



OFFICE OF INSPECTOR GENERAL

Audit Report

2017-FMIC-B-012

The Board Can Improve
Communication and Documentation
Regarding the Martin Building Project

May 24, 2017

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

Report Contributors

James Keegan, Project Manager
Brian Murphy, Project Lead
Margaret An, Senior Auditor
Jordan Keitelman, Auditor
Janice Buck, Project Lead
Cynthia Gray, Senior OIG Manager for Financial Management and Internal Controls
Melissa Heist, Associate Inspector General for Audits and Evaluations

Abbreviations

A/E	architecture and engineering
Board	Board of Governors of the Federal Reserve System
CBA	Committee on Board Affairs
CD	construction document
CFA	U.S. Commission of Fine Arts
COO	Chief Operating Officer
COTR	contracting officer's technical representative
DD	design development
EOG	Executive Oversight Group
GAO	U.S. Government Accountability Office
IRB	Investment Review Board
NCPC	National Capital Planning Committee
OIG	Office of Inspector General
POR/ER	Program of Requirements and Engineering Report
RACI	<i>Martin Building Renovation Change Order Responsibility</i>
SD	schematic design



Executive Summary:

The Board Can Improve Communication and Documentation Regarding the Martin Building Project

2017-FMIC-B-012

May 24, 2017

Purpose

The objective of our audit was to assess the effectiveness of the Board of Governors of the Federal Reserve System's (Board) controls over contracted architecture and engineering (A/E) services for the Martin Building renovation project. The initial A/E contract was canceled in 2015, and the Martin Building project's time frame has been extended. As of March 2017, the Board expects construction to be completed in the fourth quarter of 2019, with move-in scheduled for the first quarter of 2020.

The magnitude of the renovation makes it a complex undertaking that has created challenges for the Board, and additional delays could have a cascading effect on project costs. Given the cost, complexity, and time remaining until expected completion, we undertook this audit to identify lessons learned and opportunities for the Board to improve its contract management processes for the Martin Building project going forward.

Background

The Martin Building project is noted in the Board's strategic plan and comprises three interrelated construction and renovation efforts: (1) construction of a visitors' center, (2) construction of a conference center, and (3) renovation of the Martin Building. The Board's objectives for the project are to create a safe and secure work environment that updates the physical infrastructure and reduces utilities consumption and expenses.

The A/E contracting efforts for the design of a visitors' center and a conference center began in 2006. The scope of the A/E firm's design work was significantly expanded in 2011 by a contract modification to include a complete renovation of the Martin Building. Our audit scope covered project activities from January 2013 through the cancellation of the contract in August 2015. We reviewed earlier project activities in prior reviews we conducted on the Martin Building project.

Finding

We found that the Board's controls over contracted A/E services were designed effectively and communication channels were established to assist the project team with managing the Martin Building project. However, the project team's communication with and documentation provided to the Chief Operating Officer and the Executive Oversight Group could have been improved to better reflect the Martin Building renovation's progress, particularly during the schematic design phase. Documentation of key discussion topics, advice, decisions, or recommendations made by the Executive Oversight Group could also be improved. Further, we identified other matters regarding contract management for consideration going forward to better manage contractor performance and reduce the risk of unplanned costs.

Recommendations

Our report contains recommendations designed to strengthen the Board's internal control environment and communication processes during the Martin Building Renovation project. In its response to our draft report, the Board concurs with our recommendations and describes actions that it will take to address our recommendations.

Summary of Recommendations, OIG Report 2017-FMIC-B-012

Recommendation number	Page	Recommendation	Responsible office
1	10	Assess the information needs of the Chief Operating Officer and of the Executive Oversight Group and update guidance to ensure that the project team provides this information in a timely manner. Such information may include missed milestones, vendor performance concerns, or unsatisfactory major deliverables.	Management Division
2	10	Develop and implement guidance on status reporting requirements for reports to the Chief Operating Officer and the Executive Oversight Group. Consider alignment with existing Board reporting guidelines to the extent practicable.	Management Division
3	10	Revise the Executive Oversight Group charter to identify roles and responsibilities related to documenting decisions, recommendations, and key discussion topics and posting the documentation to the SharePoint site.	Management Division



OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

May 24, 2017

MEMORANDUM

TO: Michell Clark
Director, Management Division
Board of Governors of the Federal Reserve System

FROM: Melissa Heist *Melissa Heist*
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2017-FMIC-B-012: *The Board Can Improve Communication and Documentation Regarding the Martin Building Project*

The Office of Inspector General has completed its report on the subject audit. We conducted this audit to assess the effectiveness of the Board of Governors of the Federal Reserve System's (Board) controls over contracted architecture and engineering services for the Martin Building renovation project.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that the Board will take to address our recommendations. We have included your response as appendix C to our report.

We appreciate the cooperation we received from the Management Division, the Legal Division, and the Division of Financial Management during our review. Please contact me if you would like to discuss this report or any related issues.

cc: Donald V. Hammond, Chief Operating Officer, Office of the Chief Operating Officer
Winona Varnon, Deputy Director, Management Division
Steve Bernard, Acting Chief Financial Officer and Acting Director, Division of Financial Management

Contents

Introduction	1
Objective	1
Background	1
<i>The Board's Project Team</i>	2
<i>The Board's Oversight and Advisory Groups</i>	2
<i>Project Status Reporting</i>	3
<i>The A/E Contract</i>	3
<i>Standards and Guidance</i>	5
Finding 1: The Board Can Improve Communication and Documentation Regarding the Martin Building Project	7
Some Project Information Was Not Fully Reflected in Briefing Materials Provided to the COO and the EOG	7
<i>Termination Discussions</i>	7
<i>Quality of Deliverables and Project Progress</i>	8
<i>Complete and Timely Information May Lead to Positive Project Outcomes</i>	8
EOG Meeting Recaps Are Not Documented	9
Commendable Action	10
Recommendations	10
Management's Response	10
OIG Comment	11
Other Matters for Management's Consideration	12
Appendix A: Scope and Methodology	13
Appendix B: Contract Deliverables	14
Appendix C: Management's Response	15

Introduction

Objective

The objective of our audit was to assess the effectiveness of the Board of Governors of the Federal Reserve System's (Board) controls over contracted architecture and engineering (A/E) services for the Martin Building renovation project. The initial A/E contract was canceled in 2015, and the Martin Building project's time frame has been extended. As of March 2017, the Board expected construction to be completed in the fourth quarter of 2019, with move-in scheduled for the first quarter of 2020.

The magnitude of the renovation makes it a complex undertaking that has created challenges for the Board, and additional delays could have a cascading effect on project costs. Given the cost, complexity, and time remaining until expected completion, we undertook this audit to identify lessons learned and opportunities for the Board to improve its contract management processes for the Martin Building project going forward. Details on our scope and methodology are presented in appendix A.

Background

The Martin Building project is included in one of the Board's six strategic pillars¹ and comprises three interrelated construction and renovation efforts: (1) construction of a visitors' center, (2) construction of a conference center, and (3) renovation of the Martin Building. The Board's objectives for the project are to create a safe and secure work environment that updates the physical infrastructure and reduces utilities consumption and expenses.

The A/E contracting efforts for the design of a visitors' center and a conference center began in 2006. The scope of the A/E firm's design work was significantly expanded in 2011 by a contract modification to include a complete renovation of the Martin Building. Our audit scope covered project activities from January 2013 through the cancellation of the contract in August 2015. We reviewed earlier project activities in prior reviews we conducted on the Martin Building project.²

-
1. Board of Governors of the Federal Reserve System, *Strategic Plan 2016–19 and Annual Performance Report 2015*.
 2. Office of Inspector General, *Audit Observations on the Board's Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff*, [OIG Report 2013-AA-B-007](#), March 29, 2013; and Office of Inspector General, *Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project*, [OIG Report 2014-AE-B-007](#), March 31, 2014.

The Board's Project Team

The Board's project team consists of nonexecutive members who handle day-to-day project operations and executive members who act as the management authority for the Martin Building project.

- The nonexecutive team members consist of staff from the Management Division and the Division of Financial Management who have expertise in facilities, procurement, space planning, and budget and administration. Nonexecutive team membership has grown over the course of the project, from one full-time manager, who acted as the contracting officer's technical representative (COTR), and several part-time staff, to a full-time project manager/COTR and five full-time support staff.
- The executive team members consist of the Chief Operating Officer (COO), the Director of the Management Division, the Deputy Director of the Management Division (who is the project sponsor), and the Senior Associate Director for Facility Services.

The Board's Oversight and Advisory Groups

The Executive Oversight Group (EOG) and the Investment Review Board (IRB) are advisory bodies, and the Committee on Board Affairs (CBA) is an oversight body, for the Martin Building project.

- The EOG was formed in February 2013 to serve as a strategic advisor to the project sponsor and to provide strategic oversight, advice, and guidance based on the members' collective experiences. The EOG charter states the membership represents a cross section of the key stakeholders involved in executing the project, divisions affected by the project, and additional members who are able to provide an external executive perspective to the project. The EOG operates under a charter that provides broad direction for the group to function as "a second set of eyes."
- The IRB was established in June 2013 with the intent to provide a consistent and disciplined review of all Board capital projects over \$1 million, or those that meet other criteria, to support consistency and coordination across the Board and to help ensure project success.³
- The CBA oversees the Board's planning and budgetary process, monitors the budget, and provides planning guidance when appropriate. The CBA also oversees the COO,

3. All projects that either exceed \$1 million in total project cost (operating and capital) or are determined to have a significant effect on the Board are subject to IRB review. The significant effect determination can be made by the COO, the Executive Committee, or the appropriate Oversight Governor.

the Management Division, the Division of Financial Management, and the Division of Information Technology.

Project Status Reporting

During the period of our review, the project team members began reporting on the Martin Building project's status to the COO, the IRB, the EOG, and the CBA. The project team prepared project status materials bimonthly for the COO and quarterly for the IRB and the EOG. These materials often used a color-coding system (*red, yellow, and green*) to supplement the narrative and summarize the project's overall status to the COO and the advisory groups. The project team also produced briefing materials on an ad hoc basis for the CBA. This project reporting was ongoing as of the end of our fieldwork.

The A/E Contract

The A/E contract required the A/E firm to manage the design, architecture, and engineering services for the Martin Building project. The A/E firm was required to function as the project team leader with respect to the project design, as well as to fulfill other responsibilities, such as identifying and pursuing regulatory approvals,⁴ making presentations to the Board, participating in biweekly project meetings, and fulfilling various reporting requirements. The contract also specified oversight controls to compel performance and protect the interests of the Board and the A/E firm, such as holding regular meetings between the Board and the A/E firm, using support vendors, and withholding payment for deliverables the Board believed to be unacceptable.

The contract outlined the scope of work for the project and divided it into three phases:

1. Schematic design (SD)—The A/E firm consults with the project owner to determine goals and requirements of the project.
2. Design development (DD)—The A/E firm builds on the SD documents and adds more detail, such as mechanical and structural details.
3. Construction document (CD)—The A/E firm creates fully detailed documents for construction.

Within each phase, the contract delineated the A/E firm's specific, scheduled deliverables. Additional details on the project phases are below and in appendix B.

4. The project design is required to obtain regulatory approvals from the U.S. Commission of Fine Arts (CFA) and the National Capital Planning Committee (NCPC). The CFA is responsible for the design review of government properties in the nation's capital. The NCPC is responsible for reviewing federal and District of Columbia development projects and providing legal rulings based on recommendations from NCPC's staff on a monthly basis.

Schematic Design Phase

The SD phase formally began in January 2013, after the project budget was approved as a part of the Board's strategic planning process.⁵ The required deliverable for this phase was the Program of Requirements and Engineering Report (POR/ER). In addition, although the contract required the completion of the POR/ER prior to beginning work on the next phase, the project team instructed the A/E firm to work on select CDs concurrently with the POR/ER in order to secure final regulatory approvals prior to conceptual approvals expiring.⁶

We noted that the project encountered challenges and additional delays during this phase primarily due to the quality of the A/E firm's deliverable submissions. To help address challenges and facilitate the project, in November 2013 the Board brought on a new COTR with background and experience in managing projects similar to the Martin Building renovation. The project team continued to express concerns to the A/E firm about the quality of the deliverables and held multiple meetings and workshops in 2013 and 2014 to resolve these concerns. The project team also requested an A/E project manager change and a comprehensive staffing plan to move the project forward. Nevertheless, the project team and the A/E firm worked through four different versions of the POR/ER and spent three times more than the time allotted under the contract to complete this phase. The POR/ER was ultimately accepted in August 2014.

Design Development Phase

During this phase, which began in May 2014, the A/E firm was required to prepare DD documents representing completion of 30 percent of the design of all major design features, systems, and performance requirements for the project.

The project team also encountered challenges with the quality of the A/E firm's work during this phase, expressed its concerns to the A/E firm through meetings and official letters, and worked with the A/E firm to resolve the issues. The project team and the A/E firm worked through three versions of the 30 percent DD and spent almost twice the time allotted under the contract to complete this phase. This deliverable was conditionally accepted in February 2015, albeit with comments that required resolution.

-
5. We detailed in our 2013 memorandum, *Audit Observations on the Board's Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff*, that the Martin Building project had gone through a lengthy design phase, primarily due to significant scope changes.
 6. The project's exterior design concept received initial approvals from the CFA and the NCPC in November 2009 and February 2010, respectively. As noted, the Martin Building project significantly expanded in 2011; the project team submitted the revised design concept and received final approvals from the CFA and the NCPC in December 2013 and March 2014, respectively.

Construction Document Phase

This phase began in October 2014, with work on select elements having begun in 2013 in the SD phase, as noted above. During the CD phase, the A/E firm was required to prepare CDs representing completion of 60 percent, 95 percent, and 100 percent of the design of all the major design features, systems, and performance requirements of the project.

The project team continued to experience challenges with the A/E firm's performance in the CD phase and expressed its concerns to the A/E firm through meetings and official letters. The project team granted the A/E firm two extensions, totaling 9 weeks, for submission of the 60 percent CD submission. The project team rejected the 60 percent CD submission in April 2015, noting that it did not meet the requirements set forth in the contract. Further, the project team required the A/E firm to submit a mitigation and recovery plan,⁷ which was determined to be insufficient. Consequently, the project team issued a cure notice.⁸ After reviewing the A/E firm's revised 60 percent CDs, the Board still had concerns and canceled the contract in August 2015.

Standards and Guidance

The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* provides the overall framework for designing, implementing, and operating an effective internal control system, including communication and documentation. Although the Board is not required to follow these standards, they are considered to embody industry best practices for internal controls.

In addition, the Board developed guidance for change order⁹ responsibilities and the administration of the EOG. This guidance includes the following:

- The *Martin Building Renovation Change Order Responsibility* (RACI) document, effective October 7, 2013, contains a matrix specifying which positions need to review, approve, concur, or be informed of various Martin Building project changes affecting the scope, schedule, and budget. These positions include the COTR, the Director of the Management Division, the COO, and the Administrative Governor.
- The EOG charter, effective April 8, 2013, describes how membership in the EOG will be established and which stakeholder organizations will be included. The charter requires the EOG to meet quarterly and document decisions, recommendations, and key

7. A *mitigation and recovery plan* is a written plan developed by the contractor detailing the corrective action the contractor will take to respond to the deficiencies raised and showing how the contractor will adhere to the remainder of the design schedule.

8. A *cure notice* is a notification provided by the contracting officer to the contractor that specifies deficiencies in the contractor's performance and gives the contractor 10 days to cure such deficiencies. These notifications may be provided when the contractor fails to make progress so as to endanger the performance requirements of the contract.

9. A *change order* is a process whereby changes in the scope of work are agreed to by the Board and its contractors.

discussion topics. The charter also describes the process for requesting, assigning, or nominating members; who will chair the group; who has decision rights; how long members will serve; and how changes in membership will be handled.

Finding 1: The Board Can Improve Communication and Documentation Regarding the Martin Building Project

The project team noted concerns about the A/E firm's performance on several occasions; however, we found that written briefing materials produced by the project team for the COO and EOG were not fully reflective of these concerns or the Martin Building project's progress, particularly during the SD phase. In addition, we found that EOG meeting recap documentation is not maintained. GAO states that management should internally communicate the necessary information to make informed decisions and achieve the entity's objectives. Although the RACI document contains guidance for project changes affecting scope, schedule, or budget, we did not find comprehensive guidance for the project team's sharing of information with the COO and the EOG. Further, we were informed that the project team was generally focused on avenues to improve the performance of the A/E vendor, which may have influenced the timing and documentation of reports to the COO and the EOG. The EOG charter contains requirements for the capture and sharing of meeting information; however, it does not fully specify roles and responsibilities, such as who is responsible for meeting recap documentation. Although we recognize that their roles and the nature of the communications they receive may differ, we believe that the effectiveness of COO and EOG input is dependent on their receipt of complete and timely information. Further, preparing EOG meeting recaps would create a record of decisions, recommendations, and key decision topics that could be used to inform project decisions and EOG meetings going forward.

Some Project Information Was Not Fully Reflected in Briefing Materials Provided to the COO and the EOG

During our review, we noted instances in which information was not included or fully reflected in the written briefing materials that the project team provided to the COO or the EOG. Such information included discussions regarding termination of the A/E firm's contract, the quality of the A/E firm's deliverables, and project progress. We were informed by senior management that these discussions took place; however, records of these discussions were not documented, and attendees that we interviewed had inconsistent recollections of what was communicated in the meetings. Having early knowledge and better documentation of potentially unfavorable information may better enable the COO and the EOG to provide timely input and contribute to the success of the project as it progresses into the construction phase.

Termination Discussions

During the SD phase, we identified two instances in which members of the project team discussed terminating the A/E firm's contract. In April 2013, the members of the project team discussed with the Board's Legal Division terminating the A/E firm's contract because the A/E firm repeatedly submitted cost proposals for additional services that were at least twice what the project team estimated the costs should be. Roughly a year later, in March 2014, the project team discussed with the Board's Legal Division terminating the A/E firm's contract for performance issues, specifically because of concerns with the quality of the POR/ER and the

lack of A/E firm responsiveness. In both cases, these termination discussions were not included in the written briefing materials sent to the COO or the EOG.

Quality of Deliverables and Project Progress

We noted that the project team had concerns regarding the quality of the A/E firm's deliverables that were not reflected in project status briefing materials provided to the EOG. For example, we noted that in July 2013, during the SD phase, a member of the project team sent a memorandum to the A/E firm's project manager regarding the 60 percent POR submission, stating, "It is our determination that this document is approximately 30 percent complete and not 60 percent." Briefing materials presented to the EOG later that July, however, noted that "no red flags" were identified with the 60 percent POR submission.

Further, in September 2013 this same project team member prepared a memorandum to file documenting a meeting between two members of the Board's project team and the A/E firm principal assigned to the contract. This memorandum to file documented discussions about the A/E firm's project manager not satisfactorily managing the subcontractors as well as the quality and timeliness of deliverables. The September 2013 EOG briefing materials did not include information contained in this memorandum.

As the SD phase continued into 2014, the project team conducted workshops to correct deficiencies in the A/E firm's November 2013 100 percent POR/ER submission, which was expected to be the final POR/ER. These workshops covered a variety of design element issues, including lighting, mechanical, plumbing, and structural elements, among other topics. The workshops started in December 2013 but were not reflected in EOG briefing materials until April 2014. Although these workshops were noted in the COO briefing materials, milestones included in these materials for the January 2014, March 2014, and May 2014 COO meetings were missed and subsequently extended shortly after these briefings. Following the workshops, the project team received two additional versions of the final POR/ER before fully accepting the deliverable in August 2014, which was 9 months after the original submission.

After the acceptance of the POR/ER in August 2014, the project team was still documenting quality concerns as the A/E firm moved to the DD phase. In October 2014, the 30 percent DD submission was conditionally approved, but in documentation sent to the COO and the EOG, there was no reference to the rejected parts of the deliverable. Further, during the third and fourth quarters of 2014, the project team documented quality issues with the A/E firm's work and extended the A/E firm's deliverable dates for the CD phase; however, the overall project status reported to the COO and the EOG was *green*.

Complete and Timely Information May Lead to Positive Project Outcomes

GAO's *Standards for Internal Control in the Federal Government* notes that quality information includes attributes such as being current, complete, accurate, and timely. GAO states that management should internally communicate the necessary quality information to achieve the entity's objectives, make informed decisions, and evaluate the entity's performance in achieving key objectives and addressing risks. GAO also states that the oversight body

should receive quality information that flows up the reporting lines from management and personnel.

During our review, we did not find comprehensive guidance related to the project team's sharing or documenting of information in project status reports to the COO and the EOG. Further, we were informed that the project team was generally focused on avenues to improve the performance of the A/E vendor, which may have influenced the timing and documentation of reports to the COO and the EOG.

We noted that although the Board's RACI document contains a matrix specifying who is required to review, approve, concur, or be informed of various Martin Building project changes affecting the scope, schedule, and budget, there is no guidance regarding what information should be shared with the EOG. In addition, the RACI document does not cover reporting on broader issues relative to vendor performance.

The COO and EOG should have timely and complete information in order to effectively exercise their oversight and advisory responsibilities. With timely and up-to-date information, the EOG can better carry out its designated role as a strategic advisor to the project sponsor and provide strategic oversight, advice, feedback, and guidance. We found that the IRB has guidance available for tracking and assigning status to Board capital projects; however, we did not find similar guidance for the reporting to the COO or the EOG.¹⁰ As a result, status reporting was handled with a point-in-time designation that did not take into consideration whether the project team expected that a future deadline would be missed. Another member stated that this point-in-time methodology is inconsistent with the intent of status reporting. Having guidance on status reporting promotes consistency and would help to ensure that the COO and the EOG receive needed information so that they can remain abreast of the status of this large strategic effort and be aware of any effect on the Board's planning and budgeting processes.

The cancellation of the A/E contract resulted in project delays and increased costs. Should similar delays occur during construction, the Board could face significant equitable adjustment claims, increased costs due to the size of the construction contract, and the additional costs and logistical considerations associated with the need to extend leases.

EOG Meeting Recaps Are Not Documented

We found that EOG meeting recap documentation is not maintained. In addition, the EOG members that we interviewed had inconsistent recollections of what was communicated in the meetings. One EOG member noted that if content was not contained in the meeting materials that were provided ahead of the meeting, it was not discussed; another member noted that the EOG did discuss items that were not in the meeting materials. Without meeting recaps, we were unable to confirm what may have been communicated to the EOG in addition to what was in the meeting materials.

10. The IRB maintains a tracking sheet for all Board capital projects with color-coded symbols and definitions: *green*, meaning on track; *yellow*, meaning at risk; and *red*, meaning critical. Further, the IRB quarterly reports include a project outlook self-assessment to be completed by the project owner that can indicate the project outlook as *stable* or *declining*.

The EOG charter states that meetings will be documented in a meeting recap format; will include decisions, recommendations, and key discussion topics; and will be distributed to all EOG participants and posted to the SharePoint site. We noted, however, that the EOG charter does not fully specify roles and responsibilities, including who is responsible for documenting decisions, recommendations, and key discussion topics and posting the recap to the SharePoint site. Members of the project team indicated that preparing meeting recaps for all meetings is difficult; however, meeting recaps create a record of decisions, recommendations, and key decision topics that could be used to inform project decisions and EOG meetings going forward.

Commendable Action

We noted that the project team has improved the nature and timing of its communications with the EOG. An EOG member noted that more information is shared up front with the members and that the project team now errs on the side of oversharing information rather than sharing too little information. Another EOG member noted that earlier in the project, meetings were scheduled far in advance with minimal consideration given to their timing. This member noted that EOG meetings are now scheduled around project team decision points. We did not conduct further testing to assess the effectiveness of the new process.

Recommendations

We recommend that the Director of the Management Division

1. Assess the information needs of the COO and of the EOG and update guidance to ensure that the project team provides this information in a timely manner. Such information may include missed milestones, vendor performance concerns, or unsatisfactory major deliverables.
2. Develop and implement guidance on status reporting requirements for reports to the COO and the EOG. Consider alignment with existing Board reporting guidelines to the extent practicable.
3. Revise the EOG charter to identify roles and responsibilities related to documenting decisions, recommendations, and key discussion topics and posting the documentation to the SharePoint site.

Management's Response

In his response, the Director of the Management Division concurs with our recommendations. The Director states that the Management Division will (1) formally reach out to the COO and the EOG to further determine their information needs and modify the report and briefings accordingly, (2) review key performance indicators and standardize its process for capturing actions and recommendations from the COO and EOG, and (3) revise the EOG charter to identify individuals responsible for reporting and maintaining meeting documentation.

OIG Comment

We believe that the actions described by the Director of the Management Division are responsive to our recommendations. We plan to follow up on the division's actions to ensure that the recommendations are fully addressed.

Other Matters for Management's Consideration

Given the cost, complexity, and time remaining until the Martin Building project's expected completion, we identified other matters regarding contract management for consideration going forward. These matters include use of contract controls, the documentation of changes to vendor requirements, and the pricing of additional services. Actions to address these matters could include, but are not limited to, the following:

1. Use contract controls, such as formal approval of project schedule changes and earlier submission of a mitigation and recovery plan by the contractor. Use of available contract controls as appropriate may help compel contractor performance and allow the Board to better manage the project's schedule.
2. Formally modify the contract when there are substantive project changes, such as when underlying business processes or deliverables are changed or when project activities will clearly not be completed within the contract's established period of performance. Such modifications may provide an improved basis to support the management of contractor performance or the use of contract controls, such as requiring a mitigation and recovery plan.
3. Ensure that written agreements with full and final pricing for additional services are in place with contractors prior to authorizing these services. Such agreements may reduce the risk of unplanned cost increases.

Although not required to respond to these suggestions, in the Board's response to this report, the Acting Director for the Division of Financial Management notes that collaborative efforts have been undertaken to strengthen contract controls and risk management. Further, the Acting Director states that agreement on full and final pricing is a best practice but notes circumstances in which the Board may issue a notice to proceed without a modification after factoring the benefits and risks of the decision.

Appendix A

Scope and Methodology

To accomplish our objective, we reviewed the A/E and support vendor contracts and the associated modifications, invoices, and relevant documentation. We identified contract controls that could be used to hold the A/E firm accountable and then assessed the project team's usage of those controls to compel vendor performance. We reviewed the Board's use of support vendors, including peer review services and their associated comments on A/E deliverables. We also reviewed relevant reports from GAO and the U.S. General Services Administration, as well as our own prior work on the Martin Building project.

We obtained materials provided to the EOG, the COO, the CBA, and the IRB, and we evaluated the quality of communications from the project team to those bodies using GAO's *Standards for Internal Control in the Federal Government*. In addition, we tested a sample of invoices and payments to the A/E firm to assess the A/E firm's compliance with the invoicing requirements included in the contract, the COTR's review of invoices, and the accuracy of progress reporting. We tested aspects of the project team's management of the contract, including whether contract modifications were executed by authorized individuals and were timely priced and whether COTRs attended required training. We interviewed members of the EOG; the project team; and the Board's Legal Division, Management Division, and Division of Financial Management. Further, we discussed with the COO and members of the EOG certain communication and documentation activities for the project team's management of the new A/E firm.

The scope of our audit included activities, decisions, and events surrounding or affecting the management of the A/E contract for the Martin Building project. Our audit scope spanned from January 2013 through the cancellation of the contract in August 2015.

We conducted our audit fieldwork from May 2016 through March 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B

Contract Deliverables

Table B-1: Deliverables and Associated Time Frames, by Project Design Phase

Project design phase	Deliverable description	Days to provide deliverable and days for the Board to review, as specified in contract
Schematic design	Draft POR/ER (the POR/ER is the foundation for the detailed drawings in subsequent deliverables)	Due 70 working days from the start of SD phase; 20 days for Board review
	Revised POR/ER	Due 20 working days after the A/E firm receives comments from the Board on the draft POR/ER; 10 days for Board review
	Final POR/ER	Due 10 working days after the A/E firm receives comments from the Board on the Revised POR/ER
Design development	30% DD documents represent completion of 30% of the design of the project	Due 70 working days after approval of the POR/ER; 20 days for Board review
Construction document	60% CDs represents completion of 60% of the design of the project	Due 95 working days after the start of the CD phase; 20 days for Board review
Deliverables below were not started due to cancellation of the A/E contract.		
Construction document, cont.	95% submission (CDs) represents completion of 95% of the design of the project	Due 105 working days after 60% CDs; 15 days for Board review
	100% submission (CDs) represents completion of the design of the project	Due 20 days after 95% CDs

Source: Modification 17 of the A/E contract, dated February 11, 2011.

Note: Design service completion was scheduled within 475 working days of the execution of contract.

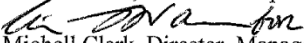
Appendix C Management's Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

Date: May 19, 2017

To: Melissa Heist, Associate Inspector General for Audits and Evaluations

From: 
Stephen J. Bernard, Director, Management Division
Steve Bernard, Acting Director, Division of Financial Management
Stephen J. Bernard
Director, Management Division
Division of Financial Management
Federal Reserve System
Washington, DC 20551

Subject: Combined Divisions' Response to OIG Audit of the Martin Renovation Project's Communication and Documentation

We have reviewed your report entitled, "The Board Can Improve Communication and Documentation Regarding the Martin Building Project" and appreciate the opportunity to provide comments to the report.

Finding 1: The Board Can Improve Communication and Documentation Regarding the Martin Building Project

Recommendations

1. Assess the information needs of the Chief Operating Officer (COO) and Executive Oversight Group (EOG) and update guidance to ensure that the project team provides information in a timely manner. Such information may include missed milestones, vendor performance concerns, or unsatisfactory major deliverables.
2. Develop and implement guidance on status reporting requirements for report to the COO and EOG. Consider alignment with existing Board reporting guidelines to the extent practicable.

Management Division's Response

The Management Division concurs with Recommendations 1 and 2. We will formally reach out to the COO and EOG to further determine their information needs and modify the report and briefings accordingly. The existing reporting method was developed earlier in the project lifecycle with only minor changes to its format and content. Having reached a key milestone of the project, it is a prime opportunity to revalidate reporting and briefing requirements; and to standardize the report format. We also will review key

www.federalreserve.gov

performance indicators and standardize our process for capturing actions and recommendations from the COO and EOG.

Recommendation

3. Revise EOG charter to identify roles and responsibilities related to documenting decisions, recommendations, and key discussion topics and posting the documentation to the SharePoint site.

Management Division's Response

The Management Division concurs with this recommendation. As stated in the earlier response, the Martin Renovation Project has reached a key milestone and it is an opportune time to review and refine reporting processes. EOG members will be formally contacted to validate information needs and the reporting method(s) will be adjusted or modified based on their responses. The EOG charter will be modified to identify individuals responsible for reporting and maintaining meeting documentation.

Other Matters for Management's Consideration

Considerations

1. Use contract controls, such as formal approval of project schedule changes and earlier submission of a mitigation and recovery plan by the contractor. Use of available contract controls as appropriate may help compel contractor performance and allow the Board to better manage the project's schedule.
2. Formally modify the contract when there are substantive project changes, such as when underlying business processes or deliverables are changed or when project activities will clearly not be completed within the contract's established period of performance. Such modifications may provide an improved basis to support the management of contractor performance or the use of contract controls, such as requiring a mitigation and recovery plan.

Division of Financial Management's Response

Facility Services, Procurement, and Legal have worked collaboratively to strengthen contract controls and risk management. These enhanced controls are reflected in recent contracts and are improving our ability to manage project schedule and contractor performance. When necessary, we formally modify contracts for substantial project changes.

Considerations

3. Ensure that written agreements with full and final pricing for additional services are in place with contractors prior to authorizing these services. Such agreements may reduce the risk of unplanned cost increases.

Division of Financial Management's Response

The Division of Financial Management agrees that it is best practice to ensure that full and final pricing is in place and memorialized with a formal contract modification prior to authorizing any additional services. On an exception basis, there are circumstances where we provide a notice to proceed without a contract modification after factoring in the benefits and risks of the decision. Facility Services, Procurement, and Legal work collaboratively to avoid these circumstances and to manage project risks effectively.

cc: Don Hammond, Chief Operating Officer



OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

HOTLINE

1-800-827-3340

OIGHotline@frb.gov

Report Fraud, Waste, and Abuse

Those suspecting possible wrongdoing may contact the
OIG Hotline by mail, e-mail, fax, or telephone.

Office of Inspector General, c/o Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW, Mail Stop K-300, Washington, DC 20551
Attention: OIG Hotline

Fax: 202-973-5044

Questions about what to report?

Visit the OIG website at www.federalreserve.gov/oig
or
www.consumerfinance.gov/oig