



United States Government Accountability Office

Testimony

Before the Subcommittee on Oversight and
Management Efficiency, Committee on
Homeland Security, House of Representatives

For Release on Delivery
Expected at time, 9:30 a.m ET
Friday, September 19, 2014

FEDERAL REAL PROPERTY

DHS AND GSA NEED TO STRENGTHEN THE MANAGEMENT OF DHS HEADQUARTERS CONSOLIDATION

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our report, which is being released today, on the Department of Homeland Security (DHS) headquarters consolidation project at St. Elizabeths Campus in Washington, D.C.¹ The \$4.5 billion construction project, managed by DHS and the General Services Administration (GSA),² is the centerpiece of DHS's larger effort to manage and consolidate its workforce of over 20,000 in the National Capital Region (NCR).³ As conceived in 2006, the federally owned St. Elizabeths site was designed to consolidate DHS's executive leadership, operational management, and other personnel at one secure location rather than at multiple locations throughout the Washington, D.C., metropolitan area.⁴ Specifically, DHS envisioned moving about 14,000 staff to the new headquarters facility and housing its remaining personnel in other consolidated spaces across the region. With a current projected completion date of 2026, the St. Elizabeths project is intended to provide DHS a secure facility to allow for more efficient incident management response and command-and-control operations, and also provide long-term cost savings by reducing reliance on leased space.

My testimony is based on and summarizes the key findings of our report issued today, on DHS and GSA efforts to manage the DHS headquarter consolidation project. My statement will address the extent to which DHS and GSA have (1) developed DHS headquarters consolidation plans in accordance with leading capital decision-making practices and (2) estimated the costs and schedules of the DHS headquarters consolidation project at St. Elizabeths in a manner that is consistent with leading practices. To do our work we compared DHS and GSA capital planning efforts against applicable leading practices in capital decision making and interviewed DHS and GSA officials responsible for the planning and management of the DHS headquarters

¹GAO, *Federal Real Property: DHS and GSA Need to Strengthen the Management of DHS Headquarters Consolidation*, GAO-14-648 (Washington, D.C.: Sept. 19, 2014).

²GSA, the landlord for the civilian federal government, acquires space on behalf of the federal government through new construction and leasing, and acts as a caretaker for federal properties across the country. As such, GSA had the responsibility to select the specific site for a new, consolidated DHS headquarters facility, based on DHS needs and requirements.

³The National Capital Region is composed of the District of Columbia and nearby jurisdictions in Maryland and Virginia.

⁴The St. Elizabeths campus is a National Historic Landmark and a former federally-run hospital for the mentally ill.

consolidation.⁵ We also compared DHS and GSA documents on the estimated cost and schedule for the St. Elizabeths project with GAO cost- and schedule-estimating leading practices and relevant GSA guidance.⁶ More detailed information on the scope and methodology can be found in our published report.⁷ The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards.

Background

The Homeland Security Act of 2002 combined 22 federal agencies specializing in various missions under DHS.⁸ Numerous departmental offices and seven key operating components are headquartered in the NCR.⁹ When DHS was formed, the headquarters functions of its various components were not physically consolidated, but instead were dispersed across the NCR in accordance with their history. As of July 2014, DHS employees were located in 94 buildings and 50 locations, accounting for approximately 9 million gross square feet of government-owned and -leased office space.

DHS began planning the consolidation of its headquarters in 2005. According to DHS, increased colocation and consolidation were critical to (1) improve mission effectiveness, (2) create a unified DHS organization, (3) increase organizational efficiency, (4) size the real estate portfolio accurately to fit the mission of DHS, and (5) reduce real estate occupancy costs. Between 2006 and 2009, DHS and GSA developed a number of capital planning documents to guide the DHS headquarters consolidation process. For example, DHS's National Capital Region Housing Master Plan identified a requirement for approximately 4.5 million square feet of office space on a secure campus. In addition, DHS's 2007 Consolidated Headquarters Collocation Plan

⁵GAO, *Executive Guide: Leading Practices in Capital Decision-Making*; GAO/AIMD-99-32 (Washington, D.C.: Dec. 1, 1998) and Office of Management and Budget (OMB), *Capital Programming Guide, Supplement to OMB Circular A-11* (Washington, D.C.: July 2014).

⁶GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, [GAO-09-3SP](#) (Washington, D.C.: Mar. 2, 2009) and *GAO Schedule Assessment Guide: Best Practices for Project Schedules*, GAO-12-120G (Washington, D.C.: May 2012).

⁷GAO-14-648.

⁸Pub. L. No. 107-296, 116 Stat. 2135.

⁹Departmental offices encompass core management and policy functions, among other things. The seven core DHS operating components headquartered in the NCR are U.S. Citizenship and Immigration Services, U.S. Coast Guard, U.S. Customs and Border Protection, Federal Emergency Management Agency, U.S. Immigration and Customs Enforcement, U.S. Secret Service, and Transportation Security Administration.

summarized component functional requirements and the projected number of seats needed on- and off-campus for NCR headquarters personnel.

From fiscal year 2006 through fiscal year 2014, the St. Elizabeths consolidation project had received \$494.8 million through DHS appropriations and \$1.1 billion through GSA appropriations, for a total of over \$1.5 billion. However, from fiscal year 2009—when construction began—through the time of the fiscal year 2014 appropriation, the gap between requested and received funding was over \$1.6 billion. According to DHS and GSA officials, this gap created cost escalations of over \$1 billion and schedule delays of over 10 years.

DHS and GSA Consolidation Plans Did Not Fully Conform with Leading Capital Decision-Making Practices

In our September 2014 report, we found that DHS and GSA planning for the DHS headquarters consolidation did not fully conform with leading capital decision-making practices intended to help agencies effectively plan and procure assets.¹⁰ Specifically, we found that DHS and GSA had not conducted a comprehensive assessment of current needs, identified capability gaps, or evaluated and prioritized alternatives that would help officials adapt consolidation plans to changing conditions and address funding issues as reflected in leading practices. DHS and GSA officials reported that they had taken some initial actions that may facilitate consolidation planning in a manner consistent with leading practices. For example, DHS has an overall goal of reducing the square footage allotted per employee across the department in accordance with current workplace standards, such as standards for telework and hoteling.¹¹ DHS and GSA officials acknowledged that new workplace standards could create a number of new development options to consider, as the new standards would allow for more staff to occupy the current space at St. Elizabeths than previously anticipated. DHS and GSA officials also reported

¹⁰Congress, OMB, and GAO have all identified the need for effective capital decision making among federal agencies. OMB's *Capital Programming Guide*, along with GAO's *Executive Guide: Leading Practices in Capital Decision-Making* provides detailed guidance to federal agencies on leading practices for the four phases of capital programming—planning, budgeting, acquiring, and managing capital assets. These practices are, in part, intended to provide a disciplined approach or process to help federal agencies effectively plan and procure assets to achieve the maximum return on investment.

¹¹Telework is a work arrangement in which employees perform all or a portion of their work at an alternative work site, such as from home or a telework center. Hoteling allows employees to work at multiple sites and use nondedicated, nonpermanent workspaces assigned for use by reservation on an as-needed basis.

analyzing different leasing options that could affect consolidation efforts. However, we found that the consolidation plans, which were finalized between 2006 and 2009, had not been updated to reflect these actions.

In addition, we found that current funding for the St. Elizabeths project had not aligned with what DHS and GSA initially planned. According to DHS and GSA officials, the funding gap between what DHS and GSA requested and what was received from fiscal years 2009 through 2014, was over \$1.6 billion. According to these officials, this gap created cost escalations of over \$1 billion and schedule delays of over 10 years relative to original estimates. These delays have posed challenges for DHS in terms of its current leasing portfolio. Specifically, DHS's long-term leasing portfolio was developed based on the original expected completion date for St. Elizabeths development in 2016. According to DHS leasing data, 52 percent of DHS's current NCR leases will expire in 2014 and 2015, accounting for almost 39 percent of its usable square feet. However, we found that DHS and GSA had not conducted a comprehensive assessment of current needs, identified capability gaps, or evaluated and prioritized alternatives that would help officials adapt consolidation plans to changing conditions and address funding issues, as reflected in leading practices for capital decision making.¹² DHS and GSA reported that they have begun to work together to consider changes to the DHS headquarters consolidation plans, but they had not announced when new plans will be issued. Furthermore, because final documentation of agency deliberations or analyses had not yet been developed, it was unclear if any new plans would be informed by an updated comprehensive needs assessment and capability gap analysis as called for by leading capital decision-making practices. Therefore, in our September 2014 report, we recommended that DHS and GSA conduct (1) a comprehensive needs assessment and gap analysis of current and needed capabilities that takes into consideration changing conditions, and (2) an alternatives analysis that identifies the costs and benefits of leasing and construction alternatives for the remainder of the project and prioritizes options to account for funding instability. DHS and GSA concurred with these recommendations and stated that their forthcoming draft St. Elizabeths Enhanced Consolidation Plan would contain these analyses.

Finally, we found that DHS had not consistently applied its major acquisition guidance for reviewing and approving the headquarters consolidation project. Specifically, we found that

¹²GAO/AIMD-99-32 and OMB *Capital Programming Guide*.

DHS had guidelines in place to provide senior management the opportunity to review and approve its major projects, but DHS had not consistently applied these guidelines to its efforts to work with GSA to plan and implement headquarters consolidation. DHS had designated the headquarters consolidation project as a major acquisition in some years but not in others. In 2010 and 2011, DHS identified the headquarters consolidation project as a major acquisition and included the project on DHS's Major Acquisitions Oversight List.¹³ Thus, the project was subject to the oversight and management policies and procedures established in DHS major acquisition guidance; however, the project did not comply with major acquisition requirements as outlined by DHS guidelines. For example, we found that the project had not produced any of the required key acquisition documents requiring department-level approval, such as life-cycle cost estimates and an acquisition program baseline, among others. In 2012, the project as a whole was dropped from the list. In 2013 and 2014, DHS included the information technology (IT) acquisition portion of the project on the list, but not the entire project. DHS officials explained that they considered the St. Elizabeths project to be more of a GSA acquisition than a DHS acquisition because GSA owns the site and the majority of building construction is funded through GSA appropriations. We recognize that GSA has responsibility for managing contracts associated with the headquarters consolidation project. However, a variety of factors, including the overall cost, scope, and visibility of the project, as well as the overall importance of the project in the context of DHS's mission, make the consolidation project a viable candidate for consideration as a major acquisition. By not consistently applying this review process to headquarters consolidation, we concluded that DHS management risked losing insight into the progress of the St. Elizabeths project, as well as how the project fits in with its overall acquisitions portfolio. Thus, in our September 2014 report, we recommended that the Secretary of Homeland Security designate the headquarters consolidation program a major acquisition, consistent with DHS acquisition policy, and apply DHS acquisition policy requirements. DHS concurred with the recommendation.

¹³DHS reviews its acquisition portfolio annually and designates programs as major acquisitions based on DHS investment thresholds. Generally, programs that incur costs greater than \$300 million over the life cycle of the program are considered major acquisitions. In 2014, DHS changed the name of the Major Acquisition Oversight List to the Master Acquisition Oversight List to more accurately distinguish between the department's major (Level 1 and 2) and nonmajor (Level 3) acquisitions and nonacquisition activities included in the list.

DHS and GSA Cost and Schedule Estimates for the St. Elizabeths Project Did Not Reflect Leading Practices

In our September 2014 report, we found that DHS and GSA cost and schedule estimates for the headquarters consolidation project at St. Elizabeths did not conform or only minimally or partially conformed with leading estimating practices, and were therefore unreliable.¹⁴ Furthermore, we found that in some areas, the cost and schedule estimates did not fully conform with GSA guidance relevant to developing estimates.

Cost Estimates

We found that DHS and GSA cost estimates for the headquarters consolidation project at St. Elizabeths did not reflect leading practices, which rendered the estimates unreliable. For example, we found that the 2013 cost estimate—the most recent available—did not include (1) a life-cycle cost analysis of the project, including the cost of repair, operations, and maintenance; (2) was not regularly updated to reflect significant changes to the program including actual costs; and (3) did not include an independent estimate to assist in tracking the budget. In addition, a sensitivity analysis had not been performed to assess the reasonableness of the cost estimate. We have previously reported that a reliable cost estimate is critical to the success of any program.¹⁵ Specifically, we have found that such an estimate provides the basis for informed investment decision making, realistic budget formulation and program resourcing, meaningful progress measurement, proactive course correction when warranted, and accountability for results. Accordingly, we concluded that DHS and GSA would benefit from maintaining current and well-documented estimates of project costs at St. Elizabeths—even if project funding is not fully secured—and these estimates should encompass the full life cycle of the program and be independently assessed.

Schedule Estimates

¹⁴GAO-09-3SP and GAO-12-120G. For both the cost and schedule estimates, our analysis focused on how well DHS and GSA met each of the four characteristics based on our assessment of conformance to the leading practices associated with that characteristic. We then arrayed the extent to which DHS and GSA cost and schedule estimates conformed with the four characteristics of each using five rating categories—fully meets, substantially meets, partially meets, minimally meets, or does not meet.

¹⁵ GAO-09-3SP.

In addition, we found that the 2008 and 2013 schedule estimates did not include all activities for both the government and its contractors necessary to accomplish the project's objectives and did not include schedule baseline documents to help measure performance as reflected in leading practices and GSA guidance. For the 2008 schedule estimate, we also found that resources (such as labor, materials, and equipment) were not accounted for and a risk assessment had not been conducted to predict a level of confidence in the project's completion date. In addition, we found the 2013 schedule estimate was unreliable because, among other things, it was incomplete in that it did not provide details needed to understand the sequence of events, including work to be performed in fiscal years 2014 and 2015.

We concluded that developing cost and schedule estimates consistent with leading practices could promote greater transparency and provide decision makers needed information about the St. Elizabeths project and the larger DHS headquarters consolidation effort. However, in commenting on our analysis of St. Elizabeths cost and schedule estimates, DHS and GSA officials said that it would be difficult or impossible to create reliable estimates that encompass the scope of the entire St. Elizabeths project. Officials said that given the complex, multiphase nature of the overall development effort, specific estimates are created for smaller individual projects, but not for the campus project as a whole. Therefore, in their view, leading estimating practices and GSA guidance cannot reasonably be applied to the high-level projections developed for the total cost and completion date of the entire St. Elizabeths project. GSA stated that the higher-level, milestone schedule currently being used to manage the program is more flexible than the detailed schedule GAO proposes, and has proven effective even with the highly variable funding provided for the project.

We found in our September 2014 report, however, that this high-level schedule was not sufficiently defined to effectively manage the program. For example, our review showed that the schedule did not contain detailed schedule activities that include current government, contractor, and applicable subcontractor effort. Specifically, the activities shown in the schedule only address high-level agency square footage segments, security, utilities, landscape, and road improvements. While we understand the need to keep future effort contained in high-level planning packages, in accordance with leading practices, near-term work occurring in fiscal years 2014 and 2015 should have more detailed information. We recognize the challenges of developing reliable cost and schedule estimates for a large-scale, multiphase project like St.

Elizabeths, particularly given its unstable funding history and that incorporating GAO's cost- and schedule-estimating leading practices may involve additional costs. However, unless DHS and GSA invest in these practices, Congress risks making funding decisions and DHS and GSA management risk making resource allocation decisions without the benefit that a robust analysis of levels of risk, uncertainty, and confidence provides. As a result, in our September 2014 report, we recommended that, after revising the DHS headquarters consolidation plans, DHS and GSA develop revised cost and schedule estimates for the remaining portions of the consolidation project that conform to GSA guidance and leading practices for cost and schedule estimation, including an independent evaluation of the estimates. DHS and GSA concurred with the recommendation.

In our September 2014 report, we also stated that Congress should consider making future funding for the St. Elizabeths project contingent upon DHS and GSA developing a revised headquarters consolidation plan, for the remainder of the project, that conforms with leading practices and that (1) recognizes changes in workplace standards, (2) identifies which components are to be colocated at St. Elizabeths and in leased and owned space throughout the NCR, and (3) develops and provides reliable cost and schedule estimates.

Mr. Chairman and members of the Subcommittee, this concludes my prepared statement. I look forward to responding to any questions that you may have.

GAO Contacts and Staff Acknowledgments

For questions about this statement, please contact David C. Maurer, Director, Homeland Security and Justice Issues, (202) 512-9627 or maurerd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this statement include David J. Wise (Director), Adam Hoffman (Assistant Director), John Mortin (Assistant Director), Karen Richey (Assistant Director), Juana Collymore, Daniel Hoy, Tracey King, Abishek Krupanand, Jennifer Leotta, David Lutter, and Jan Montgomery.

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