taxation. When economically feasible, agencies are to take maximum advantage of all exemptions from state and local taxation that may be available. In this case, the taxes were improperly paid because the arrangements for

payments were made outside the normal procurement process. As a result, the staff familiar with the tax exemption were not involved. The situation was corrected when formal negotiations were initiated.

CONCLUSIONS

Our review disclosed no material findings pertaining to ITC's management of its space utilization charges. The processes for these expenditures appear to meet the needs of ITC management in accord with its policies and applicable laws and regulations in all material respects. As noted in the report, however, we observed certain conditions that represent opportunities for improvement.

RECOMMENDATIONS REGARDING FINDINGS

Our recommendations to strengthen the processes related to the Findings section are presented below. The recommendations are in the same order in which the findings were presented.

1. The Director, AD, should instruct the Director, OMS, to establish a policy and related procedures that require periodic measurement of the building temperatures to determine if the temperatures are consistent with those Boston Properties has agreed to provide at extra cost to ITC. These procedures should also provide for appropriate action should it be determined that the agreed-upon temperatures are not being provided.

2. The Director, AD, should instruct the Director, OMS (who also functions as the Property Management Officer) to take aggressive action to identify, report, and dispose of all excess property located in the Navy Yard storage space. This action should be taken in the near future so that all but the most necessary items are removed from ITC's control before the pending move to the new storage site is finalized. Also, once the storage is moved to the new site, the Director should periodically evaluate the storage space needs to ensure that lease charges are incurred only for the required amount of space.

3. The Director, AD, should instruct the Director, OFB, to provide the Director, OMS, the GSA rent bill to review and approve the GSA charges for leased space or initiate action to obtain a corrected billing as cost center manager for space charges. This action will result in space charges being treated in the same manner as other invoices processed by OFB for payment.

COMMISSION COMMENTS

The Director, AD, responded in writing to our recommendations (see appendix). He agreed with our recommendations and provided comments on the actions taken and those that are planned. These actions should result in

improved processes for managing ITC's space utilization charges, its disposal of excess property, and its needs for storage space.

SUGGESTIONS REGARDING OTHER MATTERS FOR CONSIDERATION

Our recommendations regarding other matters for consideration are presented below. The recommendations are in the same order in which the other matters for consideration were presented.

1. The Director, AD; the Director, OMS; and the OMS staff must continue to be actively involved with GSA and Boston Properties, where appropriate, in carrying out their building management responsibilities. They must also continue to be aggressive and strive for specificity in all future negotiations in areas such as rates charged and services provided. It is only through these continued actions that ITC can be assured it is receiving a fair value for its expenditures related to the management of its leased space.

2. The Director, AD, should reinforce to all ITC staff and, specifically, to AD staff, that in all instances where a purchase of goods and services is to be made (exclusive of imprest fund transactions), the appropriate and established procurement processes utilizing the services of the Procurement Division must be followed.

COMMISSION COMMENTS

The Director, AD, responded in writing to our suggestions regarding other matters for consideration (see appendix). He agreed with our suggestions and provided comments on the actions taken and those that are planned. These actions should result in improvements regarding ITC's building management responsibilities and its overall procurement activities.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

July 31, 1992

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Administration

SUBJECT: Draft Report, "Review of USITC's Space Utilization Charges

As requested by your memorandum dated June 15, 1992 (IG-P-032), submitted herewith is the Office of Administration's response to the subject draft audit report issued June 15, 1992. In accordance with Section 11 of the USITC Directive 1701, the Commissioners have had an opportunity to comment on the response and the Chairman has approved it with modifications (see attached memorandum). (Memo not included)

The Office of Administration agrees with all the audit recommendations. The attached response includes the actions to be taken and the target completion dates.

Please call me at 205-3131 or Bill Stuchbery at 205-3135 if you have any questions.

ATTACHMENTS

cc: Director, Office of Finance and Budget
Director, Office of Management Services

SPACE UTILIZATION CHARGES

RECOMMENDATION:

1. The Director of Administration should instruct the Director, OMS, to establish a policy and related procedures that require periodic measurement of the building temperatures to determine if the building temperatures are consistent with those Boston Properties has agreed to provide at extra cost to the ITC. These procedures should also provide for appropriate action should it be determined that the agreed upon temperatures are not being provided.

RESPONSE: AGREE

The Director of Administration has verbally instructed the Director, OMS to take appropriate action. The Director, OMS has initiated a procedure by memorandum (See Attachment 1). These procedures will include the criteria contained in the second finding of Cotton and Company's report. The procedures will include a requirement to document the periodic evaluation.

TARGET COMPLETION DATE: September 15, 1992

RECOMMENDATION:

2. The Director of Administration should instruct the Director, OMS (who also functions as the Property Management Officer) to take aggressive action to identify, report and dispose of all excess property located in the Navy Yard storage area. This action should be taken in the near future so that all but the most necessary items are removed from ITC's control before the pending move to the new storage site is finalized. Also, once the storage is moved to the new site, the Director should periodically evaluate the storage space needs to ensure that lease charges are incurred only for the required amount of space.

RESPONSE: AGREE

The Director of Administration has verbally instructed the Director, OMS to take aggressive action. GSA on 1/29/92 completed the transaction of disposing by sale all of ITC's useful excess property located in Building 197, Navy Yard. GSA has granted to the ITC approval to dispose of a significant amount of the remaining property which is no longer of any use to the Government. It will be disposed of prior to the move

to the new storage site in Forrestville, Maryland.

The Property Management Officer will maintain his attention regarding the most effective and efficient uses or return of leased storage space.

TARGET COMPLETION DATE: September 30, 1992

RECOMMENDATION:

3. The Director of Administration should instruct the Director, OFB, to provide the Director, OMS, the GSA rent bill to review and approve the GSA charges for leased space or initiate action to obtain a corrected billing as cost center manager for space charges. This action will result in space charges being treated in the same manner as other invoices processed by OFB for payment.

RESPONSE: AGREE

The Director of Administration has verbally instructed the Director, OFB to take appropriate action. He has instructed OFB staff to ensure that the Director, Office of Management Services is provided with: (1) a copy of the annual GSA rental charge estimates each year when they become available; and, (2) the GSA quarterly rent bill for approval in the same manner all other invoices are approved by cost center managers (See Attachment 2).

TARGET COMPLETION DATE: Completed

OTHER MATTERS FOR CONSIDERATION

RECOMMENDATION:

1. The Director of Administration, the Director, OMS, and OMS staff must continue to be actively involved with GSA and Boston Properties, where appropriate, in carrying out their building management responsibilities. They must also continue to be aggressive and strive for specificity in all future negotiations in areas such as rates charged and services provided. It is only through these continued actions that ITC can be assured it is receiving fair value for its expenditures related to the management of its leased space.

RESPONSE: AGREE

The Director, OMS, and OMS staff will continue to

aggressively pursue all its building management responsibilities.

TARGET COMPLETION DATE: Completed

SUGGESTION:

2. The Director of Administration should reinforce to all ITC staff and, specifically, to Office of Administration staff, that in all instances where a purchase of goods and services is to be made (exclusive of imprest fund transactions), the appropriate and established procurement processes utilizing the services of the Procurement Division must be followed.

RESPONSE: AGREE

Directive 3601, Contracting and Procurement Policies and Procedures, is currently being revised and will be reissued to close out a previous audit of procurement policies and procedures. At the time it is issued the Director of Administration will send a copy to all employees with a covering memorandum emphasizing their responsibility to adhere to the Directive. The Director of Administration through his regular staff meetings will reinforce this requirement within Administration. Additionally, this emphasis will be made through periodic procurement workshops for the designated liaisons in each office of the Commission.

TARGET COMPLETION DATE: September 30, 1992

ATTACHMENT 1

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

MEMORANDUM

July 2, 1992

TO: Kristin F. Krake, Chief
Administrative Services Division

FROM: David E. Spencer, Director
Office of Management Services

SUBJECT: Above Standard Temperature Validation

It is the policy of the USITC that appropriate action should be taken to ensure that the Government is receiving fair value for the funds it expends.

The purpose of this memorandum is to direct you to establish appropriate procedures to ensure that the USITC is receiving temperatures consistent with those Boston Properties has agreed to provide at extra cost. Said procedures should include but are not limited to random sampling at random times and in random locations. Maximum use of alternate work schedule employees should be utilized to minimize costs.

Please report to me no later than August 1, 1992 regarding action taken.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

June 18, 1992

MEMORANDUM

TO: Chief, Budget Division
Acting Chief, Finance Division

FROM: Director, Office of Finance and Budget

SUBJECT: Certification of Rental Charges

Please take appropriate action to ensure that: (1) a copy of the annual GSA rental charge estimates are provided to the Director, Office of Management Services each year when they become available; and (2) the GSA quarterly rent bill is forwarded to the Director, Office of Management Services for approval in the same manner all other invoices are approved by cost center managers.