



MEMORANDUM

TO: Helaine Barnett
President

FROM: Ronald D. Merryman *Ronald D. Merryman*
Acting Assistant Inspector General for Audit

SUBJECT: Audit of LSC's Office Space Needs

DATE: September 28, 2005

Attached is our final report on the audit of LSC's office space needs. Your comments on the draft of this report are included in Appendix II.

The report makes seven recommendations concerning the need for LSC to reassess its current space needs. The OIG considers all seven recommendations significant, therefore requiring OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed.

If you have any questions or need additional information, please contact me on extension 1663. Thank you and your staff for the cooperation and courtesy extended to the OIG auditors.

Attachment

cc:: Victor Fortuno
Vice President for Legal Affairs/General Counsel/Corporate Secretary

Charles Jeffress
Chief Administrative Officer

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF LSC's
OFFICE SPACE NEEDS**

Report No. AU05-07
September 2005

www.oig.lsc.gov

TABLE OF CONTENTS

EXECUTIVE SUMMARY	iii
INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	3
RESULTS OF AUDIT.....	4
OFFICE SPACE NEEDS	5
Recommendation No. 1	6
Management's Comment on Recommendation No.1	6
OIG Evaluation of Management's Comment.....	6
Recommendation No. 2	6
Management's Comment on Recommendation No. 2	7
OIG Evaluation of Management's Comment.....	7
Recommendation No. 3	7
Management's Comment on Recommendation No. 3	7
OIG Evaluation of Management's Comment	7
Recommendation No. 4	7
Management's Comment on Recommendation No. 4	7
OIG Evaluation of Management's Comment	7
PROJECTED STAFFING LEVELS	8
Recommendation No. 5	9
Management's Comment on Recommendation No. 5	9
OIG Evaluation of Management's Comment.....	9
Recommendation No.6	10
Management's Comment on Recommendation No. 6	10
OIG Evaluation of Management's Comment.....	10
Recommendation No. 7	10
Management's Comment on Recommendation No. 7	10
OIG Evaluation of Management's Comment.....	10

**TABLE OF CONTENTS
CONTINUED**

SUMMARY OF MANAGEMENT’S COMMENTS 11

SUMMARY – EVALUATION OF MANAGEMENT’S COMMENTS 12

APPENDIX I – OIG DETAILED RESPONSE TO
MANAGEMENT’S COMMENTS I-1

APPENDIX II – MANAGEMENT’S COMMENTS II-1

EXECUTIVE SUMMARY

What OIG Found

The amount of space LSC is leasing may be more than it needs to accomplish its mission. There is no evidence that space studies performed before LSC moved to its current location considered any guidelines for the appropriate amount of space LSC should lease to meet its needs. There is no evidence that LSC space studies considered limiting its space requirements to an overall average square foot per employee or benchmarked against similar organizations. As a result, LSC could be overpaying for its space needs as much as \$7 million over LSC's 10-year lease.

What OIG Recommends

The OIG recommends that LSC commission an independent, objective, space needs assessment based on LSC's mission. Should LSC's space needs exceed the GSA-recommended average for office space use, then LSC should document a direct mission requirement for the additional space and corroborate it by benchmarking with organizations with similar missions. Should this assessment conclude that LSC has more space than is needed, then LSC management should sublease or redesign LSC's space to effectively and economically meet LSC's mission.

How Management Responded

Management disagreed with our analysis but generally agreed to implement the recommendations. Management's comments on our findings and our detailed evaluation of management's comments can be found at Appendix I. Management's comments on our recommendations and our evaluation of management's comments can be found after each recommendation. Appendix II contains management's comments in their entirety.

INTRODUCTION

The Office of Inspector General (OIG) initiated this audit based on work performed in our review of the financial implications of the Legal Services Corporation's (LSC's) lease. The lease review raised the issue of whether the amount of space currently leased is justified based on the amount of office space needed for LSC to accomplish its mission.

In conducting this review, we used GSA guidelines to help us evaluate the reasonableness of LSC's office space. Although LSC receives essentially all of its funds through Congressional appropriations, it is not required to follow GSA space guidelines. However, the guidelines provide a reasonable, business-like approach in determining space needs for the following reasons. First, the guidelines were developed using a broad base of both private industry and federal agencies. Second, the guidelines state that management should articulate specific mission requirements, validated through benchmarking with organizations with similar missions, before exceeding the recommended square footage per person. Third, because space costs usually represent an organization's second largest administrative cost, the guidelines recommend that space objectives be incorporated into the organization's strategic planning process. The amount of space recommended in the guidelines does not restrict an organization from obtaining the space needed to accomplish its mission. Rather, the space recommended acts as a trigger point to ensure that a reasonable, business-like decision process is followed to justify and validate the need for additional space above the recommended guideline.

Currently, LSC has a 10-year lease for 45,000 square feet at \$38 per square foot or \$1.71 million per year. LSC is in its third year of the lease.

BACKGROUND

LSC's space planning for a possible alternative to its previous location at 750 First Street, N.E. began in 1998. Since that time, there have been a number of space studies and decisions that have impacted the amount of space LSC determined it needed. A list of some of the key ones follows:

- May 1999 -- The architectural firm of CB Richard Ellis prepares a strategic plan that focuses on the occupancy costs for lease versus buy options at various locations, including remaining in then currently leased space at 750 First Street, N.E.

- June 1999 – LSC contracts with the architectural firm of VOA Associates, Incorporated, to perform a space requirements program. Based on LSC input, VOA reports that LSC will require approximately 40,000 square feet in 5 years for a projected staff level of 122.
- April 2002 – The LSC Board of Directors passes a resolution authorizing LSC to lease up to 45,000 square feet at 3333 K Street, N.W.
- May 2002 – Friends of LSC contracts with Mancini Duffy for services in connection with LSC’s relocation to 3333 K Street, N.W.
- July 2002 – LSC signs a 10-year lease with Friends of LSC for 45,000 square feet at 3333 K Street, N.W.
- August 2002 – Mancini Duffy completes the requirements phase of its services and, based on LSC input, documents LSC’s requirement for 40,313 square feet at 3333 K Street, N.W. as of May 2005 for a projected staff level of 132.
- November 2002 – LSC Board of Directors authorizes 4,000 additional square feet for a total of 49,000 square feet (not subsequently leased).
- June 2003 – LSC occupies 3333 K Street, N.W.
- January 2004 – The LSC Board of Directors authorizes LSC management to explore alternatives with the landlord with respect to leasing an additional 2,521 square feet on the fourth floor at 3333 K Street, N.W. and requires management to provide the Board with a needs justification for such additional space (LSC subsequently determined that there was no need based on its assessment).

Since LSC receives Congressionally-appropriated funds, we researched GSA space usage standards applicable to federal agencies. A GSA study conducted in 1997 and updated in 2002 provides useful guidance on space planning¹. The study focused on space management priorities and practices in the private and public sector, benchmarked against public and private organizations, and included information on industry and government space allocation standards. The report on this GSA space use study states that:

¹ On September 30, 1997, GSA’s Office of Governmentwide Policy published its report entitled *Office Space Use Review: Current Practices and Emerging Trends*. In December 2002, that office published an update entitled, *Space Use Update 2002*.

- Space costs are the second biggest administrative cost after personnel costs and should be managed². The report includes a recommendation that space use objectives be incorporated into organizations' strategic planning processes.
- The private sector and the Federal Government are moving away from strict space standards based on pay level or employee position. Instead, factors to be weighed in forecasting and allocating space needs should be such things as space availability, corporate culture, mission, job requirements, cost, and efficiency.
- Space per person should still be monitored in allocating and planning space usage. Based on its analysis of private sector standards and trends, GSA concluded that 230 rentable square feet per person is an appropriate Government-wide average for space use³. The report includes the following recommendation:

Federal agencies that exceed the recommended overall Government-wide average for office space use should ensure that agency mission mandates a direct requirement for higher per capita office space allocation. Once this link is established, agencies need to benchmark their office space to the allocation of other Government and private organizations with similar mission and needs. If the higher average cannot be directly linked to agency mission and corroborated by benchmarking with similar organizations, then the agency should seriously consider a strategy to bring office space use per person down closer to the recommended overall average of 230 rentable square feet per person.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether the amount of space currently leased is appropriate for LSC to accomplish its mission. The audit work was performed from March to August 2005. The scope of the audit included space planning activities from 1999 to June 2005. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

In order to meet the objective of the audit, we performed the following steps:

² For the nine-month period of fiscal year 2005 ending June 30, 2005, LSC's occupancy costs (including OIG's) were the second biggest management and administration cost representing over ten percent of the total (including OIG) management and administration costs incurred.

³ The 230 square foot average is based on the Building Owners and Managers Association (BOMA) standard for measuring office space.

- Reviewed past LSC space studies and assessments.
- Interviewed LSC officials.
- Interviewed officials at the General Services Administration (GSA) and the U.S. Postal Service on space management issues.
- Interviewed space utilization experts recommended by GSA as well as the space utilization expert who worked on the space allocation plans for 3333 K Street.
- Researched pertinent space utilization studies, standards, guidelines, and recommendations.
- Inventoried LSC work spaces, meeting spaces, and support spaces
- Reviewed LSC conference room logs.
- Reviewed LSC budget submissions.

RESULTS OF AUDIT

The amount of space LSC is leasing may be more than it needs to accomplish its mission. LSC is currently leasing over 409⁴ square feet per employee. Using the GSA guidelines of 230 square feet per employee, LSC is leasing approximately 19,700⁵ more square feet than the GSA-recommended government-wide average. We found no indication that LSC has identified a direct requirement for a higher per capita office space allocation, nor that LSC corroborated through benchmarking that the additional space is reasonable. If LSC does not need the additional space, LSC could be

⁴ For the number of LSC employees, our calculation used a staff size of 110. According to LSC's 2006 budget request, the number of staff positions shown for 2005 was 103 and the request for 2006 was 109. LSC management reports that it currently (August 2005) has 100 permanent staff, 10 fully-funded vacant positions, 3 temporary employees, and 5 interns. However, we elected to use the 110 figure for the staff size since the number of employees, including temporary employees, interns, and volunteers for the past 18 months has not exceeded the 110 level.

⁵ As stated in footnote 3, the GSA guideline of 230 square feet per person is based on the Building Owners and Managers Association (BOMA) standard of measurement. LSC's leased space of 45,000 square feet is based on the Greater Washington Commercial Association of Realtors (GWCAR) standard of measurement. Converting the GWCAR measurement to BOMA will result in a higher number than 19,700. However, the exact conversion rate is subject to debate and would not alter the conclusions and recommendations presented in this report. Therefore, we did not convert the GWCAR standard to the BOMA standard.

overpaying for its space needs up to \$748,000 annually and \$7.48 million over the life of the 10-year lease.

A contributing factor for the potential excessive space was that LSC's 2002 space plan for 3333 K Street included a final staff projection that was not realized. The space plan included a staff projection for 2005 that was 20 percent higher than LSC's (then) existing staff level of 110. Budget documents available at the time did not include the projected staffing increases that were included in the space plan.

Office Space Needs

We found no evidence that space studies performed before LSC moved to its current location considered GSA or other similar guidelines for the appropriate amount of space LSC should lease to meet its needs. As explained in the background section, GSA guidelines recommend that using 230 square feet per employee is the appropriate government-wide average for office space use. GSA recommended that specific direct mission requirements be identified for space exceeding the average and benchmarking should be performed with similar organizations to assure the allocation of space is reasonable. We could not find any evidence that LSC studies considered limiting its space requirements to an overall average square foot per employee, documented a direct requirement for space in excess of the average, or benchmarked against other similar organizations.

In June 1999, LSC contracted with the architectural firm of VOA Associates, Incorporated, to perform interior design services. The contract required VOA to ascertain and document LSC's requirements for its operations, such as those for existing and projected staff, space, furniture, furnishings and equipment. VOA provided questionnaires to LSC to obtain this information. Based on information in the questionnaires, VOA developed a plan that showed LSC required approximately 40,000 square feet in 5 years for a projected staff level of 122. The scope of services for this contract did not include benchmarking or the application of specific space utilization guidelines or standards to determine an appropriate amount of space to meet LSC needs.

In May 2002, Friends of Legal Services Corporation contracted with the architectural design firm of Mancini Duffy to perform design services for the relocation of LSC's office to 3333 K Street, N.W. The contract was entered into after the LSC Board passed a resolution authorizing up to 45,000 square feet at the 3333 K Street site. Mancini Duffy also used questionnaires to LSC management to obtain information on LSC requirements. Based on this information in the questionnaires, Mancini Duffy prepared its final requirement plan for LSC for 40,313 feet by 2005 for a staff size of 132. Mancini Duffy's design director on the project informed the OIG that LSC management declined Mancini Duffy's recommendation to do a benchmarking study or apply specific space utilization standards.

We do not know how LSC concluded that 45,000 square feet was necessary to accomplish LSC's mission. Management officials did state that there was a desire to ensure that everyone had the same or better space at 3333 K Street, N.W. as they did at 750 First Street, N.E. However, based on the application of GSA guidelines, LSC may be paying as much as \$748,000 per year and \$7.48 million over the course of the 10-year lease for space that is not justified by mission requirements and validated through benchmarking.

Recommendations

The LSC President should implement the following recommendations.

Recommendation No. 1. Commission an independent, objective, space needs assessment based on LSC's mission.

Management's Comments on Recommendation No. 1

"LSC disagrees with the recommendation to commission an independent space needs assessment. LSC commissioned outside space needs analyses in 1998, 2000 and 2002. The independent firm hired in 2002 assisted in space planning for the current building. Using these previous analyses as guides, LSC will conduct an in-house review of its space needs based on its mission."

OIG Evaluation of Management's Comment on Recommendation No. 1

Management's comments are responsive to the intent of the recommendation. The OIG continues to believe that an independent and objective assessment of LSC's space needs by qualified office space professionals is the better approach to resolving LSC's space needs. Even though the OIG has reservations about the ability of LSC management to conduct an objective, independent space needs study, we are not elevating this recommendation for resolution and instead will conduct a detailed follow-up audit of the in-house review that management has stated it will conduct.

The OIG, however, cautions against using the past space studies as guides of the in-house review. As stated in our report, the past studies were not space needs studies and as such did not articulate a valid mission requirement, did not include benchmarking, and did not apply specific space utilization guidelines or standards to determine an appropriate amount of space to meet LSC needs based on its mission.

Recommendation No. 2. Document LSC's direct mission space requirement, and corroborate this requirement by benchmarking with organizations with similar missions should LSC determine that more than 230 rentable square feet of space per person is needed.

Management's Comments on Recommendation No. 2

"After documenting its mission space requirements, LSC will benchmark with organizations with similar missions and similar staffing, as recommended by the federal government's General Services Administration (GSA)."

OIG Evaluation of Management's Comments on Recommendation No. 2

Management's comments are responsive.

Recommendation No. 3. Should the results of the needs assessment indicate excess space, sublease or redesign LSC's space to effectively and economically meet LSC's mission.

Management's Comments on Recommendation No. 3

"Should LSC determine that it has excess space, LSC will seek to sublease space as LSC has done this year. However, significant redesign of the existing office space is unlikely to be economically viable. Modest modifications to space, such as removing a wall, modifying lighting and HVAC controls, and building a new partition, are feasible and were done in the area subleased this year. However, major redesign of the space at 3333 K Street, NW is not anticipated."

OIG Evaluation of Management's Comments on Recommendation No. 3

Management's comments are responsive. However, the OIG cautions management against allowing preconceived notions regarding the efficacy of subletting additional space to influence its decision making. Decisions concerning changes to the existing configuration should be based on objective, informed cost-benefit analyses.

Recommendation No. 4. If savings are gained by reducing LSC's space, determine whether such savings can be redirected for other purposes such as providing more funding to LSC grantees.

Management's Comments on Recommendation No. 4

"If savings are generated by reducing space, the savings will be appropriately redirected. However, by law, as the OIG should be aware, LSC may not move funds from one account, such as the Management and Administration account from which the rent is paid, to another, such as the Basic Field Program account which provides funding to LSC grantees, without Congressional action."

OIG Evaluation of Management's Comments on Recommendation No. 4

Management's comments are responsive. As discussed with LSC management, the OIG is fully aware of the requirement to obtain Congressional approval to move funds between accounts.

Projected Staffing Levels

The space plan for 3333 K Street included a projected staff level figure for space planning purposes that was 20 percent higher than its then (2002) existing staff. The budget documents at the time the space plan staffing estimate was made did not support any increase in staff, and, in fact, the staff increases did not occur. As a result, at the time of our June 13, 2005 inventory of work spaces, 28 (22 percent) of 130 work spaces were vacant. (Seventeen of these work spaces were private offices and 11 were cubicles. However, eight staff who were supposed to be housed in cubicles according to the space plan were occupying otherwise vacant offices.)

LSC is taking positive steps to address some of the vacant work spaces. LSC officials stated that because of budget concerns, a number of cost-saving measures need to be taken. These measures include relocating some staff on the first floor to the third floor and making space on the first floor available for sub-leasing. As a result, when this effort is completed, LSC would no longer have six vacant work spaces and one vacant file room bringing the number of vacant work spaces down to 22.

The primary reason for the number of vacant work spaces was that the size of the work force did not increase as projected. LSC projected that its staff size would increase by over 12 percent in 2003 and by a total of 20 percent by 2005. The staff size projections were developed through questionnaires that Mancini Duffy sent to each Office Director. Directors were requested to identify current staff and space requirements as well as projected staff and corresponding future space requirements. Based on the information in these questionnaires and follow-up interviews, Mancini Duffy then submitted a detailed plan to LSC in August 2002. The plan identified the work space, support space, and meeting space for staff levels projected at 2003 and 2005. As shown in the following comparison with staff positions in approved budgets, the staff size did not increase as projected.

<u>Date</u>	<u>Projected</u>	<u>Staff Positions</u>	<u>Exceeded</u>		<u>Projected Sq. Ft.</u>
June 2002		110	--		36,016
May 2003	124	110	12%		38,863
May 2005	132	110 ⁶	20%		40,313

⁶ According to LSC's 2006 budget request, the number of staff positions shown for 2005 was 103 and the request for 2006 was 109. LSC management reports that it currently (August 2005) has 100 permanent staff, 10 fully-funded vacant positions, 3 temporary employees, and 5 interns. However, we elected to use the 110 figure for the staff size since the number of employees, including temporary employees, interns, and volunteers for the past 18 months has not exceeded the 110 level and because this was the staff size in 2002 when the space plan was completed.

Moreover, staff projections for space planning purposes differed from those for budget purposes. The 2003 budget request for LSC had already been submitted to Congress by March 2002 requesting a staff of 110, not 124. While the process for projecting staff sizes differed from the process for preparing the budget request and may partially explain the differences, some of the same management officials were involved in both processes. As a result of the staff levels not increasing as projected, LSC's space needs, and related lease costs, may be more than LSC needs to accomplish its mission.

Recommendations

The LSC President should implement the following recommendations.

Recommendation No. 5. Develop and document a realistic staff level projection for the next 5 years to use for space needs assessment purposes.

Management's Comments on Recommendation No. 5

"LSC, as part of its budgeting and strategic planning processes, does make staffing projections. Any projections made by LSC are subject to funding decisions made by Congress. A "realistic" staff level projection for the next five years is an unrealistic expectation when trying to project Congressional funding five years out. LSC made such projections five years ago and used them in planning for office space. Congressional funding did not allow the staff projections to be met. The OIG space audit both criticizes LSC for planning for space based on those projections and asks LSC to make projections for the next five years. While LSC will be making staff projections, LSC does not expect to be criticized in future OIG reports for using projections, reasonable at the time, but for which Congress does not provide funding in later years."

OIG Evaluation of Management's Comments on Recommendation No. 5

Management's comments are responsive. However, the OIG is concerned that LSC management has yet to acknowledge the inconsistency between its staff projections for space planning purposes and its budget submission to Congress even though some of the same senior management officials were involved in both. LSC's staff level projections were not in agreement with the budget request submitted to Congress several weeks earlier and were not reasonable based on all the facts known at the time. For example, in November, 2001, a senior LSC management official stated in a Friends of LSC Board of Directors meeting that the White House had reported that LSC's funding will stay level for the next few years. Factoring that information into LSC's space planning estimate, instead of forecasting a 20 percent staff increase, may have resulted in a more accurate staff level estimate and a reduced need for space. The OIG is hopeful that future space projections will be based on all available information and will be consistent with its budget submissions.

Recommendation No. 6. Ensure that the processes for developing space needs, staffing levels and budget are fully coordinated and reflect the same information.

Management's Comments on Recommendation No. 6

"The LSC processes for developing space needs, for projecting staff levels, and for preparing budget requests are being fully coordinated this year and will be so in the future as well."

OIG Evaluation of Management's Comments on Recommendation No. 6

Management's comments are responsive.

Recommendation No. 7. Incorporate space planning objectives into LSC's strategic planning process.

Management's Comments on Recommendation No. 7

"Space planning objectives are being incorporated into the LSC strategic planning process."

OIG Evaluation of Management's Comments on Recommendation No. 7

Management's comments are responsive.

SUMMARY OF MANAGEMENT'S COMMENTS

A summary of managements comments are presented below. The full text of management comments can be found at Appendix II.

Management generally agreed with all recommendations. However, management took exception to portions of the audit report and the analysis conducted by the OIG and stated, "*The [OIG] analysis contains three major errors and several inappropriate or incorrect references.*"

Management further stated that:

LSC's executive leadership is committed to the efficient and effective management of the Corporation, including an economical and efficient use of office space. To that end, LSC has been examining its use of space at 3333 K Street since early 2004. During the course of that review, LSC has consolidated offices and sublet 2,139 square feet. LSC will continue to review its space needs, consolidate where appropriate, and sublet when possible.

Management concludes their comments by stating the following:

LSC will continue to follow good management practices with respect to space planning and space utilization. LSC's response and planned actions with respect to the individual recommendations are set forth at the outset.

However, the flaws in the audit's analysis are troubling. By not benchmarking LSC against appropriate organizations, the OIG creates an unrealistic expectation of the appropriate space standard for LSC. After comparing LSC to the GSA guideline, then using incorrect measures of space occupied and number of staff, the OIG audit asserts that LSC may be occupying "excessive space" and making an "overpayment" of rent. These assertions are unwarranted and based on significant exaggerations of the facts.

SUMMARY – EVALUATION OF MANAGEMENT’S COMMENTS

Management comments, though generally agreeing with all recommendations, do not accurately represent the contents of the OIG’s report; do not accurately represent how the GSA guidelines were used; and cast doubt on whether management can, without independent, professional assistance, fairly and objectively evaluate its space needs. Rather than addressing the main issue brought forth in the report--that LSC had not conducted a proper space needs analysis and the amount of space being leased may exceed mission requirements, LSC management attempted to minimize the finding by incorrectly claiming that the OIG report contained “major errors” and “significant exaggerations of fact” and attempted to justify the need for the current space, without conducting a valid space needs study.

The overriding issue is that LSC management has not employed recognized guidelines in determining its space needs. Lacking that, it is reasonable to use GSA guidelines as a starting point since LSC headquarters funding is supplied by Congress using taxpayer monies. Should LSC go above the 230 square feet used as a baseline by GSA, then the organization should first articulate a valid mission need and confirm the mission need through benchmarking. LSC has exceeded the suggested 230 square feet and has neither satisfactorily articulated a mission requirement nor benchmarked with organizations with similar missions.

The OIG’s detailed response to management’s comments are included in Appendix I.

APPENDIX I

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

The audit offers an analysis of LSC's current office space and staffing levels, relevant space planning literature, and the history of how LSC's current offices came to be configured as they are. The analysis contains three major errors and several inappropriate or incorrect references.

The OIG does not agree that the analysis contains major errors and inappropriate or incorrect references for the reasons stated below.

The first major error is in describing the space that LSC occupies. The report concludes that LSC is currently occupying 45,000 square feet of space based on LSC's lease. However, on page 9 of the report, the OIG mentions LSC subleasing space on the first floor and refers to a reduction in the number of vacant work spaces as a result. Yet the 2139 square feet involved in the sublease are not then subtracted from the 45,000 square feet leased by LSC. Thus the OIG has inappropriately included space not occupied by LSC.

The report was not in error. LSC management did not provide the OIG a copy of the sublease until August 31, 2005, which was after the draft report was issued. The sublease was signed on August 5, 2005 and the sublease began on August 15, 2005. As of the date of our draft report, August 9, 2005, and the date our field work ended, the statements were correct.

Having now been provided a copy of the sublease, we agree that management has entered into a 5-year sublease for 2,139 square feet of space at \$25.00 per square foot (with a 2 percent per year escalation clause). As a result, management has reduced the amount of potential excess space and reduced the potential total overpayment for space needs that may occur by approximately \$300,000, from \$7.48 million to \$7.18 million over LSC's 10-year lease.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

Since the premise for calculating space per person is the division of the total space by the total number of staff, it follows that, having made errors in both numbers, the calculation of space per person in the report is wrong as well. Using the corrected figure of 42,861 square feet occupied by LSC, and adding a conservative estimate of five temporary employees, consultants, and interns who may be employed by LSC at any given time to the total of 110 full-time, permanent staff, the correct initial figure for space per person is 373 square feet, not 409 as contained in the audit.

As stated earlier, the OIG does not agree that the numbers used in our calculation of average square foot per person were in error. With the updated information from the sublease that was provided to us subsequent to issuing our draft report, we calculate that the average amount of space per person is 389 square feet.

Without a valid space needs study, we cannot agree with the management contention that five work spaces should be permanently in place for non-permanent, occasional employees.

The initial calculation of 373 square feet per person reflects only the total rental space divided by the number of staff. It does not take into account unusual needs of the organization. For instance, LSC maintains a large print shop on the ground floor (2,135 square feet), which is unusual for organizations of LSC's size. LSC also maintains a conference center on the third floor, with approximately 1600 square feet of conference room space and approximately 1,200 square feet of circulation space. The conference center services Board committee meetings, meetings of the entire staff, and multiple meetings at the same time. When these unusual features are

The report is not in error.

The GSA report concluded that 230 square feet per person is an appropriate Government-wide average for space use. That average includes work space, support space, circulation, collaborative space, amenities, storage, and other special spaces. The GSA report recommends that if a higher average cannot be directly linked to agency mission and corroborated through benchmarking with similar organizations, then the organization should seriously consider a strategy to bring office space per person down closer to the recommended overall average of 230 rentable square feet per person.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments**

spread across the small number of staff, the square feet per person is significantly increased. For this reason, GSA directs organizations to consider their special needs in space planning (*Office Space Use Review*, GSA, 1997, page 21) rather than using only the simplistic average of square feet per person.

Evaluation of Management Comments

The intent of the GSA report and the OIG recommendation is for LSC to look objectively at its "unusual features" and determine whether they are truly required by its mission. The space analysis should answer the following question: Does LSC have a valid mission requirement for a 2,135 square foot print shop and a 2,800 square foot conference center (in addition to the five other conference rooms), or are there other, less costly alternatives for meeting its needs?

Just because LSC is currently "maintaining" a conference center, print shop, and other support spaces (five kitchen/pantries, one lunch room, two reception areas, 10 file rooms, and one reading room/library) does not necessarily mean LSC has a corresponding valid mission requirement for all such space. LSC maintained a conference center for Board meetings at the previous space on 750 First Street, N.E. but gave up the space and met its needs through alternative means. It is not inconceivable that an objective space study could conclude that similar decisions are warranted for some of its meeting or support space at the current location.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments**

Beyond the calculation errors, the audit report is flawed by its reliance on the space guidelines written by GSA. GSA, as the primary space acquisition agency for the federal government, has prepared a guideline for use by federal agencies in making their space planning decisions. While the OIG report acknowledges in the introduction that LSC is not required to follow GSA guidelines, the report uses the guideline as a standard, even calculating potential "overpayment" for space based on it. Applying the GSA guideline to LSC to draw conclusions about overpayment for space needs is inappropriate.

Evaluation of Management Comments

The audit report contains no calculation errors. LSC management is also not accurate in its statement that "...the audit report is flawed by its reliance on the space guidelines written by GSA."

Given that LSC management relied on no recognized guidelines in determining its space needs before leasing 45,000 square feet of space and that LSC headquarters operations are funded with tax payers' dollars, we feel it is appropriate to use the GSA guidelines as a starting point. The guidelines do not limit an organization's space necessary to accomplish valid mission requirements. Rather, the guidelines provide a reasoned, rationale business approach to controlling the second largest administrative cost of an organization. GSA recommends 230 square feet per person. Should an organization need more than this average, it should first articulate a mission requirement for the space and then validate the additional space through benchmarking.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments**

Moreover, in using the guideline, the OIG makes selective use of the space planning document that accompanies the guideline. While repeatedly referring to the guideline of 230 square feet per person found in GSA's 1997 *Office Space Use Review* (updated in 2002), the OIG fails to cite other relevant portions of that document. For instance, on page 10 of the publication, this guidance is given on benchmarking of space: "For example, an agency that employs many attorneys may want to benchmark itself against comparable private sector law firms to find the right standard for comparison."

Evaluation of Management Comments

The GSA guidelines include a number of benchmarking examples and it was not practical to include them in the report. All of the examples should be considered in a benchmarking analysis, especially those with similar mission requirements.

The GSA guidelines include the term, "comparable." Comparable does not simply mean who you hire, but what they do, i.e. the organization's mission. LSC management suggests that LSC is "comparable" to private DC law firms because they both hire attorneys. While true that LSC hires attorneys, the attorneys hired by private DC law firms practice law while those hired by LSC for the most part do not; therefore their missions may not be comparable. In addition, if the hiring of attorneys were considered a valid point of comparison, LSC should also consider that a substantial percentage of the workforce of certain federal government agencies, such as the Department of Justice, is comprised of attorneys.

Instead of benchmarking LSC against private law firms in DC, the OIG uses as a benchmark for LSC the 230 square feet standard that is a general guideline for the average government worker. As GSA recognized, organizations should benchmark themselves against employers employing similar staff. The OIG, rather than following GSA's advice, interviewed U.S. Postal Service staff for background on space management issues, hardly a comparable organization to one employing many attorneys.

The LSC management response did not accurately characterize the OIG audit. The scope of the audit did not include benchmarking as LSC indicates but, instead, the report recommended that LSC document its direct mission space requirement and corroborate this requirement by benchmarking with organizations with similar missions.

LSC management implies that by obtaining background information from the Postal Service, we are comparing LSC to the Postal Service. LSC management also states that the OIG was not following GSA's advice by interviewing Postal Service staff for background information.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

GSA provides no advice on who the OIG should interview for background information. Nowhere in the report do we compare LSC to the Postal Service or any other organization. Rather, the OIG recommends that management undertake the benchmarking analysis.

It is prudent for the OIG to obtain background information. An organization that manages over 30,000 properties of various sizes and assesses space needs on a daily basis is a valid choice for obtaining such information. Also, to correct LSC management's misstatement of fact, the Postal Service employs hundreds of attorneys. These attorneys are located in Postal law offices throughout the United States.

In fact, the space that LSC now occupies, 42,861 square feet, is close to the 40,311 square feet of space recommended by the independent space planning study performed by the outside consultant for LSC in 2000.

The response attempts to justify LSC's space by citing a 2000 independent space planning study. That study was not a true space needs study. As our report states, the scope of the services for the study did not include benchmarking or the application of specific space utilization guidelines or standards to determine an appropriate amount of space to meet LSC needs. Moreover, management did not mention that the study it referenced used a projected staff size of 122.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

Through the combination of calculation errors and inappropriate benchmarking, the IG reaches the conclusion that "LSC could be overpaying for its space needs up to \$748,000 annually and \$7.48 million over the life of the 10-year lease." The conclusion is unwarranted on its face, since the calculations are wrong. It is further unwarranted because it is not based on the kind of benchmarked comparison which GSA recommends that organizations perform, but instead is based on a comparison to an inappropriate standard.

The report did not make calculation errors and the audit did not include benchmarking. Because LSC's space exceeded the GSA-recommended average square foot per person guideline, we recommended that this analysis be performed.

Benchmarking is a management responsibility, that should be done with comparable organizations only after a valid mission requirement has been articulated, neither of which management has done.

Subletting 2,139 square feet of space may reduce the potential \$7.48 million dollar overpayment by \$300,000 to \$7.18 million.

Other references also reflect omissions that produce misleading impressions. For instance, in referencing the 1999 and 2002 space needs studies, the report fails to note that these studies assumed that some staff would work in cubicles rather than in offices. LSC management made a decision prior to moving to 3333 K Street that all full-time staff would have private offices. The shift from the use of cubicles to the use of offices affected the space planning, but no mention of this is found in the report.

The report did include a reference that space planning studies assumed staff would work in cubicles. On page 8, the draft report states, "However, eight staff who were supposed to be housed in cubicles according to the space plan were occupying otherwise vacant offices."

The OIG did not find documentary evidence of the management decision that all full-time staff would have private offices at 3333 K Street nor that such a decision was based on mission requirements. Regardless, we believe the matter should be revisited in the new space needs study.

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

Management's own comments support the audit position that management needs to conduct a valid space needs assessment. Whether offices or cubicles are used should be based on mission requirements. Management's representation that moving people from cubicles to offices affected space planning is correct; however, the mission was never articulated and validated through benchmarking. Ultimately, the decision had no effect on space need since LSC had already leased 45,000 square feet and had more than enough extra offices to change its space planning to give all permanent staff private offices.

On page 8, the report references 28 work spaces as vacant. These spaces include 10 reserved for personnel vacancies that LSC expects to fill, seven that have been sublet, three that are being used for storage, and one that is not a workspace but a waiting area in the executive offices. Rather than 28 vacant workspaces, there are actually seven, and these are cubicles which were designed for temporary personnel.

The report stated that when the subleasing was completed and staff relocated the number of vacant work spaces would be 22. That number is correct.

The architectural and design firm that designed the LSC office space designated office space as work space, support space, or meeting space. Our identification of vacant work space was based on the firm's documentation and drawings and our inspection of LSC's office space.

LSC's comment should be clarified as follows:

- *LSC sublet six offices designated as work spaces and one file room, not seven work spaces.*
- *The three offices now used for storage were designed as work spaces.*

DETAILED RESPONSE TO MANAGEMENT'S COMMENTS**Management Comments****Evaluation of Management Comments**

- *The “waiting area” was designed as a work space with a cubicle. The cubicle for this space was put in storage and the area is now an open space.*
- *The firm’s design did not designate that cubicles would be only used by temporary personnel.*

Conclusion

LSC will continue to follow good management practices with respect to space planning and space utilization. LSC’s response and planned actions with respect to the individual recommendations are set forth at the outset.

However, the flaws in the audit’s analysis are troubling. By not benchmarking LSC against appropriate organizations, the OIG creates an unrealistic expectation of the appropriate space standard for LSC. After comparing LSC to the GSA guideline, then using incorrect measures of space occupied and number of staff, the OIG audit asserts that LSC may be occupying “excessive space” and making an “overpayment” of rent. These assertions are unwarranted and based on significant exaggerations of the facts.

Contrary to LSC management’s comments, the OIG does not believe that LSC has followed good management practices with respect to space planning or utilization. LSC did not determine LSC’s true space needs based on mission requirements before entering into a lease for 45,000 square feet of space.

In stating its case that the report has flaws, LSC has not accurately represented the GSA guidelines and the way the OIG applied them in the report. As stated earlier, the OIG also disagrees that the calculations are in error.

Since LSC management did not satisfactorily analyze its space needs before it leased its current space, our report makes the point that it should now do so, especially in light of the fact that the amount of space it leases and occupies exceeds the overall government average without an articulation of mission requirements and benchmarking analysis. This space needs study should be performed in an objective manner. Management has agreed to do so. Yet based on management’s comments, we have reservations concerning the ability of LSC management to conduct an objective space needs study.

APPENDIX II

MANAGEMENT'S

COMMENTS

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MANAGEMENT'S

COMMENTS

MEMORANDUM

TO: Kirt West
Inspector General

FROM: Helaine M. Barnett 
President

DATE: September 9, 2005

SUBJECT: Response to Audit of LSC's Space Needs

The Office of the Inspector General (OIG) submitted to LSC management a draft report entitled "Audit of LSC's Space Needs" on August 9, 2005. This document is management's response to that draft.

LSC's executive leadership is committed to the efficient and effective management of the Corporation, including an economical and efficient use of office space. To that end, LSC has been examining its use of space at 3333 K Street since early 2004. During the course of that review, LSC has consolidated offices and sublet 2139 square feet. LSC will continue to review its space needs, consolidate where appropriate, and sublet when possible.

Response to Recommendations

Seven recommendations for space management are listed in the audit conducted by the OIG. LSC's responses follow.

Recommendation 1: LSC disagrees with the recommendation to commission an independent space needs assessment. LSC commissioned outside space needs analyses in 1998, 2000 and 2002. The independent firm hired in 2002 assisted in space planning for the current building. Using these previous analyses as guides, LSC will conduct an in-house review of its space needs based on its mission.

Recommendation 2: After documenting its mission space requirements, LSC will benchmark with organizations with similar missions and similar staffing, as recommended by the federal government's General Services Administration (GSA).

Recommendation 3: Should LSC determine that it has excess space, LSC will seek to sublease space as LSC has done this year. However, significant redesign of the existing office space is unlikely to be economically viable. Modest modifications to space, such as removing a wall, modifying lighting and HVAC controls, and building a new partition, are feasible and were done in the area subleased this year. However, major redesign of the space at 3333 K Street NW is not anticipated.

Recommendation 4: If savings are generated by reducing space, the savings will be appropriately redirected. However, by law, as the OIG should be aware, LSC may not move funds from one account, such as the Management and Administration account from which the rent is paid, to another, such as the Basic Field Program account which provides funding to LSC grantees, without Congressional action.

Recommendation 5: LSC, as part of its budgeting and strategic planning processes, does make staffing projections. Any projections made by LSC are subject to funding decisions made by Congress. A “realistic” staff level projection for the next five years is an unrealistic expectation when trying to project Congressional funding five years out. LSC made such projections five years ago and used them in planning for office space. Congressional funding did not allow the staff projections to be met. The OIG space audit both criticizes LSC for planning for space based on those projections and asks LSC to make projections for the next five years. While LSC will be making staff projections, LSC does not expect to be criticized in future OIG reports for using projections, reasonable at the time, but for which Congress does not provide funding in later years.

Recommendation 6: The LSC processes for developing space needs, for projecting staff levels, and for preparing budget requests are being fully coordinated this year and will be so in the future as well.

Recommendation 7: Space planning objectives are being incorporated into the LSC strategic planning process.

Response to Analysis

The audit offers an analysis of LSC’s current office space and staffing levels, relevant space planning literature, and the history of how LSC’s current offices came to be configured as they are. The analysis contains three major errors and several inappropriate or incorrect references.

The first major error is in describing the space that LSC occupies. The report concludes that LSC is currently occupying 45,000 square feet of space based on LSC’s lease. However, on page 9 of the report, the OIG mentions LSC subleasing space on the first floor and refers to a reduction in the number of vacant work spaces as a result. Yet the 2139 square feet involved in the sublease are not then subtracted from the 45,000 square feet leased by LSC. Thus the OIG has inappropriately included space not occupied by LSC.

The second major error is in calculating the staff of LSC. LSC maintains 110 permanent, full-time staff positions. While some positions may be vacant at any given time, LSC actively seeks to fill vacant positions. As with many modern organizations, LSC also utilizes temporary staff, consultants, and interns on a regular basis and believes it is appropriate to provide designated office space for them as well. While the use of such temporary staff is acknowledged by the OIG in a footnote on page 5, the report nevertheless uses a staff level of only 110 in calculating space per person.

Since the premise for calculating space per person is the division of the total space by the total number of staff, it follows that, having made errors in both numbers, the calculation of space per person in the report is wrong as well. Using the corrected figure of 42,861 square feet occupied by LSC, and adding a conservative estimate of 5 temporary employees, consultants, and interns who may be employed by LSC at any given time to the total of 110 full-time, permanent staff, the correct initial figure for space per person is 373 square feet, not 409 as contained in the audit.

The initial calculation of 373 square feet per person reflects only the total rentable space divided by the number of staff. It does not take into account unusual needs of the organization. For instance, LSC maintains a large print shop on the ground floor (2135 square feet), which is unusual for organizations of LSC's size. LSC also maintains a conference center on the third floor, with approximately 1600 square feet of conference room space and approximately 1200 square feet of circulation space. The conference center services Board committee meetings, meetings of the entire staff, and multiple meetings at the same time. When these unusual features are spread across the small number of staff, the square feet per person is significantly increased. For this reason, GSA directs organizations to consider their special needs in space planning (*Office Space Use Review*, GSA, 1997, page 21) rather than using only the simplistic average of square feet per person.

Beyond the calculation errors, the audit report is flawed by its reliance on the space guidelines written by GSA. GSA, as the primary space acquisition agency for the federal government, has prepared a guideline for use by federal agencies in making their space planning decisions. While the OIG report acknowledges in the introduction that LSC is not required to follow GSA guidelines, the report uses the guideline as a standard, even calculating potential "overpayment" for space based on it. Applying the GSA guideline to LSC to draw conclusions about overpayment for space needs is inappropriate.

Moreover, in using the guideline, the OIG makes selective use of the space planning document that accompanies the guideline. While repeatedly referring to the guideline of 230 square feet per person found in GSA's 1997 *Office Space Use Review* (updated in 2002), the OIG fails to cite other relevant portions of that document. For instance, on page 10 of the publication, this guidance is given on benchmarking of space: "For example, an agency that employs many attorneys may want to benchmark itself against comparable private sector law firms to find the right standard for comparison." Instead of benchmarking LSC against private law firms in DC, the OIG uses as a benchmark for LSC the 230 square feet standard that is a general guideline for the average government worker. As GSA recognized, organizations should benchmark themselves against employers employing similar staff. The OIG, rather than following GSA's advice, interviewed U.S. Postal Service staff for background on space management issues, hardly a comparable organization to one employing many attorneys. In fact, the space that LSC now occupies, 42,861 square feet, is close to the 40,311 square feet of space recommended by the independent space planning study performed by the outside consultant for LSC in 2000.

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cc: Ronald Merryman