



U.S. Securities and Exchange Commission

Office of Inspector General

Office of Audits

Review of the Commission's Restacking Project



March 31, 2009
Report No. 461



OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

MEMORANDUM

March 31, 2009

To: Diego Ruiz, Executive Director
Sharon Sheehan, Associate Executive Director, Office of
Administrative Services

From: H. David Kotz, Inspector General, Office of Inspector General *HDK*

Subject: *Review of the Commission's Restacking Project*, Report No. 461

This memorandum transmits the U.S. Securities and Exchange Commission, Office of Inspector General's (OIG) final report detailing the results of our review of the Commission's restacking project. The review was conducted by the OIG as part of our continuous effort to assess the management of the Commission's programs and operations.

The final report contains four recommendations which, if implemented, will strengthen controls over projects such as the restacking project. Management concurred with three recommendations and does not concur with one recommendation.

Should you have any questions regarding this report, please do not hesitate to contact me. We appreciate the courtesy and cooperation that you and your staff extended to our auditor during this review.

Attachment

cc: Didem Nisanci, Chief of Staff, Office of the Chairman
Kayla J. Gillan, Deputy Chief of Staff, Office of the Chairman
Darlene L. Pryor, Management Analyst, Office of the Executive Director

Richard J. Hillman, Managing Director, Financial Markets and Community
Investment, Government Accountability Office

Review of the Commission's Restacking Project

Executive Summary

Background

We initiated this review because of feedback received from numerous staff of the U.S. Securities and Exchange Commission (SEC or Commission) complaining about the ongoing restacking project and expressing the concern that the restacking project was not properly approved and initiated, did not serve a useful purpose, and was a waste of Commission resources.

In 2006, the Commission moved into new buildings at its headquarters location in Washington, D.C., known as the Station Place 1 and 2 buildings (Station Place).¹ In May 2005, the SEC disclosed to a U.S. House of Representatives Subcommittee that it had identified unbudgeted costs of approximately \$48 million, attributable to misestimates and omissions of budget costs associated with the internal construction of the headquarters facility and improvements in newly-leased New York and Boston facilities.

As a result of this disclosure, the House Subcommittee requested that the Government Accountability Office (GAO) conduct a review of the circumstances that led to the unbudgeted costs. The GAO review concluded that the primary cause of the misestimates and omissions of the SEC were: (1) ineffective management controls over budget formulation and review for the construction projects; (2) an inadequate administrative infrastructure; and (3) the nature of these facilities projects.

As a result of the review, the GAO made several recommendations, including that the SEC should establish accountability at both the staff and management levels for the reasonableness of budget estimates, improve communication and consultation with operating units and staff regarding space and property needs, and evaluate options for budget and facilities management activities in terms of number of staff and expertise needed. The SEC has indicated that it took actions to implement the GAO's recommendations.

Notwithstanding the significant costs expended by the SEC in connection with the moves at headquarters, New York and Boston, including the approximately

¹ Commission headquarters includes staff located at Station Place, as well as staff located at the SEC's Operations Center in Alexandria, Virginia. Throughout this report, unless noted otherwise, the term "headquarters" refers to Station Place.

\$48 million in unbudgeted costs, and the criticism from the GAO regarding the SEC's management controls over budget formulation and review, there reportedly was widespread sentiment in favor of restacking (*i.e.*, changing the configuration of the layout of the offices and divisions) almost from the time the Commission moved into its new headquarters building.

The plan utilized when the SEC initially moved into its new headquarters buildings was a "vertical stack" configuration of staff, pursuant to which staffs of the Commission divisions and offices were spread out on multiple floors. The purpose of this vertical configuration was to enable staff from various divisions and offices to commingle on the same floor, instead of keeping staff in a single division or office located close together on the same floor.

Almost immediately after the SEC decided to utilize this vertical approach, SEC managers decided that a horizontal approach was preferable, so that divisions and offices would not be split up across multiple floors. As a result, in or about February 2007, the Chairman asked the Executive Director to explore the idea of a restacking of Commission staff, including performing a cost-benefit study.

There is no record, however, of the Executive Director actually conducting a cost-benefit analysis or feasibility study, although the Executive Director stated that the monetary costs of the move were analyzed and discussed in senior staff and other meetings. There was also no documented request for the restacking project although, according to the Executive Director, the normal procedure in setting budget priorities was for the Chairman's direction to be made verbally.

The restacking project was approved in the second or third quarter of Fiscal Year 2007 and included the relocation of approximately 1,750 employees on the second through the ninth floors of Station Place, in nine move phases. In addition, the project required 40,000 square feet of construction. In September 2007, a contract for the restacking project was awarded to Project Solutions Group (PSG) initially for \$1,303,470. The cost of construction drawings and permits, and an equitable adjustment for the Government's delay have increased this contract to \$1,751,414. In September 2008, an additional contract, for the construction associated with the restacking, was awarded to QSS International (QSSI) for \$1,345,500 to renovate 40,000 square feet of space in Station Place 1 and 2. Another contract, for construction administration, was awarded to Matrix Settles, the architect on the restacking project with PSG, for \$84,150.

The initial government estimate for the restacking project in 2007 was \$2,332,000, but did not include any amount for construction. As of February 2009, the funding obligated in connection with the restacking project, including construction, was approximately \$3.19 million. As of November 2008, the total cost of the completed project was estimated at \$3.9 million (which had been reduced from an estimate of approximately \$4.6 million in June 2008). Also, the

project completion date has been moved back nine months (from September 2008 to June 2009).

Objectives

The objectives of our review were to assess whether the restacking project was conducted in accordance with applicable policies and procedures and whether an appropriate analysis or study was conducted to determine if the restacking project was cost effective and beneficial to the agency.

This review was not conducted in accordance with generally accepted government auditing standards. As a review, there was no requirement to follow generally accepted government auditing standards.

Results

Immediately after the SEC incurred significant costs and budget overruns in connection with the move into its new headquarters building in 2005, there reportedly was widespread sentiment that the configuration of the space in the new building to stack the staff in a vertical approach should be changed. This vertical approach, which former Chairman William Donaldson's Managing Executive for Operations had championed, was intended to enable staff from various divisions and offices to commingle on the same floor, resulting in greater communication and coordination among agency staff as a whole. Senior managers, however, believed the vertical configuration impeded effective communication and collaboration among staff within divisions and offices. As a consequence, in or about February 2007, the Chairman asked the Executive Director to explore the idea of restacking the Commission staff.

Although a cost-benefit analysis was supposed to have been conducted, there is no record of any such analysis or feasibility study being done. There was also no survey or study conducted to determine if the existing configuration was actually impeding communication, or any formal analysis of whether the cost and disruption caused by the project would outweigh the perceived benefits of improved communication. Further, according to information obtained during our review, the former head of the Office of Administrative Services was not at all in favor of the project, but was given "marching orders" to go forward with it anyway.

During our review, we sent a survey to approximately 2,100 Commission staff in headquarters buildings Station Place 1 and 2, as well as the Operations Center, to obtain their views on how the restacking to date has improved communication and effectiveness.² The survey found that staff were largely satisfied with the location of their workspace prior to the restacking. In addition, we found that most of the staff did not feel dissatisfied with the time it took to communicate with

² We included Operations Center staff to obtain their opinions of the project. Some Operations Center staff were relocated to Station Place in connection with the restacking project.

either their co-workers or supervisors prior to the restacking, nor did they feel that the prior configuration of their office space impeded their productivity. In addition, the survey showed that staff who have already moved to their permanent workspace felt, for the most part, that the move had no impact on their ability to communicate or their productivity. In addition, an overwhelming majority of Commission staff who responded to the survey felt that any benefits of the restacking project were not worth the costs and disruptiveness to their work.

Additionally, our review found that prior to undertaking the restacking project, the SEC failed to comply with Office of Management and Budget (OMB) requirements and guidance for analyzing and justifying major capital investments and did not complete the form that had to be submitted to OMB for such projects. Our review also noted that the SEC policies and procedures for space management, particularly in regard to headquarters facilities projects, are unofficial and quite sparse. Moreover, the single requirement in this document that would have applied to the restacking project does not appear to have been complied with.

Thus, we conclude that there are serious questions about whether the restacking project was necessary and whether it had any meaningful impact on communication among or productivity of the staff. We also conclude that the SEC should have conducted a formal cost-benefit analysis of the restacking project and, had such an analysis been prepared, it may have led to the conclusion that the restacking project was not worth the costs and disruption to the Commission.

Summary of Recommendations

We recommend that the Office of Administrative Services (OAS) carefully review the results of the OIG's survey and determine if any changes should be made to the restacking project based upon the responses. We further recommend that the OAS conduct another survey after the restacking process has been fully completed to understand the effects and impacts of the project better and determine what, if any, changes should be implemented.

In addition, we recommend that, in light of the fact that the restacking project is still ongoing; the OAS should conduct appropriate analysis to complete and submit to OMB the required capital planning documentation for the remainder of the project. Finally, we recommend that the OAS, in coordination with the Office of Executive Director and using SEC information technology capital planning requirements as a guide, develop and adopt guidance for space investments that is commensurate with OMB's guidance for capital investments.

TABLE OF CONTENTS

Executive Summary	ii
Background	ii
Objectives	iii
Results	iii
Summary of Recommendations	iv
 Table Of Contents.....	 v
 Background and Objectives	 1
Background	1
The SEC’s Previous Moves and Disclosure to Congress of Significant Unbudgeted Costs for 2005 and 2006	1
GAO Review of 2005 and 2006 Unbudgeted Costs.....	1
Headquarters Restacking Project	2
The Perceived Need for and Decision to Undertake the Restacking Project	2
The Initiation and Progress of the Restacking Project.....	4
Objectives	5
 Findings and Recommendations.....	 6
Finding 1: The OIG Survey Showed that the Headquarters Configuration Prior to the Restacking Project Was Not Necessarily Undesirable and that the Restacking Project Has Not Made a Meaningful Improvement in Communication Among or Productivity of the Staff	6
The Purpose of the Restacking Project	6
The OIG Survey Questionnaire to Commission Staff.....	7
The Methods of Communication Most Frequently Used by SEC Staff.....	7
Table 1: Q. 15 - Ranking of Methods of Communication Most or Least Often Used to Communicate With Non-Management Staff	7
Table 2: Q. 16 - Ranking of Methods of Communication Most or Least Often Used to Communicate With Management Staff.....	8
Staff Satisfaction with Communication Before and as a Result of the Restacking	9
Table 3: Q. 13 - How do you feel about the time it took to communicate with staff (non-management and management) in your organization <i>before</i> the restacking project began?	9
Table 4: Q. 14 - How do you feel about the time it now takes to communicate with staff (non-management and management) in your organization since moving to your permanent workspace?.....	10
Staff’s Satisfaction with Previous Space Before and as a Result of the Restacking	11

Table 5: Q. 17- How did you feel about the location of your workspace <i>before</i> the restacking project was initiated?	11
Table 6: Q. 19- How do you feel about the location of your permanent <i>new</i> workspace?	11
Perceived Productivity of Staff Before and as a Result of the Restacking ...	12
Table 7: Q. 24- “To what extent did having the alignment in place <i>prior to</i> the restacking project impede your organization’s productivity? ..	12
Table 8: Q. 25- How has the move to your temporary workspace impacted your productivity?	12
Table 9: Q. 26- How has the move to your permanent new workspace impacted your productivity?.....	13
Perceived Effectiveness and Efficiency Before and as a Result of the Restacking.....	13
Table 10: Q. 28- In your opinion, to what extent will the alignment after the restacking project help to improve the effectiveness and/or efficiency of your office/division?.....	13
Communication of the Purpose of the Restacking	14
Table 11: Q. 15- How well was the purpose of the restacking project communicated to you?	14
Staff Views on Whether the Restacking Project Was Worth the Costs and Disruption.....	15
Table 12: Q. 31- In your opinion, are the restacking project benefits to your office/division worth the cost and time that it has taken for construction, packing, moving, and unpacking, etc.?	15
Recommendation 1.....	17
Recommendation 2.....	17

Finding 2: The SEC Did Not Comply with OMB Circular, A-11, Part 7, and Did Not Perform Sufficient Analysis to Support the Decision to Approve the Restacking Project.	18
OMB Circular A-11, Part 7	18
The Capital Programming Guide	19
Lack of Documentation and Analysis for the Restacking Project.....	21
Recommendation 3.....	23

Finding 3: The SEC Does Not Have Sufficient Policies and Procedures in Place to Ensure that Major Capital Projects Like the Restacking Project are Adequately Analyzed and Supported.	23
Executive Order 13327	23
The Commission’s Unsigned Space Management Regulation, SECR 5-8.....	24
Information Technology Capital Planning Policies and Procedures.....	24
Inadequate Policies and Procedures for Real Property Projects	25
Recommendation 4.....	26

Appendices

Appendix I: Abbreviations and Acronyms27

Appendix II: Scope and Methodology28

 Scope.28

 Methodology.28

 Internal/Management Controls28

 Use of Computer-Processed Data.....28

 High-Risk Areas.....29

 Prior Audit Coverage29

Appendix III: Criteria30

Appendix IV: List of Recommendations31

 Recommendation 131

 Recommendation 231

 Recommendation 331

 Recommendation 431

Appendix V: Management Comments32

Appendix VI: OIG Response to Management Comments.....42

Background and Objectives

Background

The SEC's Previous Moves and Disclosure to Congress of Significant Unbudgeted Costs for 2005 and 2006

Beginning in 2001, the U.S. Securities and Exchange Commission (SEC or Commission) entered into leases for space in new facilities in Washington, D.C. for its headquarters employees.³ Subsequently, the SEC also arranged for improvements in new leased facilities in New York City and Boston. The SEC originally estimated a total tenant build-out cost of approximately \$97 million for the new headquarters facility (including both Station Place buildings), of which the SEC would pay \$47 through appropriated funds.⁴ In May 2005, the SEC disclosed to the Subcommittee on Science, the Departments of State, Justice, and Commerce, and Related Agencies of the House Committee on Appropriations that it had identified unbudgeted costs for Fiscal Years 2005 and 2006 of approximately \$48.7 million. These unbudgeted costs were attributable to misestimates and omissions of budget costs associated with the construction of the facility in Washington, D.C. and improvements in the New York and Boston facilities, resulting in a requested reprogramming of funds for 2005 and 2006.⁵

GAO Review of 2005 and 2006 Unbudgeted Costs

As a result of this disclosure, Congress requested that the Government Accountability Office (GAO) provide a briefing on the facilities management and budgeting issues of the SEC. From July through August of 2005, the GAO conducted a review of the circumstances that led to the unbudgeted costs and provided a formal briefing document to the Chairman of the Subcommittee on Science, the Departments of State, Justice, and Commerce, and Related Agencies on October 20, 2005, on the results of its review.⁶

The GAO concluded that the primary causes of the misestimates and omissions of the SEC were: (1) ineffective management controls over budget formulation and review for the construction projects; (2) an inadequate administrative

³ The lease for Station Place 1 was awarded to Louis Dreyfus Properties, LLC on May 29, 2001. The SEC entered into a lease with 600 Second Street Holdings LLC for Station Place 2 on November 26, 2002.

⁴ The remainder of the \$97 million was to be covered by the building owner through tenant allowances.

⁵ Of the \$48.7 million in unbudgeted costs, \$19.3 million were attributable to the construction of the new headquarters facility, while \$29.4 million resulted from the lease improvements in New York City and Boston.

⁶ See GAO-06-61R SEC Project Management, Briefing to The Honorable Frank R. Wolf, subject: U.S. Securities and Exchange Commission: Building Project Management and Related Budget Planning, October 20, 2005.

infrastructure; and (3) the nature of these facilities projects. Specifically, the GAO found that the SEC did not include any improvement costs for its newly-leased office space in New York for budget years 2005 and 2006, and included unrealistically low costs for improvements in the new Boston office and construction costs for the headquarters building. The GAO noted that the estimates for Boston were based on a “rule-of-thumb” amount that had not been updated annually and was not adjusted for current labor and materials costs. The GAO further observed that the SEC’s estimates for the headquarters building had not been updated in 18 months and, therefore, did not reflect increased costs for construction materials, security and technology.

The GAO found that there was a lack of oversight and quality assurance over project management and budget planning at the SEC for these projects, as well as a lack of internal controls over budget estimates. In addition, according to the GAO, there was inadequate consultation with the Commissioners and key divisions regarding space needs, resulting in change orders and additional costs. The GAO also found that there was insufficient institutional expertise and resources in facilities management within the SEC.

As a result of the review, the GAO made several recommendations for improvement, including that the SEC should establish accountability at both the staff and management levels for the reasonableness of budget estimates, improve communication and consultation with operating units and staff regarding space and property needs, and evaluate options for budget and facilities management activities in terms of number of staff and expertise needed. The SEC indicated that it had taken steps to implement the GAO’s recommendations.

Headquarters Restacking Project

The Perceived Need for and Decision to Undertake the Restacking Project

Notwithstanding the significant costs expended by the SEC in connection with the previous moves at headquarters, New York and Boston, including the approximately \$48 million in unbudgeted costs, and the criticism from the GAO regarding the SEC’s management controls over budget formulation and review, according to the SEC’s Executive Director, there was widespread sentiment in favor of restacking (*i.e.*, changing the configuration of the layout of the offices and divisions) almost from the time the Commission moved into its new headquarters buildings.

SEC senior management officials informed us that the plan utilized by Chairman Donaldson’s Managing Executive for Operations when the SEC initially moved into its new headquarters building was a “vertical stack” configuration of staff. In a vertical configuration, the staffs of the larger Commission divisions and offices (e.g., the Divisions of Corporation Finance and Enforcement) were located on multiple floors. The intended purpose of this configuration was to enable staff from various divisions and offices to commingle by being located on the same

floor, instead of keeping staff in a single division or office located close together on the same floor. The stated reasons for this approach were to “cross-pollinate” the agency and break down silos” by locating divisions or offices on multiples floors.⁷

However, we were informed that almost immediately after the SEC decided to utilize this vertical approach, SEC managers determined that a horizontal approach was preferable, so divisions and offices would not be split up across multiple floors.⁸ Specifically, the Divisions of Enforcement and Corporation Finance were spread out over five floors each, and “[t]he Office of the Chief Accountant was spread out over two floors, in spite of it being a small office.”⁹ We were informed that SEC managers believed that the “vertical” approach discouraged effective communication and collaboration, since staff would often have to travel to different floors for meetings with the co-workers in their division or office, group, or branch with whom they worked most closely.

Managers from several Commission divisions and offices expressed their concerns to former Chairman Cox about the configuration of staff in the headquarters building. In or about February 2007, the Chairman asked the Executive Director to explore the idea of a restacking of Commission staff. The Executive Director was to perform a cost-benefit study regarding the restacking and report the results to the Chairman. According to two February 26, 2007 memoranda, Chairman Cox “asked [the] Executive Director to study and report back to [him] on the costs and benefits that would be involved” with relocating divisions and offices within the Commission’s headquarters building.¹⁰

There is no record of the Executive Director actually having conducted a cost-benefit analysis or feasibility study, although the Executive Director stated that the monetary costs of the move, as well as potential drawbacks, were analyzed and discussed extensively in senior staff and other meetings. According to the Executive Director, the opinions expressed by the senior staff as to the desirability of restacking “were overwhelmingly positive.”¹¹ The Executive Director noted that a feasibility study was not conducted because the benefits of conducting the restacking were deemed to be significantly greater than the one-year cost of the project, although it is unclear how the Executive Director arrived at this conclusion without conducting the study.

⁷ Response of the SEC Executive Director to OIG Questions Concerning the Restacking Project, page 1.

⁸ According to the SEC’s Executive Director, the vertical configuration plan was implemented against the wishes of much of the Commission’s senior management.

⁹ Response of the SEC Executive Director to OIG Questions Concerning the Restacking Project, page 1.

¹⁰ Memorandum from Chairman Christopher Cox to the Chief Accountant, dated February 26, 2007, pages 1-2, and Memorandum from Chairman Christopher Cox to the Director of the Division of Corporation Finance, dated February 26, 2007, page 2.

¹¹ Response of the SEC Executive Director to OIG Questions Concerning the Restacking project, at 2.

There was also no documented request for the restacking project although, according to the Executive Director, the normal procedure in setting budget priorities was for the Chairman's direction to be made verbally.

The Assistant Director for Real Property in the Office of Administrative Services (OAS) informed the Office of Inspector General's (OIG) in an interview conducting during the course of the review that the former head of OAS was not at all in favor of the restacking and referred to it as a "thankless task." Further, the Assistant Director for Real Property stated that the former head of OAS had "marching orders" from above (possibly the Executive Director's Office or the Chairman's Office) to undertake the project. Another source in OAS informed the OIG that OAS was asked to do the restacking by the Executive Director's Office and that the former head of OAS did not want to consider the restacking project initially because there were so many other projects ahead of it. The Assistant Director for Real Property further stated that no cost benefit analysis was performed, no other alternatives were considered,¹² and the staff were not contacted to determine if they were in favor of the restacking.

The Initiation and Progress of the Restacking Project

The restacking project was approved in the second or third quarter of Fiscal Year 2007, and included the relocation of approximately 1,750 employees on the second through ninth floors of the headquarters building, in nine move phases. In addition, the project required 40,000 square feet of construction, as well as the moving of numerous employees to temporary office space during the construction. The moves were scheduled to begin in the fall of 2008 and were to be completed during 2009.

In September 2007, the SEC awarded a contract for the restacking project to Project Solutions Group (PSG) in the amount of \$1,303,470, with two additional options available.¹³ The scope of the initial contract included managing the planning and execution of the restacking project, as well as the supervision and provision of moving services. The contractor was required to provide a master project plan and schedule for the restacking. Also, the contractor was to provide cost estimates for renovations and furniture. The cost of construction drawings and permits, and an equitable adjustment for the Government's delay, have increased the total amount of the contract to \$1,751,414.¹⁴ The restacking

¹² The Executive Director stated that the alternatives of doing nothing, maintaining the status quo with variations, such as additional training, or doing a consolidation of only some offices were considered but rejected. Response of SEC Executive Director to OIG Questions Concerning the Restacking Project, page 3.

¹³ One company, Facilities Solutions Group, protested the award to PSG. The SEC's contracting officer for the PSG contract denied the protest.

¹⁴ We were informed that the Government's delay was due to failed negotiations with the Station Place property owner over liability issues related to obtaining a construction general contractor,

project's initial completion date (including all moves) was scheduled for September 2008, one year from the award in September 2007.

In September 2008, the SEC awarded a separate contract for the construction associated with the restacking project to QSS International (QSSI) for \$1,345,500 to renovate 40,000 square feet of space in the Headquarters building, 26,000 square feet in Station Place 1 and 14,000 square feet in Station Place 2. We were informed that the construction was on schedule and was to be completed by March 2009. Another separate contract for construction administration was awarded to Matrix Settles, the architect on the restacking project with PSG, for \$84,150.

The initial government estimate for the restacking project was \$2,332,000. This total included \$832,000 for program management and \$1,500,000 for moving services. Moving services were estimated at \$600 per person for 2,500 people. The initial estimate included no construction costs, and the restacking project was supposed to have been completed in one year. The amount obligated as of February 2009, including construction costs, was approximately \$3.19 million,¹⁵ although documents we obtained showed that anticipated construction costs were reduced during the course of the project, lowering the estimated total project costs from approximately \$4.6 million to approximately \$3.9 million. Also, the project completion date has been moved back nine months -- from September 2008 to June 2009.

Objectives

Objectives. The objectives of our review were to assess whether the restacking project was conducted in accordance with applicable policies and procedures, and whether an appropriate analysis or study was conducted to determine if the restacking project was cost effective and beneficial to the agency.

as it was originally planned that the landlord would retain the construction contractor. After the negotiations failed, the SEC was required to enter into a contract for the project construction.

¹⁵ Of this amount, approximately \$1.84 million in costs have been incurred by the overall project manager, PSG, and the architect, Matrix Settles; the remaining \$1.35 million in costs have been incurred by QSSI, the construction contractor.

Findings and Recommendations

Finding 1: The OIG Survey Showed that the Headquarters Configuration Prior to the Restacking Project Was Not Necessarily Undesirable and that the Restacking Project Has Not Made a Meaningful Improvement in Communication Among or Productivity of the Staff

Our survey of Commission staff indicated that overall, Commission staff were satisfied with their space configuration prior to the restacking project and do not believe the project has resulted in more desirable office space, has improved communications or effectiveness, or was worth the time and cost of the restacking.

The Purpose of the Restacking Project

The Office of Administrative Services (OAS) informed Commission staff that the purpose of the restacking project was to "... realign [d]ivisions/[o]ffices 'horizontally' at Station Place to promote internal communications and improve operational effectiveness for the Commission."¹⁶ According to a newsletter provided to Commission staff in connection with the restacking project, divisions and offices were frustrated by the time it took to communicate with people in their own divisions and offices.¹⁷ A significant anticipated result of the restacking would be to consolidate the divisions and offices into contiguous space so communication would be more efficient. According to a subsequent newsletter, locating divisions and offices together would also lead to improved efficiency and productivity.¹⁸

In the absence of documented analyses to support the assertions that restacking would promote internal communications and improve operational effectiveness for the SEC, we surveyed Commission staff for their reactions to the restacking in terms of the goals to improve communications and efficiency and effectiveness.

¹⁶ Restacking Project – Restacking Purpose and Scope, located on the Commission's Insider webpage.

¹⁷ "The Restacker," Volume 1, Issue 1, September 10, 2008, page 2.

¹⁸ "The Restacker," Volume 1, Issue 2, October 3, 2008, page 2.

The OIG Survey Questionnaire to Commission Staff

We distributed our questionnaire to 2,164 Commission headquarters staff at Station Place buildings 1 and 2, and the Operations Center. We included staff who were not impacted by the restacking to provide them with an opportunity to express their views. However, we eliminated these responses from our survey results whenever necessary (e.g., by using questionnaire responses such as “Not Applicable,” or “...did not move.”). A total of 1,150 staff began our survey and 1,065 (92.6%) “completed” it.¹⁹

The Methods of Communication Most Frequently Used by SEC Staff

Our review found that the restacking project was primarily initiated because senior staff members believed that communication among staff was impaired by the “vertical” configuration of the Station Place buildings. In our survey, we asked staff about the methods of communication they most often used to communicate with both non-management and management staff.

To determine the methods by which staff most often communicated with each other, Question 15 of our survey asked the staff to rank the methods of communication in terms of most or least often used to communicate with *non-management* staff. Ratings ranged from 1 (Least Often) to 4 (Most Often).

Table 1: Q. 15 - Ranking of Methods of Communication Most or Least Often Used to Communicate With Non-Management Staff

Number of Responses: 1,071

	E-Mail (Includes Blackberry)	Face-to- Face	Telephone (Includes Mobile Phones)	MicroSoft SharePoint²⁰	Fax
Average Rating	3.33	2.98	2.62	1.13	1.08

Source: OIG Generated

Similarly, question 16 of our survey asked the staff to rank the methods of communication in terms of most or least often used to communicate with *management* staff. Ratings ranged from 1 (Least Often), to 4 (Most Often).

¹⁹ For the purposes of our survey, “completed” only means that the recipient clicked on the “done” button at the end of the questionnaire; all of the questions may or may not have been answered.

²⁰ Microsoft SharePoint is a browser-based collaboration and document management platform that can be used to host web sites that access shared workspaces and documents.

Table 2: Q. 16 - Ranking of Methods of Communication Most or Least Often Used to Communicate With Management Staff
Number of Responses: 1,073

	E-Mail (Includes Blackberry)	Face-to-Face	Telephone (Includes Mobile Phones)	MicroSoft SharePoint	Fax
Average Rating	3.34	2.98	2.43	1.09	1.05

Source: OIG Generated

The survey results indicated that the SEC staff communicated most often via e-mail and utilized the telephone quite a bit as well. Although survey participants did rank face-to-face meetings as the second highest communications medium, the survey results indicated that the physical location of staff is not as important when they use e-mail and telephone to communicate. Staff who are not closely located together may send an e-mail or call each other to communicate, which is, for example, what telecommuters must do to communicate with their co-workers and managers.

In addition to providing ratings of various communications methods, the survey afforded staff the opportunity to provide written comments. Several of the 232 comments from staff regarding the impact of the restacking on communications (submitted in response to survey question 12) also conveyed the opinion that staff effectively utilize the telephone and e-mail to communicate, or that face-to-face communications are not critical to job performance. These comments included the following statements:

- Since most communications seems to be by phone and e-mail, the rationale for this project seems unsupportable. I was at DOJ in a building in which the attorneys in our office were in offices on five different floors of the building. It is really not that difficult to take the elevator from one floor to another if you must have a face-to-face meeting with someone.
- ... Most people communicate by email anyway. An office mate across the hall, email [sic] me rather than coming over and talking. Most employees telework. ...
- I work at home 3 days a week and talk to very few people during the 2 days per week that I'm in the office as my job does not require it. ...

Thus, our survey found that email, not face to face meetings, is the most frequently used method of communication among staff, and that email and telephone, as well as face to face meetings, are frequently-used communication methods.

Staff Satisfaction with Communication Before and as a Result of the Restacking

As noted above, the newsletter provided to Commission staff in connection with the restacking indicated that divisions and officers were frustrated by the amount of time it took to communicate with staff in their own divisions and offices.²¹ Accordingly, we surveyed the staff to determine the level of satisfaction among the staff regarding communication both prior to and as a result of the restacking project. Question 13 of our survey asked: “How do you feel about the time it took to communicate with staff (non-management and management) in your organization *before* the restacking project began?”

Table 3: Q. 13 - How do you feel about the time it took to communicate with staff (non-management and management) in your organization *before* the restacking project began? Number of Responses: 745

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied
25%	41%	21%	13%

Source: OIG Generated

The responses above suggest that a considerable majority of the staff (66%) were satisfied with communications before the restacking. To compare, Question 14 asked: “How do you feel about the time it now takes to communicate with staff (non-management and management) in your organization since moving to your permanent new workspace?” The percentages of staff who were satisfied or dissatisfied with communications *after* moving to permanent workspace were as follows:

²¹ “The Restacker,” Volume 1, Issue 1, September 10, 2008, page 2.

Table 4: Q. 14 - How do you feel about the time it now takes to communicate with staff (non-management and management) in your organization since moving to your permanent workspace? Number of Responses: 392²²

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied
22%	46%	17%	15%

Source: OIG Generated

While 68% of the staff who responded to this question were either “very satisfied,” or “somewhat satisfied” with the communication in their organizations after moving to new permanent workspace, the survey found that a similar percentage (66%) were satisfied with their communications before they moved. These results suggest that, for the staff who responded to this question, the restacking had little impact on their satisfaction with communications in their organizations. This view was supported by some of the comments we received from the survey participants (e.g., “Most of my communications are with the people w/in my AD group, and we currently all sit near each other, and will continue to sit near each other in the future. ... ”; “Just because we are in the same office doesn’t mean [communication] is better. Sometimes you work with other offices and it is better to be on the floor with the office you work with rather than the office you work for.”). Some staff even indicated communication would be worse after the restacking (e.g., “The supervisors who I routinely meet with are closer to me now, one floor right above me, than they will be when we are all on the same floor”; “As a result of the restacking, our group will be much more spread out and so communication within our group will be worse not better. ... ”).

Our survey results do not appear to contradict entirely the assertion that divisions and offices were sometimes frustrated by the time it took to communicate with people in their own divisions (34% of the staff who responded to Question 13 were either “very dissatisfied,” or “somewhat dissatisfied” with communications before the restacking project). However, the survey results suggested that the restacking had little impact on this issue (32% were either “very dissatisfied,” or “somewhat dissatisfied” *after* they moved).

²² According to management, only 215 staff members had been moved to permanent space as of March 12, 2009. However, most, if not all, staff who are moving to new permanent space as part of the restacking project are already aware of their new office locations. Moreover, another question in the survey (Question 12) produced similar results to those of Question 14. Question 12 inquired, “In your opinion, to what extent will the purposes of the restacking project of aligning SEC staff from the same offices and divisions on the same floor (horizontally) help to improve communication in your office/division?” Of the 1,031 staff who responded to this question, the highest percentage (48%) felt the restacking would improve communications “to little or no extent”; 22% felt it would improve communications “somewhat”; 17% felt it would improve communications “to a great extent”; and only 8% felt it would improve communications “to a very great extent.” In addition 4% felt the restacking would actually harm communications.

Staff's Satisfaction with Previous Space Before and as a Result of the Restacking

The restacking project's intent (to relocate staff to improve communications, productivity and effectiveness) implies that the staff were dissatisfied with their current locations and, therefore, improvements were needed. To determine the extent to which the staff believed their spaces needed improvement, Question 17 of our survey asked: "How did you feel about the location of your workspace *before* the restacking project was initiated?" The percentages of staff who were satisfied or dissatisfied with the location of their *previous* workspaces are as follows:

Table 5: Q. 17- How did you feel about the location of your workspace before the restacking project was initiated? Number of Responses: 1,043

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied
57%	32%	7%	4%

Source: OIG Generated

The responses above suggest that the overwhelming majority of staff (89%) were satisfied with their spaces before the restacking, with a sizeable majority (57%) being very satisfied. To compare, Question 19 asked: "How do you feel about the location of your permanent *new* workspace?" The percentages of staff who were satisfied or dissatisfied with the location of their permanent *new* workspaces were as follows:

Table 6: Q. 19- How do you feel about the location of your permanent new workspace? Number of Responses: 615

Very Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Very Dissatisfied
24%	36%	21%	18%

Source: OIG Generated

These results suggest that the staff were actually more satisfied with their workspaces before the restacking (89%) than after they moved to permanent new workspaces (60%). Also, the percentage of staff who were "very satisfied" decreased sharply for the new permanent workspaces (from 57% before to 24% afterward). Also, the percentage of staff who were "very dissatisfied" rose significantly for the new permanent workspaces (from 4% before to 18% afterward).

Perceived Productivity of Staff Before and as a Result of the Restacking

As noted above, according to the “Restacker” newsletter, the restacking was expected to lead to improved efficiency and productivity.²³ This implies that the previous workspaces needed improvement because they impeded productivity of the workforce.

To determine whether the staff felt that their previous workspaces impeded productivity, Question 24 of our survey asked: “To what extent did having the alignment in place *prior to* the restacking project impede your organization’s productivity?” The percentages of staff who believed their previous workspaces impeded productivity were as follows:

Table 7: Q. 24- To what extent did having the alignment in place *prior to* the restacking project impede your organization’s productivity? Number of Responses: 685

To a Great Extent	To Some Extent	To Little or No Extent
7%	26%	68%

Source: OIG Generated

The survey revealed that a large majority of the staff (68%) felt that the alignment in place prior to the restacking had not impeded their productivity much, if at all. While 33% of the survey participants stated that their productivity had been impeded, only 7% felt that their previous workspaces impeded productivity to a great extent.

To determine how the staff felt about productivity as a result of the restacking, we asked the staff about both the move to temporary space and the subsequent move to permanent workspace. Question 25 of our survey asked: “How has the move to your temporary workspace impacted your productivity?”

Table 8: Q. 25- How has the move to your temporary workspace impacted your productivity? Number of Responses: 218

Greatly Increased Productivity	Increased Productivity	No Noticeable Impact on Productivity	Decreased Productivity	Greatly Decreased Productivity
1%	8%	59%	26%	6%

Source: OIG Generated

²³ “The Restacker,” Volume 1, Issue 2, October 3, 2008, page 2.

To obtain the staff's views on the impact of the move to permanent space on productivity, Question 26 of our survey asked: "How has the move to your permanent new workspace impacted your productivity?"

Table 9: Q. 26- How has the move to your permanent new workspace impacted your productivity? Number of Responses: 155

Greatly Increased Productivity	Increased Productivity	No Noticeable Impact on Productivity	Decreased Productivity	Greatly Decreased Productivity
4%	12%	65%	14%	6%

Source: OIG Generated

These results suggest that the staff believe the move to temporary workspace had decreased their productivity (32%) to a much greater degree than it increased (9%) it. These results further suggest that slightly more staff actually felt that their productivity decreased (20%) as a result of the move to permanent new workspace than believed the project increased (16%) it. In addition, the largest percentages of staff who responded indicated that neither their temporary nor their permanent workspaces made a noticeable difference in productivity (59% for temporary workspaces and 65% for permanent workspaces). Thus, the survey results raise serious questions concerning whether the restacking project has actually improved productivity.

Perceived Effectiveness and Efficiency Before and as a Result of the Restacking

To determine how staff felt about the impact of the restacking on effectiveness and efficiency in their organizations, Question 28 of our survey asked: "In your opinion, to what extent will the alignment after the restacking project help to improve the effectiveness and/or efficiency of your office/division?" The results were as follows:

Table 10: Q. 28- In your opinion, to what extent will the alignment after the restacking project help to improve the effectiveness and/or efficiency of your office/division? Number of Responses: 554

Will Improve Effectiveness/ Efficiency to a Great Extent	Will Improve Effectiveness/ Efficiency to Some Extent	No Noticeable Impact on Effectiveness/ Efficiency	Will Decrease Effectiveness/ Efficiency to Some Extent	Will Decrease Effectiveness/ Efficiency to a Great Extent
9%	25%	51%	10%	5%

Source: OIG Generated

The survey results found that a certain percentage of the staff (34%) believed that the alignment after the restacking would improve effectiveness or efficiency. However, the results also revealed that a considerably larger percentage of the staff (51%) indicated that the restacking would have no noticeable impact on effectiveness or efficiency, and that an additional 15% of the staff actually felt the restacking project would decrease effectiveness or efficiency.

Communication of the Purpose of the Restacking

In one area, communication about the purpose of the restacking project, the staff did provide positive feedback with regard to the restacking. Question 11 of our survey asked the staff: “How well was the purpose of the restacking project communicated to you?” Our results were as follows:

Table 11: Q. 11- How well was the purpose of the restacking project communicated to you? Number of Responses: 1,038

Very Well	Well	Not Very Well	Not At All
18%	44%	30%	8%

Source: OIG Generated

The survey results indicated that, most of the staff (62% vs. 38%) felt that the purpose of the restacking project was well communicated. Some of the written comments we received on this topic were as follows:

- Excellent email communication. Excellent feedback when needed to contact restacking team with questions. Immediate response.
- The OAS team had multiple planning meeting[s] to discuss move related issues. In addition, OHR staff had dedicated meetings to discuss the impact and held an open house event when temp moves occurred so that new office locations would be known.
- The purpose of the restacking was communicated to me very well. In fact, there was too much communication on this project...
- DIAC (the Disability Issues Advisory Committee) was well informed.

One survey participant observed, however, “The overall purpose of the project was explained, but the specific purpose of my AD group's move was never explained. ... The purpose of our move remains a mystery.” Another participant pointed out: that there was no communication to solicit the staff’s views on the project before it was undertaken, stating:

... [A]ll [communication] was AFTER THE FACT. Staff was not given any chance to speak on this before it was decided. Taxpayers should be outraged, and we should be wholly mortified, to be wasting such an incredible amount of money and time on this - not the least of which includes large-scale construction on a building already over-budget.

Staff Views on Whether the Restacking Project Was Worth the Costs and Disruption

The survey also attempted to determine whether the staff felt, on the whole, the benefits of the restacking project outweighed the costs of and the disruption caused by the project. Question 31 of on survey asked: “In your opinion, are the restacking project benefits to your office/division worth the cost and time that it has taken for construction, packing, moving, and unpacking, etc.?”

Table 12: Q. 31- In your opinion, are the restacking project benefits to your office/division worth the cost and time that it has taken for construction, packing, moving, and unpacking, etc.? Number of Responses: 607

Yes	No
19%	81%

Source: OIG Generated

These results suggest that the overwhelming majority of Commission staff (81%) did not feel that the restacking project was worthwhile because the negatives of the project outweighed the benefits. Many of the numerous written comments that we received from the survey presented this very sentiment. The following is just a sample of the comments we received:

- It is very expensive and disruptive to move so many people. It is a waste of taxpayer’s money. It also makes the agency look wasteful.
- ... This appears to me to be nothing more than a land grab by divisions that want better office space. In this period of austerity, it is remarkable to me that the Commission would spend millions of dollars on a completely unnecessary move.
- ... This has been the biggest waste of American people's tax dollars. The Commission should be embarrassed with what they have chosen to spend their time and money on.

- ... I do not expect any benefits to my office/division to result from the restacking project and thus it will not be worth the cost and time.
- This is a waste of taxpayers' money. It would be more beneficial to the staff to have to walk or go up or down a flight of stairs to speak to other members of their Division; we could all use some exercise.
- Again, it is appalling how much time and energy are being wasted in this process. I am sure it is a staggering total in terms of the days of productive work lost ... all so we can engage in musical chairs as the markets and our institutional reputation sink
- ... [W]hile I haven't moved yet, I do not think that communications will substantially change with the move and therefore do not think the move is justified based on the millions of dollars it has been reported it is costing. In my personal case, I will be further from my supervisors and while I sometimes would just walk upstairs to see if they were available to talk I will make sure to e-mail or call them first before walking over.
- In the end, there may be some benefits. However, the move to "temporary" space, only to have to move again in 2-3 months seems like duplicate work. Before restacking, the organization was split in different locations and so communication was challenging. After the restacking, we're still in different locations -- the "different locations" shifted, but the outcome didn't improve anything. Restacking = good intentions -- not well implemented. I think it would have been more effective to try and move organizations only 1 time, instead of 2 or 3 times.
- This project is an absolute waste of time and money. ... Just because the previous idea to commingle the Divisions was an error, it does not resolve that error by trying to change it. Two wrongs do not make a right. ...
- Huge and obvious waste of resources in our technological age where people can easily communicate without being seated next to one another – what a tremendous waste!
- ... It has been a grave waste of taxpayer money at a time when we cannot afford to waste anything. That money could have gone to other uses here at the Commission.

- ... This is a total waste of time we should be spending conducting investigations. ...
- I think it is a complete waste of money and time. I interact with a lot of people in my position and I haven't found one individual that is happy about the restacking.
- The cost far exceeds any benefits.

We conclude based upon the survey results that the restacking project was initiated without taking into account the views of Commission staff. The staff indicated in our survey that they were largely satisfied with their current office locations and the survey showed that, for the most part, the staff felt the restacking project did not provide any tangible benefits to them.

Moreover, while significant resources have been devoted to the restacking project, very few of the Commission staff who responded to our survey felt it was worth the costs. Overall, the restacking project was very unpopular with the staff who responded to our survey, including staff who have already moved and staff who are scheduled to move. Thus, the restacking project at a total estimated cost of approximately \$3.9 million does not appear at this point to have achieved its intended objectives or been worth the cost.

Recommendation 1:

The Office of Administrative Services should carefully review the results of the OIG survey to determine whether the restacking project should continue in its current form or any changes should be made to the project based upon the survey responses, and to ensure better planning and foresight in any future similar projects.

Recommendation 2:

The Office of Administrative Services should conduct another survey of the staff after the restacking process has been completed to understand the effects and impacts of the project better and determine what, if any, changes should be implemented.

Finding 2: The SEC Did Not Comply with OMB Circular, A-11, Part 7, and Did Not Perform Sufficient Analysis to Support the Decision to Approve the Restacking Project.

The SEC failed to comply with OMB Circular, A-11, Part 7's requirement that an Exhibit 300 (Capital Asset Plan and Business Case Summary) be submitted providing analysis and justification in support of major capital projects such as the restacking project. No business case was made for the investment, and no effort was made to quantify whether the restacking project would actually improve productivity or whether the project was worthwhile given the cost and disruptive effect on Commission staff. No formal cost-benefit analysis was conducted, although two memoranda indicated that the Chairman had requested one.

OMB Circular A-11, Part 7

Office of Management and Budget (OMB) Circular A-11, Part 7, Section 300 (in effect at the time the restacking project was approved) established policies for planning, budgeting, acquisition and management of Federal capital assets.²⁴ According to this OMB Circular, capital assets includes land, structures and equipment, as well as intellectual property and information technology “that are used by the Federal government and have an estimated useful life of two years or more.”²⁵

The OMB Circular provided that the policy and budget justification and reporting requirements in Section 300 applied to all agencies of the Executive Branch of the Government that were subject to Executive Branch review.²⁶ Further, the Circular stated, “All major investments must submit an Exhibit 300 in accordance with this section.”²⁷ According to the Circular, Exhibit 300 is a format for demonstrating to agency management and OMB that the project team has “employed the disciplines of good project management, represented a strong business case for the investment, and met other Administration priorities to define the proposed cost, schedule, and performance goals for the investment if

²⁴ OMB Circular A-11, Part 7, Section 300 -- “Planning, Budgeting, Acquisition, and Management of Capital Assets”, July 2003. This section was revised in June 2008. Unless noted otherwise, the citations in this report refer to the 2003 version of the section.

²⁵ OMB Circular A-11, Part 7, at § 300.4.

²⁶ OMB Circular A-11, Part 7, at § 300.2. Section 25 of the OMB Circular prescribed the agencies that were exempt from this review. The SEC was not one of these exempted agencies. OMB Circular A-11, Part 2, at § 25.1.

²⁷ OMB Circular A-11, Part 7, at § 300.2.

funding approval is obtained.”²⁸ “Exhibit 300 consists of two parts, each of which is designed to collect information that will assist agency management and OMB during budget review.”²⁹ The information collected on Exhibit 300 is used, among other things, to “[e]nsure that spending on capital assets directly supports [the] agency’s mission and will provide a return on investment equal to or better than alternate uses of funding”³⁰ The GAO has recognized that “Exhibit 300 is required by OMB.”³¹

According to the version of Section 300 of OMB Circular A-11, Part 7, that was in effect when the restacking project was initiated, a “major acquisition” was defined as “a capital project (investment) that requires special management attention because of its: (1) importance to an agency’s mission; (2) high development, operating, or maintenance costs; (3) high risk; (4) high return; or (5) significant role in the administration of an agency’s programs, finances, property, or other resources.”³² It further provided that “[t]he agency’s documented capital programming process should include the criteria for determining when an investment is classified as major.”³³

The Capital Programming Guide

OMB issued a Supplement to Part 7 of OMB Circular A-11, entitled the “Capital Programming Guide,” which was intended to assist Federal agencies effectively plan, procure and use capital assets to achieve the maximum return on investment.³⁴ The stated purpose of the Capital Programming Guide “is to provide professionals in the Federal Government guidance for a disciplined capital programming process, as well as techniques for planning and budgeting, acquisition, and management and disposition of capital assets.”³⁵

²⁸ OMB Circular A-11, Part 7, at § 300.7

²⁹ OMB Circular A-11, Part 7, at § 300.7.

³⁰ OMB Circular A-11, Part 7, at § 300.7. Exhibit 300 is not limited to Information Technology projects; the prior version of the form asked whether or not the investment was for information technology. The newer version of the form, at Question 12b, specifically asks whether the investment is “for new construction or major retrofit of a Federal building or facility.” Also, we noted that other agencies, e.g., the Department of Homeland Security, the Department of Justice and the Department of Labor, have submitted Exhibit 300 forms for facility construction projects.

³¹ GAO-04-138, “Budget Issues: Agency Implementation of Capital Planning Principles Is Mixed,” January 2004.

³² OMB Circular A-11, Part 7, at § 300.4. The more recent version of this OMB Circular defined “major investment” specifically to include a system or acquisition that “is for financial management and obligates are than \$500,000 annually.” OMB Circular A-11, Part 7, at § 300.4 (June 2008). In all other relevant respects, the definitions of the term in the two versions of the Circular are similar.

³³ OMB, Circular A-11, Part 7, at § 300.4.

³⁴ Capital Programming Guide (v.2.0), Supplement to Office of Management and Budget Circular A-11, Part 7, Planning, Budgeting and Acquisition of Capital Assets (June 2006.)

³⁵ OMB Capital Programming Guide, page 1.

The Capital Programming Guide further states that agencies “should use this Guide to help establish a capital programming process within each component and across the organization.”³⁶ It notes that “[e]ffective capital programming uses long range planning and a disciplined, integrated budget process as the basis for managing a portfolio of capital assets to achieve performance goals with the lowest life-cycle costs and least risk.”³⁷ OMB strongly encourages agencies to use the guidance contained in the Capital Programming Guide but does not require it.³⁸

The Capital Programming Guide contains specific guidance to agencies in implementing processes to address project prioritization to improve the accuracy of cost, schedule and performance information and to address other challenges in asset management and acquisition.³⁹ This guidance includes directions pertinent to cost benefit analyses,⁴⁰ evaluation of alternatives,⁴¹ and an executive review process.⁴²

In particular, the Capital Programming Guide provides that the fundamental method for a formal economic analysis of a project is the benefit-cost analysis.⁴³ The Guide outlines the following steps that are included in a benefit-cost analysis: (a) identifying assumptions and constraints; (b) identifying and quantifying benefits and costs, in monetary terms wherever possible, and with sufficient detail that is commensurate with the size and criticality of the investment, including making estimates of benefits and costs of each alternative considered; (c) evaluating alternatives using net present value, including using a cost-effectiveness analysis to rank alternatives; and (d) performing a risk and sensitivity analysis to identify where uncertainties exist and quantify them so their cost can be factored into overall cost estimates.⁴⁴

The Guide encourages each agency to have an Agency Capital Plan (ACP) that defines the agency’s long-term capital assets decisions. In that regard, the Guide states, “Each agency should establish a formal process for senior management to review and approve the capital assets that make up the ACP before the plan is presented to the agency chief executive for approval.”⁴⁵

³⁶ OMB Capital Programming Guide, page 1.

³⁷ OMB Capital Programming Guide, page 1.

³⁸ U.S. General Accounting Office Report to the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives: GAO-04-138, “Budget Issues-Agency Implementation of Capital Planning Principles is Mixed,” January 2004, page 12.

³⁹ Capital Programming Guide, page 1.

⁴⁰ Capital Programming Guide, page 14.

⁴¹ Capital Programming Guide, page 23.

⁴² Capital Programming Guide, page 24.

⁴³ Capital Programming Guide, page 18.

⁴⁴ Capital Programming Guide, page 18.

⁴⁵ Capital Programming Guide, page 24.

Although OMB Circular A-11, with implementing guidance, prescribe specific procedures and processes for Federal agencies to follow when they undertake major investments and acquisitions, our review found that the SEC did not employ any of the prescribed procedures, or undertake any formal analysis or evaluation at all, when it decided to go forward with the restacking project. In addition, there was little documentation to support the basis for this very large project.

Lack of Documentation and Analysis for the Restacking Project

As part of our review, we requested from multiple sources within the SEC documentation of cost-benefit analyses and/or other project justifications in connection with the decision to initiate the restacking project. This documentation should provide a formal justification for the decision to initiate the restacking. We also requested a copy of the written request for the project.

The SEC staff, including those from the OAS Office of Real Property and Facilities Support who were responsible for managing the restacking project, could not provide any documentation supporting the decision to undertake the project. OAS's Real Property and Facilities Support staff indicated that they were not aware of any cost benefit or needs analysis that were done before the decision was made to initiate the project. OAS's Assistant Director for Real Property stated that she was "99% sure" that an Exhibit 300 was not completed for the restacking project.

We found that in or about February 2007, the Chairman asked the Executive Director to explore the idea of a restacking of Commission staff. According to two February 26, 2007 memoranda, Chairman Cox "asked [the] Executive Director to study and report back to [him] on the costs and benefits that would be involved" with relocating divisions and offices within the Commission.

There is no record, however, of the Executive Director actually conducting a cost-benefit analysis or feasibility study, although the Executive Director stated that the monetary costs of the move were analyzed and discussed verbally in senior staff and other meetings. The Executive Director also noted that a feasibility study was not conducted because the benefits of conducting the restacking were deemed to be significantly greater than the project's anticipated one-year cost, although it is unclear how the Executive Director arrived at this conclusion without conducting the study. The Assistant Director for Real Property in OAS stated that there was no cost benefit analysis performed, no alternatives to restacking were considered,⁴⁶ and the SEC staff were not contacted to

⁴⁶ As noted above, the Executive Director stated that the alternative of doing nothing was considered and rejected, as were the alternatives of "maintaining the status quo with variations, such as additional training to somehow compensate for the problems caused by the office layout," or consolidating only some offices and leaving others where they were. Response of the

determine if they were in favor of the restacking. There was also no documented request for the restacking project although, according to the Executive Director, the normal procedure in setting budget priorities was for the Chairman's direction to be made verbally.

According to information obtained during the review, the former head of OAS was not in favor of the project, as she felt that there were several other projects that should be implemented ahead of the restacking project. We were also informed that the decision to proceed with the restacking was dictated from above (either the Chairman's Office or the Executive Director's office), and OAS was given "marching orders" to go forward with the project.

OAS provided the OIG with two memoranda from the Office of the Executive Director as documentation to support approvals for the restacking project. One memorandum, dated March 18, 2008, provided approvals for the PSG and Matrix Settles floor plans for the restacking.⁴⁷ Another memorandum dated May 20, 2008 approved PSG's construction budget and project schedule.⁴⁸ Both memoranda referenced a "coordinated review" by the Executive Director and the Chairman's Office "ensure SEC mission effectiveness." However, we were provided with no documentation of that review in response to our requests for such documents. In addition, we found no references to the restacking project in the Commission's 2008 or 2009 Congressional budget justification submissions.

In light of the foregoing, the OIG's review found that the SEC failed to comply with OMB Circular A-11, Part 7, in connection with the restacking project. Given the significance of the project to the SEC and its importance to the accomplishment of the agency's mission, we believe it would have qualified as a major acquisition pursuant to the version of the OMB Circular A-11, Part 7, in effect at the time of the restacking project, requiring the completion and submission of an Exhibit 300.⁴⁹

The SEC has maintained that the complaints that triggered the restacking project were "conveyed strongly and frequently,"⁵⁰ and the "Restacker" newsletter referenced the anticipated impact of the restacking as "strengthening the identity of the organization for internal and overall benefit."⁵¹ However, the SEC did not complete or submit to OMB an Exhibit 300 and did not even document whether

Executive Director to OIG Questions Concerning the Restacking Project, page 3. We were provided with no contemporaneous written analysis of alternatives, however.

⁴⁷ Memorandum to File from Diego Ruiz, Executive Director, subject: SEC Approval of Restacking Program, March 18, 2008.

⁴⁸ Memorandum to File from Diego Ruiz, Executive Director, subject: SEC Approval of Restacking Construction Budget & Project Schedule, May 20, 2008.

⁴⁹ Clearly under the OMB Circular A-11, Part 7 in effect currently, the restacking project would trigger the Exhibit 300 submission because its costs exceeded \$500,000.

⁵⁰ Response of Chief of Staff to OIG Questions Concerning the Restacking Project.

⁵¹ "The Restacker," Volume 1, Issue 1, September 10, 2008, page 2.

the restacking project was considered a major acquisition or investment. In addition, there is no evidence that any of the procedures outlined in the Capital Programming Guide were followed, and no formal analysis was prepared justifying the project. Specifically, no business case was made for the investment, and no effort was made to quantify whether the restacking would actually improve productivity, or whether the project was worthwhile given the high cost and disruptive effect on Commission staff. Further, no formal cost-benefit analysis was conducted, although two memoranda indicated that the Chairman had requested one.

Moreover, no effort was made to determine if the existing space configuration was actually impeding productivity, and we obtained information showing that the project was approved against the wishes of the former head of OAS and without soliciting the views of Commission staff. It is difficult to comprehend how the SEC could have initiated the restacking project without first consulting with the staff located in the headquarters facility in light of the GAO's previous recommendation that the SEC improve communication and consultation with staff regarding space and property needs.

Recommendation 3:

Given that the restacking project has not been completed, the Office of Administrative Services should conduct appropriate analysis and complete and submit to the Office of Management and Budget an Exhibit 300 for the remainder of the project, incorporating the guidelines of the Capital Programming Guide and the information provided in our review.

Finding 3: The SEC Does Not Have Sufficient Policies and Procedures in Place to Ensure that Major Capital Projects Like the Restacking Project are Adequately Analyzed and Supported.

Executive Order 13327

Executive Order 13327 issued by President George W. Bush on February 4, 2004, provides that it "is the policy of the United States to promote the efficient and economical use of the America's real property assets and to assure management accountability for implementing Federal real property management reforms."⁵² The Executive Order further states, "Based on this policy, executive branch departments and agencies shall recognize the importance of real property

⁵² EO 13327, Feb. 4, 2004, at § 1.

resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.”⁵³

The Commission’s Unsigned Space Management Regulation, SECR 5-8

The OIG review was unable to locate any final, signed policies or procedures governing space management at the Commission. The only documented policies and procedures are contained in the Commission’s space management regulation, SECR 5-8, dated August 18, 2005, which is unsigned and does not appear on the Commission’s Insider webpage among the agency’s administrative regulations.

While this unofficial document purports to establish the SEC’s assignment and utilization of space program and indicates that its purpose is to ensure that the Commission’s spaces support the mission of the agency and enhance the productivity of its employees and programs,⁵⁴ there are very limited actual requirements in this document.

SECR 5-8 does cite a number of pertinent authorities, define a number of space planning terms and provide general guidance for acquiring and allocating office space.⁵⁵ SECR 5-8 also requires decisions regarding siting new office space and facilities in rural and urban areas, and on historic properties, and prescribes procedures for field office space requests.⁵⁶ With respect to space requests applicable to SEC headquarters facilities, however, SECR 5-08 merely provides that “all leasehold improvements must be approved by the OAS [Associate Executive Director (AED)].”⁵⁷ It further provides, “Construction, equipment installation and furniture placement will be overseen by the OAS AED or designee.”⁵⁸

Information Technology Capital Planning Policies and Procedures

In contrast to the sparse procedures and guidance for facility capital projects, SEC Information Technology (IT) projects are subject to a formal capital planning process.⁵⁹ According to the SEC regulation applicable to IT capital projects, the Office of Information Technology’s (OIT) capital planning and investment control (CPIC) processes include the decision criteria used in selecting IT investments

⁵³ EO 13227, Feb. 4, 2004, at § 1.

⁵⁴ SEC Regulation (SECR) 5-8, “Space Management Program,” August 15, 2005 (unsigned), page 1.

⁵⁵ See SECR 5-8, page 7 and 8, for space allocation guidelines and suitability factors

⁵⁶ SECR 5-8, pages 3-5.

⁵⁷ SECR 5-8, page 6.

⁵⁸ SECR 5-8, page 6.

⁵⁹ SEC Regulation (SECR) 24-02, Information Technology Capital Planning and Investment Control, June 14, 2006.

and the use of defined performance measures in assessing an investment's progress in achieving specific outcomes.⁶⁰ OIT's CPIC process specifically addresses investment selection, control and evaluation, and defines the roles and responsibilities of the various groups involved with the IT Capital Planning process (e.g., the IT Capital Planning Committee, Information Officers' Council, Chief Information Officer, and Commission senior staff).⁶¹

Inadequate Policies and Procedures for Real Property Projects

Our review concluded that the SEC has not sufficiently established heightened management attention, clear goals and objectives, or improved policies and levels of accountability in connection with its use of real property assets, as envisioned by Executive Order 13327. It is particularly surprising that the SEC would not have instituted these types of policies and procedures, given that the \$48 million in unbudgeted costs in connection with the agency's previous moves led the GAO to recommend that the SEC improve its procedures relating to facilities projects.

The only existing SEC policies and procedures that would pertain to a large real property project like the restacking project remain unsigned and fail to prescribe any steps, other than OAS AED approval, that must be taken before this type of project is initiated. As OMB's Capital Programming Guide described above stated, these steps are necessary to ensure effective capital programming that utilizes long range planning and a disciplined, integrated budget process in order to achieve performance goals with the lowest life-cycle costs and least risk. Detailed procedures are also necessary to ensure that real property projects are fully analyzed and considered before a decision is made to go forward. Given the survey results described above, it seems quite likely that if the SEC had engaged in some formal and comprehensive analysis of the restacking project in advance of its undertaking, a different decision may have been made and significant sums of money might have been saved.

Moreover, in the case of the restacking project, it is not entirely clear that even the minimal requirement of the unsigned space management regulation was complied with, as we were informed that the OAS AED at the time the project was initiated did not support the restacking project. Hence, we were unable to ascertain whether there was an OAS AED approval for the restacking project. While it is likely that the Chairman's decision to proceed with the project, as communicated through the Executive Director, may have *de facto* been sufficient to approve the project, the SEC nonetheless should have documented that it complied with this single requirement of SECR 5-8.

⁶⁰ SEC Regulation (SECR) 24-02, page 2.

⁶¹ SEC Regulation (SECR) 24-02, pages 8-10.

Recommendation 4:

The Office of Administrative Services (OAS), in coordination with the Office of the Executive Director, should develop and adopt policies and procedures to make its guidance for investments in space more consistent with the guidance in the Office of Management and Budget's Capital Programming Guide. The OAS should also review the Information Technology Capital Planning requirements for guidance in developing these policies and procedures.

Abbreviations and Acronyms

ACP	Agency Capital Plan
CIPC	Capital Planning and Investment Control
GAO	Government Accountability Office
IT	Information Technology
OAS	Office of Administrative Services
OAS AED	Office of Administrative Services Associate Executive Director
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
PSG	Project Solutions Group
QSSI	QSS International
SEC/Commission	U.S. Securities and Exchange Commission

Scope and Methodology

This review was not conducted in accordance with generally accepted government auditing standards. As a review, there was no requirement to follow generally accepted government auditing standards.

Scope. The scope of our review covered areas related to the initiation and approval of the restacking project. We reviewed and assessed processes related to the restacking project by obtaining information from the Office of Administrative Services, Office of Executive Director, and the Office of the Chairman regarding the initiation of the project. We conducted our fieldwork from December 2008 to March 2009.

Methodology. We interviewed staff and managers in the Office of Real Property and Facilities Support of the Office of Administrative Services (OAS) and reviewed contract files in the Office of Acquisitions to obtain an understanding of the process by which the restacking project was initiated. We requested and obtained information from the Office of the Executive Director and Office of the Chairman on the factors that led to the initiation of the restacking project. Also, we obtained information from OAS and Office of Financial Management (OFM) to determine the amount of funding that was provided for the restacking project.

In addition, we distributed a questionnaire to 2,164 Commission headquarters staff at Station Place buildings 1 and 2, and the Operations Center. We included staff who were not impacted by the restacking to provide them with an opportunity to express their views. We eliminated these responses from our survey results whenever necessary (e.g., by using questionnaire responses such as “Not Applicable,” or “...did not move.”). A total of 1,149 staff began our survey and 1,062 “completed” it.⁶²

Internal/Management Controls. We reviewed internal controls that were considered significant within the context of the review objectives. We interviewed OAS management and staff, requested information from OFM, and identified and reviewed applicable policies and procedures. We identified areas for improvement, as listed above.

Use of Computer-Processed Data. We used computer-processed data regarding funding for the restacking project. We did not perform tests of system general or application controls. We used the funding data as background to

⁶² For the purposes of our survey, “completed” only means that the recipient clicked on the “done” button at the end of the questionnaire; all of the questions may or may not have been answered.

estimate the size of, and the amount of funding provided for, the restacking project.

High-Risk Areas. The Government Accountability Office (GAO) identified management of Federal real property as a high-risk area in 2003 and continues to deem this area as high risk. (GAO-09-271, "High-risk Series; An Update," January 2009.) The GAO found problems with excess and underutilized property, overreliance on costly leasing, and security challenges. The GAO has reported that real property management problems have been exacerbated by obstacles including competing stakeholder interests, legal and budget related limitations, and the need for better capital planning.

Prior Audit Coverage. The OIG issued a report on *Real Property Leasing*, Audit No. 330, May 31, 2001. This audit report contained several recommendations, including: updating Commission guidance; documenting OGC reviews of lease documents; and providing additional training to leasing staff. The GAO issued a briefing to Congress in 2005 regarding the Commission's facilities management and budget issues. The GAO's recommendations included improved accountability for the reasonableness of budget estimates, regular reporting of project status, and hiring of new positions for OFM and OAS.

Criteria

Executive Order 13327, Federal Real Property Asset Management, February 4, 2004. This Executive Order promotes the efficient and economical use of Federal real property assets by requiring agencies to recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, and improved policies and levels of accountability.

Office of Management and Budget Circular No. A-11, Part 7, Planning, Budgeting, Acquisition and Management of Capital Assets, July 2003 and June 2008. Part 7, Section 300, establishes policy for planning, budgeting, acquisition and management of Federal capital assets. Section 300 of this Part requires submission of an Exhibit 300, "Capital Asset Plan and Business Case," for all major capital investments..

Office of Management and Budget Circular No. A-11, Part 2, Preparation and Submission of Budget Estimates, July 2003 and June 2008. Section 25.1 "Does Part 2 (Preparation and Submission of Budget Estimates) apply to me?" lists the agencies that are exempt from the policy and budget justification and reporting requirements of Part 7, Section 300 (e.g., the Exhibit 300).

Capital Programming Guide, V2.0, Supplement to Office and Management and Budget Circular A-11, Part 7: Planning, Budgeting, and Acquisition of Capital Assets, June 2006. The Office of Management and Budget (OMB) issued the Capital Programming Guide to assist agencies plan, procure, and use capital assets more effectively. Agencies are strongly encouraged to use this Guide in developing their capital programming processes.

Securities and Exchange Commission Regulation (SECR) 5-8, Space Management Program, August 18, 2005 (unsigned). SECR 5-8 purports to establish the Commission's program for assigning and utilizing space, cites pertinent authorities, defines space planning terms and provides general guidance for acquiring and allocating office space.

Securities and Exchange Commission Regulation (SECR) 24-02, Information Technology Capital Planning and Investment Control, June 14, 2006. SECR 24-02 defines the Commission's policies and processes for capital planning and investment control regarding major information technology investments.

List of Recommendations

Recommendation 1:

The Office of Administrative Services should carefully review the results of the OIG survey to determine whether the restacking project should continue in its current form or any changes should be made to the restacking project based upon the survey responses, and to ensure better planning and foresight in any future similar projects.

Recommendation 2:

The Office of Administrative Services should conduct another survey of the staff after the restacking process has been completed to understand the effects and impacts of the project better and determine what, if any, changes should be implemented.

Recommendation 3:

Given that the restacking project has not been completed, the Office of Administrative Services should conduct appropriate analysis and complete and submit to OMB an Exhibit 300 for the remainder of the project, incorporating the guidelines of the Capital Programming Guide and the information provided in our review.

Recommendation 4:

The Office of Administrative Services (OAS), in coordination with the Office of the Executive Director, should develop and adopt policies and procedures to make its guidance for investments in space more consistent with the guidance in the Office of Management and Budget's Capital Programming Guide. The OAS should also review the Information Technology Capital Planning requirements for guidance in developing these policies and procedures.

Management Comments

OFFICE OF THE
EXECUTIVE DIRECTORUNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

MEMORANDUM

TO: H. David Kotz
Inspector General

FROM: Diego T. Ruiz
Executive Director

DATE: March 26, 2009

SUBJECT: Management Response to Report No. 461, *Review of the Commission's Restacking Project*

As Executive Director, I appreciate OIG's work in conducting this audit. It is very important that the Commission spend taxpayer resources wisely in furtherance of its mission. The restacking project represents an excellent example of agency staff working collaboratively across all operating units to bring about a much-improved use of agency resources and significant ongoing savings to the taxpayer. For this reason, I am pleased that the agency's restacking project is significantly under budget, continues on track to be completed early this summer, and will successfully address longstanding management concerns about the working environment of the agency's offices and divisions.

Overview of Management Response

This memorandum provides management's response to OIG Report No. 461, *Review of the Commission's Restacking Project*, dated March 16, 2009. We appreciate having the opportunity through this management response to provide a complete picture of the initiative's goals and true costs and benefits, as well as the process by which it was undertaken.

Significant taxpayer savings: While the restacking initiative is not yet complete, we currently estimate total costs of approximately \$3.5 million, which includes funds spent for project planning, moving services, and construction. Thus the project is on track to be completed 37% under budgeted costs. A principal, measurable benefit of the restacking initiative is the long-term savings that taxpayers and the agency will enjoy as the result of more efficient use of the SEC's facilities. By consolidating offices and divisions and capturing vacant offices formerly scattered throughout the agency, the SEC was able to terminate a lease for office space that would have cost the agency over \$3.5 million over the next five years alone. We expect the restacking initiative to more than pay for itself by making more efficient use of headquarters office space.

Fully compliant with OMB requirements: The OIG report incorrectly claims that the SEC was required to have submitted to the Office of Management and Budget an Exhibit 300.¹ In fact, OMB Circular A-11 requires that these exhibits be filed only for major investments, and the restacking project does not meet the definition of “major” established by OMB. Circular A-11 advises agencies to consult with OMB as to what capital investments should be considered “major” for this purpose,² and the relevant officials at OMB have informed the SEC that they neither require nor request an Exhibit 300 for the restacking initiative.

Moreover, we could find no evidence of any other federal agency presenting an Exhibit 300 for a project comparable in size, scope, or kind to the SEC’s restacking project. Although the OIG report refers to Exhibit 300 filings made by three cabinet-level agencies, the specific projects cited are for new construction of very large federal facilities, including the construction of federal prisons at an average cost of \$230 million each and a Customs and Border Protection capital project with annual costs of up to \$275 million. By comparison, to date the SEC’s restacking project represents a capitalized cost of approximately \$850,000 in leasehold improvements (principally for drywall, paint, and carpeting) in an existing leased property. We do not agree with the OIG report’s position that this expense constitutes a “major” capital investment comparable to a federal prison or border station costing a quarter of a billion dollars.

Extensive planning and consultation with staff: The agency undertook a detailed and comprehensive planning process designed to afford several opportunities to assess the feasibility, benefits and costs of the project. Recognizing that any relocation initiative entails some measure of disruption, management undertook an extensive level of formal and informal consultation with offices and divisions, in order to gain as complete an understanding as possible of each organizational unit’s current and future space needs and design a plan to minimize any adverse impact on agency staff. This careful planning and outreach was not without cost, and in fact fully one out of every ten dollars of the initiative’s overall cost have been spent on project planning.

Near-universal support from SEC senior managers: The motivating force behind the restacking project came from the agency’s division and office senior management. The effort to explore a rationalized configuration of headquarters space allocation was initiated at their request, and reflected the widely shared, deeply informed, and strongly held view of the agency’s division and office directors that the distribution of headquarters office space was inefficient, inadequate, and discouraging of effective staff communication and collaboration. Looking to survey data collected broadly from all SEC staff is a

¹ An Exhibit 300 is a form that coordinates OMB’s collection of information on federal agencies’ major information technology and real property capital investments. It is meant to ensure that an agency considers the business case for major capital investments and ties its capital decisions to its mission statement, strategic plan, and long-term objectives.

² OMB Circular A-11, Part 7, at Section 300.4, states: “OMB may work with the agency to declare other investments as major investments. You should consult with your OMB representative about what investments to consider as ‘major,’ consult your agency budget officer or OMB representative. Systems not considered ‘major’ are ‘non-major.’ ”

fundamentally incomplete way to assess the costs and benefits of the project, since the views of senior managers – those who are responsible for management of their offices, and who are most knowledgeable about the broader tradeoffs that are an unavoidable part of any relocation initiative – are impossible to discern from undifferentiated data. To the best of our knowledge, OIG did not conduct interviews of any division or program office directors, managers, or administrative officers in conducting its evaluation or preparing its report.

Problems with OIG Survey: Given the significant weight that the OIG report places on the results of its opinion survey of SEC staff, it is unfortunate that OIG did not work with management in designing the survey questionnaire. Better collaboration would have resulted in more usable data on staff opinions, which the agency might have used to improve its performance in conducting the restacking or a future relocation project. The chief deficiency in the survey's methodology is that it solicited opinions about project results when only about 15% of final employee moves (215 out of 1,375) had actually taken place. No division or office had been fully consolidated in its new space at the time of the survey. Therefore, the OIG survey does not appear to provide meaningful data on which to judge the restacking program's success in meeting its objectives.

Rationale for Reconfiguration of Agency's Office Layout

The restacking project was prompted by near-unanimous senior management support for rationalizing the existing layout of the agency's Station Place buildings 1 and 2. The original configuration, designed by a past chairman's managing director and implemented in spite of overwhelming opposition from divisional leadership, had made no attempt to keep offices and divisions together. Instead, operating units were intentionally broken up and spread out across multiple floors and both buildings, scattering offices and working groups for no discernible benefit. For instance, the Division of Corporation Finance was split up across five floors and two buildings. The Division of Enforcement likewise was spread across five floors, with large operating units within the division dispersed on non-contiguous floors in different buildings. Even small offices like the Office of the Chief Accountant were needlessly broken up.³ Divisional and office leadership across large and small operating units agreed that this configuration created significant management difficulties and operational inefficiencies, discouraged effective communication and collaboration, and adversely affected staff morale.

Over the course of 2007, agency management engaged in extensive deliberations and consultation with staff on whether to undertake a reconfiguration of the existing layout. The undertaking's potential costs and benefits were discussed multiple times in the agency's senior staff meetings, which the Chairman held weekly with the heads of all of

³ The restacking project, when complete, will reunite these and other offices and divisions. Corporation Finance will go from five floors to two; Enforcement will go from five floors to three; the Division of Trading and Markets will go from three floors to one; the Division of Investment Management and the Office of the Chief Accountant will each go from two floors to one.

the agency's divisions and headquarters offices. Senior management support for proceeding was overwhelming.

Analysis and Planning of Initiative

Because of the complexities inherent in reconfiguring an occupied building, and in order to ensure that the initiative would be viable at an appropriate cost, the SEC retained the services of a specialist firm through a competitive bidding process. The planning process unfolded in stages in order to allow the agency several opportunities to assess the feasibility, benefits and costs of the project and decide whether or not to proceed.

In order to determine the feasibility of the project and validate its benefits, the first stage was to study how divisions and offices might be laid out in order to reunite working units that had been broken up by the original office layout. The development of this study was informed by ascertaining the current and anticipated future space needs of each office and division; determining the specific adjacencies within and among offices that would lead to a more efficient work process; and developing a comprehensive blocking plan that laid out proposed locations for each office and division. This information was gathered, analyzed and validated through a series of meetings, interviews, questionnaires and review sessions with office and division staff that spanned almost four months. After several modifications to ensure that the project was feasible and its benefits could be achieved – and with the approval of every affected office and division head – the project plan was given final approval on March 18, 2008. Had the project plan not met the SEC's stated goals at a reasonable cost, the agency could have terminated the project at this point and incurred no additional costs.

As the next stage in the planning process, the contractor was tasked with preparing a project schedule and construction budget based on the approved project plan. This enabled the SEC to evaluate the specific costs, in both time and money, of carrying out a restacking of its headquarters buildings. This stage in the project presented the SEC an additional opportunity to halt the initiative had its projected costs outweighed its benefits. The proposed schedule and budget too were the subject of extensive discussions with SEC management, and they were approved on May 20, 2008.

Management provided all of this information to OIG during the course of the audit. In addition to extensive materials documenting the process and work product of the planning described above, we provided copies of the signed March 18, 2008, approval of the project plan and the May 20, 2008, signed approval of the project schedule and construction budget. Unfortunately, none of this information is mentioned in the OIG audit report.

Additional Benefits of Restacking

In addition to the benefits of rationalizing the existing layout, the restacking project has made possible significant savings of taxpayer dollars. By consolidating offices and

divisions and capturing vacant offices formerly scattered throughout its headquarters buildings, the agency was able to relocate to headquarters a number of staff previously housed in our Virginia facilities. This in turn made it possible to terminate one of our Virginia leases for an annual savings of approximately \$680,000 in rent, utilities and services. Over a five-year period, this will produce estimated savings of \$3.5 million. Although this savings is not mentioned in the OIG audit report, it represents an ongoing savings that was only made possible by the agency's decision to reverse an inefficient distribution of office space.

The restacking project has also made possible the provision of better support services to the professional staff in the Commission's program offices. A more efficient use of office space in our headquarters has enabled over 30 support staff – mainly from the human resources area – who previously worked in a separate facility to collocate with the program offices they serve at headquarters. This has already resulted in enhanced customer service and higher operational efficiency.

Deficiencies of OIG Opinion Survey

The OIG audit report refers to an opinion survey of SEC staff conducted while the restacking project was ongoing, and adduces certain responses to question whether the project should have been undertaken. OIG has not made available any data beyond the selected responses cited in the report, so it is difficult at this point to know what information the survey results might provide. However, based on the limited data presented in the report, the survey suffers from methodological deficiencies that make reliance on its findings problematic.

The chief deficiency in the survey's methodology is that it assumes that the restacking has been completed, when in fact at the time the survey was conducted construction was ongoing and only 215 people out of 1375 had moved into their new permanent offices. In addition, no divisions or offices had been fully consolidated in their new space when the survey was conducted. Because the survey's chief premise is incorrect, its questions potentially misled respondents and give rise to serious questions about the reliability or utility of its results. Specifically:

- According to OIG, the survey purports to measure “the level of satisfaction among the staff regarding communication both prior to and after the restacking project.”⁴ However, the restacking is not complete as of this writing, and was even less far along at the time OIG conducted its survey.
- Question 14 asks “How do you feel about the time it now takes to communicate with staff . . . since moving to your permanent workspace?” This question was answered by 392 staff members, but at that time only 215 people had moved into their new permanent office. Thus the number of respondents exceeds by over 80%

⁴ OIG Final Draft—Review of the Commission's Restacking Project, March 16, 2009, page 9.

the universe of people who could possibly have answered this question at the time it was asked.

- Question 25 asks “How has the move to your temporary workspace impacted your productivity?” This question was answered by 218 respondents, but at that time only 165 staff members had moved to temporary workspaces.
- Question 9 asks “How has the move to your permanent new workspace impacted your productivity?” At the time of the survey, only 15% of staff members who will eventually move due to the restacking project had actually moved. None of the agency’s offices or divisions have been consolidated in their new permanent location at this time. Therefore, it is not possible to draw any meaningful conclusions about post-restacking productivity when the project is this far from completion.
- Question 12 seeks to poll staff opinion on the restacking project’s benefits. The chief intended benefits of the restacking project stem from the consolidation of operating units that are currently broken up. However, since the project is ongoing and no offices or divisions have completed their moves yet, the survey cannot quantify benefits that by definition have not yet been realized.

In addition, the OIG survey polled all SEC employees who work at the Alexandria, VA, Operations Center – representing about one-fifth of all Washington area SEC employees – even though those staff members were not affected by the restacking project.⁵ However, there was significant unrelated construction underway at the Operations Center at the time of the survey, which may well have led to confusion about several survey questions and distorted responses. We asked OIG to provide us the survey data with the Operations Center responses filtered out, but OIG’s reply is unresponsive on this point. A review of all the survey questions shows that respondents were not asked what building they work in, so it is uncertain whether it will be possible for OIG to filter out this irrelevant data.

Curiously, the survey seeks to gain several key pieces of information through opinion polling of employees, when OIG could simply have looked at the hard data that was provided by management. Specifically:

- Question 20 asks “To what extent did the alignment in place prior to the restacking project provide your organization with sufficient workspace for new hires?” Question 21 asks a similar question about available office space for future hires after the restacking. Management has extensive data on current and projected future office space needs by office and division. The project plan that undergirds the current restacking was based on extensive analysis of each operating unit’s space needs, derived through wide-ranging discussions with divisional staff. It is

⁵ Some Operations Center staff moved to Station Place in the first stages of the restacking project in 2008. However, when the OIG survey was conducted, there were no staff members in the Operations Center who were slated to move or be otherwise impacted by the restacking.

not clear what purpose is served by trying to arrive at this information through polling individual employees.

- Question 22 asks employees “To what extent did your office/division have to use another organization’s file storage space, prior to the restacking project?” Question 23 asks a similar question about shared filing space after the restacking. Again, the SEC for this project did extensive analysis of divisions’ filing needs as one of the key inputs into the restacking plan currently being implemented. In fact, the plan called for a limited amount of construction to address the future filing needs of certain divisions. Management provided this information to OIG during the course of the audit; we would be happy to review it with OIG so that it does not have to rely on anecdotal evidence to ascertain the agency’s space needs.

Incorrect Application of OMB Circular A-11

The OIG audit report incorrectly states that OMB Circular A-11, Part 7 requires that the SEC submit an Exhibit 300 describing the capital asset plan and business case for the restacking project. However, the relevant officials at the Office of Management and Budget consulted by the SEC have informed us that an Exhibit 300 for the restacking project is neither required nor requested. In addition, we could find no evidence of any other agency of government present an Exhibit 300 for any project comparable in size, scope or kind to the restacking project.

The OIG audit report correctly notes that OMB Circular A-11, Part 7 requires that “All major investments must submit an Exhibit 300.”⁶ However, the SEC’s restacking project does not qualify as a “major” project as defined by OMB in Circular A-11.⁷ In addition, the OIG report does not quote the following critical relevant sentences from OMB’s guidance:

OMB may work with the agency to declare other investments as major investments. You should consult with your OMB representative about what investments to consider as "major," consult your agency budget officer or OMB representative. Systems not considered "major" are "non-major."⁸

Our consultations with the SEC’s OMB representatives establish that OMB does not require that an Exhibit 300 be filed for the SEC’s restacking project, nor have they requested that one be filed. Accordingly, we disagree with the OIG report’s

⁶ OMB Circular A-11, Part 7, at Section 300.2

⁷ OMB Circular A-11, Part 7, at Section 300.4: “Major investment means a system or acquisition requiring special management attention because of its importance to the mission or function of the agency, a component of the agency or another organization; is for financial management and obligates more than \$500,000 annually; has significant program or policy implications; has high executive visibility; has high development, operating, or maintenance costs; is funded through other than direct appropriations; or is defined as major by the agency’s capital planning and investment control process.”

⁸ OMB Circular A-11, Part 7, at Section 300.4

recommendation that an Exhibit 300 submission for the restacking project should have been or must now be filed.

The OIG report refers to Exhibit 300 submissions by three cabinet agencies – specifically the Department of Homeland Security, Department of Justice, and Department of Labor – to support its assertion that such a submission is required for the SEC’s restacking project. However, the very projects cited in the OIG report show the opposite. The capital projects referenced by OIG are self-evidently “major investments,” whereas the SEC’s reconfiguration of its existing office layout stops far short of meeting the same standard. Specifically:

- The Department of Justice made Exhibit 300 submissions to OMB for 14 real property projects for construction of corrections facilities by the Bureau of Prisons. These were full acquisition, new construction efforts that averaged over \$230 million each.⁹
- The Department of Labor provided Exhibit 300 submissions for 13 real property projects. These were for the design and construction of Job Corps Centers consisting of a campus-like arrangement of up to nine new buildings per project, including dormitories, medical/dental facilities, and food service buildings. Although the anticipated costs of these projects are not provided in the Exhibit 300 submissions, it can be inferred that they would run into the hundreds of millions of dollars.¹⁰
- The Department of Homeland Security provided only one Exhibit 300 for a real property project, which would support U.S. Customs and Border Protection. The submission is for border protection and tactical infrastructure, and specifically cites “Border Patrol stations, Sector Headquarters, checkpoints, and remote forward operating bases,” as well as “fences, vehicle barriers, lighting, bridges, and road improvements.”¹¹ The cost of this initiative appears to be in the range of \$150 million and \$275 million per year.

The submissions cited in OIG’s report are for major capital projects undertaken by large cabinet agencies and costing hundreds of millions of dollars. They outline major projects for construction of extensive new federal facilities. In contrast, the SEC’s restacking initiative represents a capitalized cost to date of approximately \$850,000, with the remainder of the project’s costs comprised of services, which are not capitalized. Construction related to the restacking consists entirely of leasehold improvements (predominantly drywall, carpeting, and paint) to an existing facility, the agency’s Station Place headquarters, which is leased and not owned by the federal government.

Even though OMB did not require the agency to submit an Exhibit 300 for the restacking

⁹ Department of Justice FY2008 Exhibit 300s, found at <http://www.usdoj.gov/jmd/2008justification/exhibit300/>

¹⁰ Department of Labor FY2008 Exhibit 300s, found at <http://www.dol.gov/dol/budget/>

¹¹ Department of Homeland Security Exhibit 300 Public Release BY08, found at <http://www.dhs.gov/xlibrary/assets/mgmt/e300-cbp-borderpatrofaciltacticalinfra2008.pdf>

project, we nonetheless sought to ascertain if other government agencies utilized the Exhibit 300 process for initiatives such as this. Our diligence found very few Exhibit 300 submissions for non-information technology (IT) projects of any size, and none for non-IT projects in any way comparable to the SEC's restacking initiative in size, scope, or type. For instance, a review of the submissions of large agencies such as the Department of Education, Department of Energy, Department of Transportation, Department of Health and Human Services, and Nuclear Regulatory Commission found no reported non-IT capital asset projects among their Exhibit 300 submissions. In addition, our inquiries of a number of smaller or independent federal agencies found no instances in which an Exhibit 300 had been submitted for anything other than major information technology projects.

OIG Recommendations

The OIG audit report makes four recommendations. The four recommendations include two relating to surveys of Commission staff; one relating to the submission of an Exhibit 300; and one relating to policies and procedures pertaining to capital planning. Management concurs with three and does not concur with one of the recommendations.

Recommendation 1: The Office of Administrative Services should carefully review the results of the OIG survey and determine whether the restacking project should continue in its current form or any changes should be made to the restacking project based upon the survey responses, and to ensure better planning and foresight in any future similar approach.

Management Response: Management concurs with this recommendation. Notwithstanding the deficiencies in the survey noted above, we look forward to receiving the complete survey results, which OIG has not yet made available. To enhance the utility of the survey's findings, it will be helpful to receive response data that is properly cross-tabulated across the following variables: (a) whether the respondent works in the Station Place headquarters buildings or in the Alexandria Operations Center; (b) whether he or she is management or non-management; (c) which office or division he or she works in; (d) whether he or she had moved into a new office at the time of the survey; and (e) whether he or she moved into temporary or permanent space at the time of the survey.

Recommendation 2: The Office of Administrative Services should conduct another survey of staff after the restacking process has been completed to understand the effects and impacts of the project better and determine what, if any, changes should be implemented.

Management Response: Management concurs with this recommendation. We intend to conduct a full review of the restacking project, including a survey of affected staff, after its completion in order to better understand the impact of the project and apply lessons learned to future comparable projects.

Recommendation 3: Given that the restacking project has not been completed, the Office of Administrative Services should conduct appropriate analysis and complete and submit to OMB an Exhibit 300 for the remainder of the project, incorporating the guidelines of the Capital Programming Guide and the information provided in our review.

Management Response: Management respectfully disagrees with this recommendation. As we have discussed in this report, OIG's recommendation is built upon a misunderstanding of the requirements of OMB Circular A-11. In fact, OMB Circular A-11 requires that an Exhibit 300 be filed only for major investments, and the restacking project does not meet the definition of "major" established by OMB. Circular A-11 advises agencies to consult with OMB as to what capital investments should be considered "major" for this purpose, and the relevant officials at OMB have informed the SEC that they neither require nor request an Exhibit 300 for the restacking initiative.

Recommendation 4: The Office of Administrative Services, in coordination with the Office of the Executive Director, should develop and adopt policies and procedures to make its guidance for investments in space more consistent with the guidance in the Office of Management and Budget's Capital Programming Guide. The OAS should also review the Information Technology Capital Planning requirements for guidance in developing these policies and procedures.

Management Response: Management concurs with this recommendation. As part of our efforts to continuously assess and improve our business practices, management has already taken a number of actions to ensure an effective capital planning process. Earlier this year, the Office of Administrative Services established a Leasing and Real Property Branch charged with updating the agency's standard operating procedures and policies to help guide staff and ensure a disciplined capital programming process. OAS also hired two senior realty officers from the General Services Administration (GSA) to lead the branch and a financial analyst from the real estate industry to support the realty officers.

In developing these standard capital planning procedures, the Leasing and Real Property Branch will look to the guidance provided by the Office of Management and Budget's Capital Programming Guide, although we note that it may not be relevant for most agency capital projects, since the Capital Planning Guide is intended as guidance for "major" capital investments. We are also looking to, and plan to use as a benchmark, the capital planning policies in place at GSA, the Federal Deposit Insurance Corporation, and other federal agencies which have significant real property management expertise. As always, we will seek to ensure that the SEC's processes and policies for planning, budgeting, acquisition, management, and disposition of capital assets follow all federal legal and regulatory requirements, incorporate the best practices in place at other federal agencies, and are appropriately tailored to the SEC's size and to the cost and complexity of our capital investments.

OIG Response to Management Comments

We are pleased that management appreciates the work the OIG conducted in its review of the restacking project and our efforts to ensure that the SEC utilizes taxpayer resources appropriately. We are also pleased that management has concurred in full with three of our four recommendations designed to ensure that management conducts appropriate analyses of the restacking project going forward and for future projects that may have a significant impact on Commission resources and staff.

We do take issue, however, with certain statements made in management's response. First, management claims that due to the restacking project, it was able to terminate a lease in Virginia (for the Operations Center Annex), resulting in annual savings of approximately \$680,000 in rent, utilities and services, and producing total estimated savings of \$3.5 million over a five-year period. The amount of claimed annual savings differs substantially from the total Annex annual rent and operating cost figure management only recently provided to us of \$459,912. Furthermore, at the time it provided this lesser figure, management acknowledged that it was able to realize the Annex lease savings only **in part** due to the restacking project. Management now in its response inexplicably attributes the entire savings from the termination of the Annex lease to the restacking project.

Moreover, our review has determined that the savings resulting from the termination of the Annex lease had little, if anything, to do with the restacking project. We understand based upon discussions with the Office of Information Technology project lead for the Annex closure that the lease for that facility expired in October 2008 and the occupants – all of whom were contractors and not SEC employees – were moved out of the Annex by May 2008. The construction contract for the restacking was not entered into until September 2008. With the exception of less than ten contractors, the Annex occupants were all moved not to Station Place, but to the Operations Center, which was also being renovated. Management itself points out in its response that the Operations Center construction was unrelated to the restacking project. Therefore, we believe that management's claim that it expects the restacking initiative to more than pay for itself by making more efficient use of headquarters office space is simply at odds with the facts.

Second, management's position that the OIG's report incorrectly states that the SEC was required to submit an Exhibit 300 to the Office of Management and Budget (OMB) for the restacking project is based on an interpretation of the

incorrect version of the applicable OMB policies contained in OMB Circular A-11, Part 7. In its response, management claims that the OIG's report failed to quote certain "critical relevant sentences" from OMB Circular A-11, which provide that OMB may work with the agency to declare other investments as major investments and the agency should consult with its OMB representative about which investments to consider as major or non-major. However, this language is found only in the more recent version of Circular A-11 (issued in June 2008), not the version in effect at the time the restacking project was undertaken (prior version issued in July 2003). The OIG made clear in its report that, in determining that management had not complied with the requirements of the OMB Circular by failing to submit an Exhibit 300 to OMB, it was relying on the version of the OMB Circular in effect at the time management initiated the restacking.

Applying the correct version of the OMB Circular, we believe it cannot be disputed that the SEC failed to comply with the Circular's requirements before initiating the restacking project. The July 2003 version of Curricular A-11 required, among other things, that the agency's documented capital programming process include the criteria for determining when an investment is classified as major. Our review disclosed that, other than for information technology capital projects, the SEC had no process in place for making these important determinations. In fact, in its response, management acknowledges that it only recently communicated with OMB about the requirements for the restacking project as a result of the OIG's review. It is clear, therefore, that management did not discuss the classification of the project with OMB prior to the commencement of the restacking, and no consideration was given as to what capital planning processes should be followed before instituting the restacking. In addition, as demonstrated in the OIG report, none of the procedures outlined in OMB's Capital Programming Guide (which supplements OMB Circular A-11) were followed, no formal cost-benefit analysis was prepared justifying the project, and there was no documented evaluation of whether the existing space configuration was actually impeding staff productivity.

Moreover, management's claim that relevant OMB officials represented that an Exhibit 300 for the restacking project is presently "neither required nor requested" requires clarification. In the course of our review, we asked management for evidence of any such representations on the part of OMB, but management refused to provide the requested information. We then undertook our own efforts to contact OMB and located an OMB official who had recently spoken with the SEC about whether OMB desired an Exhibit 300 for the restacking project. This official made clear that her previous response to management's inquiry was that an Exhibit 300 was not needed for the restacking project **at this time** because OMB was already fairly well along in the process for developing the President's Budget for Fiscal Year 2010. This official further opined that this will **not** be the case in the future, during a typical budget-process year, and that OMB can work with the SEC to determine which Exhibit 300s it should submit for Fiscal Year

2011. Moreover, the OMB official previously informed management that OMB has in the past requested Exhibit 300s for non-IT requests from other agencies, possibly for new capital projects.

Further, while management maintains that the Exhibit 300 is required only for extremely large investments in the range of hundreds of millions of dollars, there is precedent to the contrary, as the Department of Education recently submitted an Exhibit 300 for a \$5,130,000 construction project. It should also be noted that what qualifies as a “major investment” for the SEC will, of course, naturally be much smaller than a “major investment” for a large cabinet-level department like DHS or DOJ. Moreover, in its communications with the SEC about Exhibit 300, OMB did not indicate that the restacking project (at a cost of approximately \$4 million over several years) was below OMB’s threshold for requiring that document.

Third, we are surprised at management’s dismissive response to the comprehensive survey that the OIG conducted of SEC staff to solicit their feedback about the restacking project. Management premises its overall disagreement with the survey on the claim that survey is deficient because it assumes the restacking has been completed. However, this is simply not the case. The survey itself made clear that the restacking project was ongoing, and asked that the staff specifically indicate whether their individual moves had been completed. In fact, question 3 of the OIG survey specifically stated, “Did/will you move to a permanent ‘new’ workspace as a result of the restacking project?” In addition, question 9 of the OIG survey requested information about move dates to permanent “new” workspace and included response choices that were clearly for future dates, e.g., July-September 2009. The survey also included several questions seeking feedback on the move to temporary space, which would not have been necessary if the project were complete.

Moreover, management’s implication that the survey results are immaterial because there was near-universal support from SEC senior managers is troubling. The survey results showed in overwhelming fashion (approximately 80% in some categories) that the SEC staff whose offices were relocated in the restacking believed communication was actually satisfactory prior to the moves; that, to the extent the moves had any impact on communications, it made the situation worse; and the project as a whole was a waste of SEC resources. Brushing aside such universal feedback from the SEC staff merely because the senior managers favored the project is not advisable in our view. It also directly contravenes the GAO’s recommendation to the SEC, after the significant cost overruns in connection with management’s previous construction projects, that the Chairman direct the Executive Director to improve communications and consultation with operating units **and staff** regarding space and property needs.

It should further be noted that notwithstanding management’s representation in its response that there was near-universal support for the project from senior

managers, our survey results showed that when their opinions were sought confidentially as part of our survey, many senior managers replied otherwise. The following are just a few examples:

- This project was a waste of money and is extremely disruptive to work at a critical time in the markets. Numerous staff spent a significant amount of worktime packing, unpacking and moving thus stopping or slowing important regulatory projects and diminishing the work of the SEC.
- There appears to have been funds spent on the new building, chairs, moving staff, etc, that might have more effectively been used providing the staff with technology or surveillance information that would make our work more effective.
- Seems like a waste of resources to restack.
- It is an absolute waste of time and money. We had moved recently to this new building and things were working quite well. The restacking disrupted everything for months and took valuable staff time away from work for useless packing and repacking and moving and removing. The new configuration makes work far more ineffective and has upset many staff who were moved from excellent space to much less favorable workspace. No one can figure out why we were forced to engage in this useless undertaking when staff were needed at a critical work at a time the market was in turmoil.
- [The Division] was mainly on one floor before the restacking project, and having the remainder of [the Division] on the floor immediately below the other floor did not seem to be detrimental at all.

Management's other criticisms of the survey are equally lacking in merit. For example, it is difficult to understand management's claim that the OIG survey was "fundamentally incomplete," when the OIG surveyed all Headquarters staff, including all levels of employees and managers. Moreover, management critiques the OIG for not working with management in designing the survey questions, yet offers no suggestions as to how the questions could have been improved. Similarly, if the OIG had adopted management's suggestion that the OIG should have waited until the construction was complete before initiating the survey, it would have been too late to make any changes to the project based on

the survey results. Finally, management's insistence on relying exclusively upon the contractor's project plan for a determination of each unit's space needs, in the face of the specific staff feedback in the survey that these needs will not be met by the restacking project, is of concern.

Overall, as noted above, we are pleased that management concurs with all but one of our recommendations in this report. We hope that, going forward, management will exercise more care in expending the scarce resources the SEC requires to perform its critical mission, particularly in these times of economic crisis. We also hope that management makes a greater effort in the future to analyze proposed construction projects, submit the appropriate documentation to OMB, and obtain feedback from the staff who will be impacted by the projects to ensure successful and cost-effective results.

Audit Requests and Ideas

The Office of Inspector General welcomes your input. If you would like to request an audit in the future or have an audit idea, please contact us at:

U.S. Securities and Exchange Commission
Office of Inspector General
Attn: Assistant Inspector General, Audits (Audit Request/Ideas)
100 F Street, N.E.
Washington D.C. 20549-2736

Tel. #: 202-551-6061
Fax #: 202-772-9265
Email: oig@sec.gov

Hotline

To report fraud, waste, abuse, and mismanagement at SEC,
contact the Office of Inspector General at:

Phone: 877.442.0854

Web-Based Hotline Complaint Form:
www.reportlineweb.com/sec_oig