

February 1992

# FEDERAL FACILITIES

## SEC Operations Center Lease Appears Reasonable





General Government Division  
B-247367

February 14, 1992

The Honorable John D. Dingell, Chairman  
Committee on Energy and Commerce  
House of Representatives

The Honorable Edward J. Markey, Chairman  
Subcommittee on Telecommunications and Finance  
Committee on Energy and Commerce  
House of Representatives

This briefing report responds to your request that we review the leasing of office and computer space in Alexandria, Virginia, by the Securities and Exchange Commission (SEC) for an Operations Center. We investigated allegations from an anonymous SEC employee questioning the lease and briefed your staff on February 6, 1992, regarding our findings. They asked that we summarize in writing the information we reported at the briefing.

#### RESULTS IN BRIEF

We found that the allegations generally had little basis and that the Operations Center lease appears to be a reasonable solution to several SEC facilities problems. Leasing the Operations Center in Alexandria, compared to more expensive space in downtown Washington, D.C., will result in long-term savings for the government. We calculated that the Alexandria lease will save SEC about \$900,000 per year compared to leasing space in downtown Washington, after deducting additional costs of operating the new center. Considering these cost savings, we estimated that SEC will recover its initial cost of moving to Alexandria in about 4-1/2 years.

We also concluded that SEC's plans to enter into a succeeding lease for its present headquarters and to renovate that space should be more closely coordinated with the General Services Administration (GSA), so that the government's interests are protected in the event that SEC selects a new headquarters site and GSA takes over the present headquarters.

We investigated these allegations by interviewing agency officials, reviewing documents pertaining to the move, and touring the SEC headquarters and Operations Center. Our objective, scope, and methodology are described further in appendix I.

#### ALLEGATIONS HAVE LITTLE BASIS

SEC did not move its computers to allow the Chairman to relocate his offices; rather, the move to a lower cost location enabled the agency to provide a needed backup facility for its computers. For several years SEC had planned to provide for a backup computer capability in case of a physical disaster.

The Chairman did not plan to build a fitness center as part of his new office. SEC is planning, however, to install a fitness center open to all employees in the basement of its headquarters building.

Additional space for the 350 to 450 new employees expected to be hired through 1994 was not available in the SEC headquarters building, so the agency had to find the space elsewhere. SEC estimated the move cost \$4.1 million initially, plus about \$537,000 in annual operating expenses. We estimated that the Alexandria space will cost SEC, net of additional operating costs, about \$900,000 less per year than if it had leased equivalent space in downtown Washington.

Six eating establishments are located within 1 mile of the Alexandria Operations Center. By running a shuttle between the Center and the nearest Metro station, located about 3 miles away, the Alexandria facility has access to public transportation, although not as conveniently as at the headquarters building. SEC employees also have free parking at the Alexandria facility.

We found only one office at the Operations Center with a direct overhead view of a trash dumpster. However, some SEC employees, including minorities, have partial views of dump trucks, which are parked at a business next to the Operations Center.

We concluded that some chance exists that files could be lost or misplaced during transportation. However, we did not consider that risk to be high because Operations Center officials said they require employees to hand-carry sensitive documents between headquarters and Alexandria. Also, the Operations Center is equipped with a local area network, allowing employees to transmit memoranda to headquarters via computer. Other nonsensitive documents are transported on a shuttle that runs between headquarters and the Operations Center. Officials also said that securities registration filings will not be moved from

B-247367

headquarters building unless SEC decides not to move to a new headquarters building.

AGENCY COMMENTS

We did not obtain formal agency comments on this report. However, we discussed a draft of this report with SEC officials on February 11, 1992. The officials said they generally agreed with the facts and analyses contained in the report. They said that SEC's independent leasing authority was beneficial to the government in terms of locating the former NBW building and the cost savings expected from its lease. They also said that the government would realize additional cost savings through direct ownership of a new headquarters building. SEC officials added that they are negotiating a memorandum of understanding with GSA regarding GSA's possible lease of the present SEC headquarters building, should SEC move into a new headquarters building. SEC officials suggested minor changes that we incorporated, as appropriate, throughout the report.

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We are sending copies of this report to the SEC Chairman, the Administrator of GSA, the Director of the Office of Management and Budget, and other interested parties.

The major contributors to this report were John Baldwin, Assistant Director, and Robert Homan, Evaluator-in-Charge. If you have any questions about this report, please contact me on (202) 275-8676.



L. Nye Stevens  
Director, Government Business  
Operations Issues

OBJECTIVE, SCOPE, AND METHODOLOGY

Figure I.1

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## Scope

- Interviewed agency officials and SEC headquarters owner
  - Toured Operations Center and SEC headquarters building
  - Reviewed:
    - space market survey
    - offers for space
    - cost comparisons of offers
    - floor plans for Chairman's new office
    - moving cost data
  - Estimated lease savings
-

Administrator to discuss GSA's plans to lease SEC's current headquarters building should the agency move into new headquarters.

We did our work from October 1991 to February 1992 in accordance with generally accepted government auditing standards. We did not obtain written comments from SEC or GSA, but we discussed our analysis with agency officials and included their comments in this report where appropriate.

In September 1991, an anonymous employee wrote to Chairman Dingell citing several allegations regarding SEC's lease of office and computer space in a building formerly occupied by the National Bank of Washington (NBW) in Alexandria, Virginia (fig. II.1). In November 1991, SEC transferred 123 staff employees and 31 contract employees to Alexandria. The Alexandria facility, now called the SEC Operations Center, will eventually house 240 employees after additional staff are hired or transferred from headquarters and contract employees are transferred from McLean, Virginia.

The anonymous letter alleged that (1) SEC computers were being moved to Alexandria to allow the agency's Chairman to relocate his office; (2) the Chairman planned to build a fitness center as part of his new office; (3) the SEC headquarters building already was wired for computers and could have accommodated additional staff the agency plans to hire, so leasing the Operations Center was not needed; (4) moving to Alexandria would cost \$5 million to \$10 million initially, and SEC's recurring operational costs would increase from duplication of services at the new facility; (5) the Operations Center is not convenient to public transportation and eating establishments; (6) minority staff members at the Center will have views of trash dumpsters; and (7) files may be lost while being transported between headquarters and the Center.

COMPUTERS MOVED FOR CHAIRMAN'S NEW OFFICE

SEC's decision to move its computers from headquarters to Alexandria appear to be unrelated to plans to relocate the Chairman's offices to the top floor of agency headquarters (fig. II.2). Computers were moved from SEC headquarters to Alexandria in November 1991 because (1) the Operations Center had more modern and spacious computer facilities that were less costly to lease than the headquarters facilities were; and (2) SEC needed to provide for off-site, emergency backup facilities for its computer systems.

Before the move, SEC's main computer system was located in the basement of headquarters and EDGAR was housed on the top floor. If the SEC Chairman approves them, agency officials will proceed with plans to relocate the Chairman's office from the 6th floor to the 11th floor of headquarters, but not to the space vacated by EDGAR.<sup>1</sup>

When SEC's main computer system was housed in the basement of headquarters, it was vulnerable to flooding, sewer gases, and fire, particularly since a restaurant was located on the floor above the data center. SEC reports in 1987 and 1988, required under the Federal Managers' Financial Integrity Act, listed the lack of a disaster recovery program for the data center--commonly known as a backup system--as a material internal control weakness. In November 1989, the SEC Inspector General also reported that the agency should have a disaster recovery program. In response, SEC began planning in 1989 to establish an off-site backup system.

In February 1991, SEC hired a real estate firm to find available computer space in the Washington, D.C., area. The SEC Lease Management Specialist who commissioned the survey did not specify at that time how much space was needed. Later that month, the real estate firm identified the availability of a building in Alexandria, Virginia, formerly occupied by NBW, which had closed. SEC officials were interested in the NBW building because it could easily be modified to accept their backup system and it contained space that could be used for computer, office, and warehouse purposes. The owner of the former NBW building estimated that it contained computer-related improvements worth \$2.75 million.

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<sup>1</sup>SEC plans to relocate the following offices to the top floor: Legislative Affairs, Public Affairs, the Secretary, the four Commissioners, and the Chairman.

Chairman to move to other areas of the top floor without moving EDGAR, the Inspector General reported.

Floor plans for renovating the 11th floor show the space occupied by the EDGAR computers being replaced by the Office of the Secretary. The space designated for the Chairman's office on the 11th floor is currently used as a conference room.

SEC is considering options to obtain additional space for its headquarters staff. The agency has issued a solicitation for offers for a new headquarters building, which SEC expects to occupy in late 1994 or early 1995. Officials also are considering the option of remaining in the current headquarters building, renovating it, and leasing additional space in another building nearby.

At the same time, SEC is negotiating a succeeding lease for the building and plans to make use of space on the top floor that was vacated by the move to Alexandria and other space on the floor vacated by a former private sector tenant. Agency officials said that the floor must be renovated to install a fire sprinkler system, which the space currently lacks, and to convert space formerly occupied by the private sector tenant to government use. SEC plans for the space include five private restrooms. According to SEC, renovating the entire floor would cost about \$700,000, which would be included in lease payments.

GSA is considering assuming the succeeding lease for the current SEC headquarters building for another government tenant should SEC vacate the space in 1994 or 1995.

FITNESS CENTER FOR CHAIRMAN'S NEW OFFICE

Floor plans for renovating the top floor of agency headquarters do not show that the Chairman's new offices will include a fitness center (fig. II.3). Under the plan, offices to be relocated to the top floor include Legislative Affairs, Public Affairs, Office of the Secretary, the four Commissioners, and the Chairman.

SEC officials said they plan to build a fitness center in the basement of headquarters in 1992 even if the agency moves into a new headquarters building. The fitness center will be for use by all agency staff. SEC estimated that the fitness center would cost about \$190,000. The SEC Chairman said the center is necessary to make the agency a more attractive employer and to improve employee retention. We are aware that many federal agencies provide fitness facilities for their employees. A 1990 Office of Personnel Management survey of 175 government agencies with more than 500 employees showed that 60 percent of such agencies had on-site exercise facilities.

HEADQUARTERS WAS WIRED FOR COMPUTERS AND HAD SPACE

SEC has spent about \$536,000 to wire headquarters for computers since 1988 (fig. II.4). However, SEC officials said the projects were undertaken to upgrade the headquarters communication system, and that the agency still needed more computer space in an off-site facility. The SEC headquarters building does not have additional space to accommodate the agency's needs. The headquarters building is 100-percent leased, according to the building's owner.

The Market Reform Act of 1990 requires SEC to initiate two new major computer programs: the large trader reporting program and the holding company risk assessment program. Contingent upon congressional approval, SEC plans to hire about 100 new employees in fiscal year 1992, 50 new employees in fiscal year 1993, and 200 to 300 new employees in fiscal year 1994. According to SEC officials, the headquarters building could not accommodate the equipment needed for these new computer programs and employees. During a tour of SEC headquarters in October 1991, we observed employees working in overcrowded space, with many attorneys and other staff working in cramped conditions. These conditions have created morale and job retention problems among employees, according to SEC officials.

SEC has issued a solicitation for offers for 450,000 to 560,000 square feet of space in a new headquarters building. Even with the new space at the Operations Center, SEC would still need about 74,000 to 184,000 more square feet of space by 1994 if it stayed in the headquarters building.

SEC currently leases 376,452 square feet of space in headquarters, comprising eight different leases and subleases. The owner of the headquarters building told us that no other space is currently available for lease in the building. The only space that might become available is occupied by the District of Columbia government on the 8th floor, which has 31,000 square feet. However, SEC officials said it is uncertain if the District of Columbia government will vacate that space before its two leases expire in September 1993 and August 1996.

\$5 MILLION TO \$10 MILLION MOVING COST

The move to Alexandria will benefit the taxpayers through reduced leasing costs; it will not cost \$5 million to \$10 million, as alleged (fig. II.5). SEC estimated the move cost \$4.1 million, plus about \$537,000 in additional annual operational costs for some duplicate functions. We estimated that SEC would save about \$900,000 net per year by leasing space for the Operations Center in Alexandria, Virginia, compared to leasing space in the SEC headquarters, if available, or equivalent space in Washington, D.C. At an annual net cost savings of \$900,000, SEC will recover its one-time moving costs in about 4-1/2 years. The term of the Operations Center lease is 15 years.

The estimated initial move and annual operating expenses related to duplicate functions are shown in table II.1.

According to agency officials, four new administrative positions will be created for the Operations Center. The annual salaries for employee positions that are duplicated between headquarters and the Operations Center, excluding fringe benefits, total \$82,397 and are listed in table II.2.

Table II.2: Annual Salaries of New Administrative Positions Created for the Operations Center

<u>Duplicate positions</u>	<u>Annual costs</u>
One support services supervisor (GS-8)	\$23,284
One mail clerk (GS-5)	16,973
One motor vehicle driver (\$10.13/hour)	21,070
One materials handler (\$10.13/hour)	<u>21,070</u>
Total	<u>\$82,397</u>

Note: Excludes fringe benefits.

Source: SEC.

In our cost savings calculation shown in table II.3, we assumed a rental rate of \$34 per square foot in the SEC headquarters, based on opinions of SEC officials and information obtained from the GSA regional appraiser and from the owner of the SEC building, who gave us an estimate of what he might rent the space for on a 15-year succeeding lease.

In our cost savings calculation, we deducted SEC's cost for providing space for EDGAR contract employees in McLean, Virginia. SEC has already transferred about half of its EDGAR contract employees from McLean to the Operations Center and plans to transfer the remainder in late February 1992. SEC estimated that it would have spent about \$1.32 million to provide space in McLean for its EDGAR contract employees over 5 years.

Rent on the Operations Center escalates for taxes and operating expenses. Taxes will escalate on an actual basis, and operating expenses will escalate based on the consumer price index. SEC officials said they expected taxes and operating expenses to escalate faster for the SEC headquarters building than for the Operations Center. We did not try to escalate taxes and operating expenses in our cost savings calculation. If SEC officials are correct in their assumptions, the cost savings at the Operations Center would be higher than we estimated. Thus, our calculation shown in table II.3 is conservative.

Figure II.6

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## Operations Center Not Close to Transportation and Food

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- Six eating establishments located within 1 mile of Operations Center
  - Shuttle runs 14 times per day between Operations Center and nearest Metro station
  - All staff have free parking at the Operations Center
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Figure II.7

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## Minority Staff Have Views of Trash Dumpsters

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- One office with direct view of a dumpster
  - Percentage of minorities with partial views of dump trucks is not excessive compared to overall minority composition at Operations Center (70 percent v. 56 percent)
  - Percentage of nonminorities with views of woods not excessive (64 percent)
-

Figure II.8

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## High Risk of Losing Files

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- May be some chance of losing files during transportation, but not high risk
  - Employees required to hand-carry sensitive files between headquarters and Alexandria
  - Cost of moving files not substantial, part of fixed \$142,000 annual shuttle cost
-

CHRONOLOGY OF EVENTS

November 28, 1989--The SEC Inspector General issues a report finding that the agency's data center needs a disaster recovery plan.

October 16, 1990--The Market Reform Act becomes law, requiring SEC to initiate the large trader reporting and holding company risk assessment computer programs.

November 15, 1990--The Securities and Exchange Commission Authorization Act becomes law, giving SEC independent leasing authority.

February 1991--SEC commissions the real estate firm of Spaulding & Slye Colliers to locate existing computer space in the Washington, D.C., metropolitan area. SEC does not specify how much computer space it needs.

February 28, 1991--Spaulding & Slye Colliers issues a market survey of 8 existing raised floor computer rooms in Northern Virginia, including the former NBW building in Alexandria, Virginia.

March 20, 1991--An anonymous SEC employee sends a letter to the SEC Inspector General and a copy to Chairman Dingell containing allegations of impropriety concerning the agency's plan to lease space in an off-site facility.

April 1991--SEC officials decide the agency needs 16,000 to 18,000 square feet of space for a computer room.

April 4, 1991--Chairman Dingell writes SEC Chairman Breeden about allegations contained in the March 20, 1991, anonymous letter.

Late April 1991--SEC officials decide the agency needs 60,000 to 66,000 square feet of office space and 2,000 to 4,000 square feet of warehouse space in addition to 16,000 to 18,000 square feet of computer space.

May 8, 1991--SEC Chairman Breeden writes Chairman Dingell, stating that the proposed move would result in long-term lease cost savings and that the off-site facility is needed to accommodate a backup computer system, the large trader reporting and holding company risk assessment computer programs, and new staff.

May 13, 1991--SEC runs an ad in The Washington Post soliciting offers to lease 16,000 to 18,000 square feet of computer space;

November 12, 1991--First day of occupancy in the Operations Center for 123 SEC employees, excluding contract personnel.

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60,000 to 65,000 square feet of office space; and 2,000 to 4,000 square feet of warehouse space.

May 15, 1991--SEC issues a solicitation for offers to lease 16,000 to 18,000 square feet of computer space, 60,000 to 65,000 square feet of office space, and 2,000 to 4,000 square feet of warehouse space.

May 23, 1991--Cafferty Development Corporation submits a proposal to SEC for lease of the NBW building in Alexandria.

May 31, 1991--USAir submits a proposal to SEC to lease a building in Fairfax, Virginia.

June 19, 1991--Cafferty submits its best and final offer to lease 81,313 square feet of space in Alexandria at an annual rent of \$19.01 per square foot, including first-year taxes and operating expenses.

June 20, 1991--USAir submits its best and final offer for 78,000 square feet of space in Fairfax at an annual rent of \$33.93 per square foot, including first-year taxes and operating expenses.

June 20, 1991--SEC ends negotiations with Cafferty and USAir.

June 26, 1991--The SEC Inspector General issues a report finding no basis for the allegation that SEC is moving the EDGAR computer system to an off-site location so that the agency's Chairman can relocate to the top floor of agency headquarters. The report concludes that the move "appears reasonable" and is likely to result in long-term cost savings, compared to leasing space at headquarters or an equivalent downtown building.

August 1, 1991--SEC signs a 15-year lease with Cafferty for 81,313 square feet of space in the former NBW building. Cafferty also agrees to pay \$413,250 toward the cost of improvements to the Operations Center.

August 29, 1991--SEC informs USAir that its bid was not the lowest and that award was made to another offeror.

September 23, 1991--Chairman Dingell receives another letter from an anonymous SEC employee containing allegations of impropriety concerning the Operations Center lease.

October 2, 1991--Chairmen Dingell and Markey ask GAO to investigate allegations contained in the September 1991 anonymous letter.

HIGH RISK OF LOSING FILES

The possibility of losing or misplacing files while they are being transported between headquarters and Alexandria is very remote, according to SEC officials (fig. II.8). A cost will be incurred in transporting the files, but it does not seem substantial since it is an undetermined portion of the fixed shuttle expenditure. SEC did not estimate a specific cost for moving documents, but said it is part of the estimated \$142,000 annual cost for operating the shuttle (\$21,000 for shuttle driver's salary and \$121,000 to operate the shuttle). The shuttle would run to transport employees regardless of the need to transport files, according to agency officials.

The Operations Center is equipped with a local area network, allowing employees in Alexandria to communicate with headquarters via personal computer. The network will eliminate much of the need to send paper copies of memoranda between the Operations Center and headquarters, according to agency officials. Paper files are transported using the shuttle that runs between headquarters and Alexandria.

Officials at the Operations Center said they have instructed employees that sensitive documents are to be delivered personally. Other nonsensitive files are transported on the shuttle.

Security registration filings will not be moved from headquarters to Alexandria. The public reference room remains at headquarters.

MINORITY STAFF HAVE VIEWS OF TRASH DUMPSTERS

Only one office, currently vacant, has a direct overhead view of a trash dumpster (fig. II.7). However, employees with window views on the building's south side have partial views of about a dozen dump trucks parked at a neighboring equipment rental business. The SEC landlord has planted evergreen trees, now about 10 feet high, which obscure all but the tops of the trucks.

We assumed that the allegation concerned dump trucks rather than dumpsters. Of the 17 employees with views of dump trucks, 12, or 70 percent, are minorities. Seven of those employees are in job grades GS-5 to GS-7. Six of those seven employees did not have window views from their previous workstations in headquarters. Additionally, 56 percent of the employees working at the Operations Center are minorities. In light of these facts, we did not find the number of nonwhite employees with views of trash dumpsters to be disproportionately high.

The allegation that mainly white employees have views of woods on the building's north side also has little basis. Of the 33 employees who have views of woods on the building's north side, 12, or 36 percent, are nonwhite.

There are no windows on the east side of the Operations Center space leased by SEC. Employees on the west side of the building do not have views of the dump trucks or woods, but of the parking lot and an adjacent office building. We did not collect data on the minority composition of employees housed on the west side because the allegation concerned only views of woods and dumpsters.

OPERATIONS CENTER NOT CLOSE TO TRANSPORTATION AND FOOD

Six eating establishments are located within a mile of the Operations Center (fig. II.6). Therefore, we believe that the Alexandria facility is within relatively close walking distance of eating establishments. However, we realize that this distance could pose a difficulty for employees with physical mobility impairments.<sup>4</sup> The eating establishments located within 1 mile of the Operations Center are listed in table II.4.

Table II.4: Eating Establishments Near the Operations Center

<u>Eating Establishment</u>	<u>Distance from Operations Center (miles)</u>
King of Pita Bakery	0.2
Bren Mar Deli & Restaurant	0.4
JJ's Carryout	0.4
Greenhouse Restaurant (Quality Inn)	0.6
Denny's	0.7
Pizza Hut	0.8

Source: GAO observation.

The Operations Center does not have a cafeteria, but it does have a lunchroom with food vending machines and tables for eating. If employees express an interest, SEC officials said they may contract with a food service company to provide food service in the lunchroom.

SEC runs a shuttle between the Operations Center and the nearest Metro station. The shuttle runs between the Center and the Van Dorn Metro station, located about 3 miles away, 14 times per day between 6:40 a.m. and 7:10 p.m. The shuttle to the Metro station takes about 10 minutes. In addition, all staff have free parking at the Operations Center. We concluded that the building has adequate access to public transportation, although it is not as convenient as the SEC headquarters building.

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<sup>4</sup>No employees with such impairments currently work at the Operations Center, according to SEC's Human Resources Department.

Table II.3: Estimated Cost Savings of Leasing the Operations Center

Annual cost of renting space in the SEC building or equivalent, assuming rent of \$34 per square foot, including first-year taxes and operating expenses (81,313 square feet x \$34 per square foot)	\$2,764,642
Construction cost for computer space (18,574 square feet x \$175 per square foot)/15 years	<u>216,697</u>
Subtotal	\$2,981,339
Less cost of leasing the Operations Center, including first-year taxes and operating expenses (81,313 square feet x \$19.01 per square foot)	<u>(1,545,760)</u>
Subtotal	\$1,435,579
Less annual operational costs (from table II.1)	<u>(537,000)</u>
Annual cost savings	<u>\$898,579</u>

Source: GAO computation based on data from SEC, the SEC headquarters building owner, and GSA.

In June 1991, the SEC Inspector General estimated that leasing the Alexandria Operations Center would save about \$1 million per year compared to leasing the same amount of space in SEC headquarters. The Inspector General estimated a greater savings than we did because he assumed the rent for the off-site facility would be lower than the final negotiated rate of \$19.01 per square foot. Instead, the Inspector General assumed the rent would be \$12 per square foot, or one-half of the \$24-per-square-foot base rent for the main lease at SEC headquarters.

Table II.1: Estimated Initial Moving Costs and Annual Operating Expenses

	<u>One-time moving costs</u>	<u>Annual recurring operating expenses</u>
Construction/equipment	\$1,722,000	
Computer software	675,000	
Telecommunications	1,342,000	\$284,000
Contracts for moving computers and planning new space	510,000	
Shuttle		110,000
Furniture/equipment	263,000	
Moving	22,000	
Duplicate positions <sup>a</sup>		82,000
Guard service		257,000
Health unit	<u>24,000</u>	<u>69,000</u>
Subtotal	\$4,558,000	\$802,000
Less		
Renovation allowance <sup>b</sup>	(413,000)	
EDGAR lease savings <sup>c</sup>	<u>          </u>	(265,000)
Totals	<u>\$4,145,000</u>	<u>\$537,000</u>

Note: Figures are rounded.

<sup>a</sup>According to agency officials, four new administrative positions will be created for the Operations Center.

<sup>b</sup>The owner of the Operations Center building allowed SEC to make improvements to the building at the owner's expense.

<sup>c</sup>SEC plans to move EDGAR contract personnel from McLean, Virginia, to the Operations Center. SEC would have spent about \$265,000 per year to continue leasing space in McLean.

Source: SEC.

Figure II.5

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## \$5 Million to \$10 Million Moving Cost

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- \$4.1 million initial moving cost
  - \$537,000 in recurring annual expenses to run Operations Center
  - Leasing former NBW building saves about \$900,000 annually compared to space in downtown Washington
-

Figure II.4

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## Headquarters Was Wired for Computers and Had Space

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- SEC has spent \$536,000 to wire headquarters for computers since 1988
  - SEC headquarters has no space for expansion
-

Figure II.3

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## Fitness Center for Chairman's New Office

- No plans for fitness center as part of Chairman's new office
  - SEC plans a fitness center in the basement open to all employees
  - 60 percent of agencies have on-site exercise facilities
-

In May 1991, SEC issued a solicitation for offers to lease (1) 16,000 to 18,000 square feet of computer space, (2) 60,000 to 65,000 square feet of office space, and (3) 2,000 to 4,000 square feet of warehouse space within 15 miles of the District of Columbia border. In response, SEC received three offers. One was withdrawn, leaving offers for two buildings: the NBW building and a building owned by USAir in Fairfax, Virginia. Subsequent best and final offers for the buildings resulted in the NBW offer of \$19.01 per square foot, including first-year taxes and operating expenses, and a \$33.93 per square foot offer for the USAir building, including first-year taxes and operating expenses.<sup>2</sup>

According to SEC officials, EDGAR was moved out of headquarters (1) because the Operations Center had more modern and spacious computer facilities, and lower lease costs than the headquarters building; (2) to consolidate EDGAR with the agency's other computer operations and staff; and (3) to consolidate EDGAR contract personnel, who were working in McLean, Virginia, with the agency's EDGAR staff.<sup>3</sup>

SEC originally planned to establish a backup system for the main computer center in an off-site facility. However, because of the NBW building's relatively superior computer facilities, officials decided in April 1991 to relocate the main computer system--plus EDGAR and the related staffs--to Alexandria. SEC officials decided to house backup systems for the main computer system and EDGAR at headquarters, a decision that appears reasonable. Therefore, the intent of the move was to provide backup capacity for computers and to reduce costs, not to provide space for the SEC Chairman.

A June 1991 SEC Inspector General review found no basis for the allegation that the agency planned to move the EDGAR computer system to an off-site facility so that the SEC Chairman could move into the EDGAR space. Sufficient space existed for the

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<sup>2</sup>On August 1, 1991, SEC signed a 15-year lease for 81,313 square feet of space in the former NBW building. Rent on the Operations Center escalates for taxes and operating expenses. Taxes will escalate on an actual basis, and operating expenses will escalate based on the consumer price index.

<sup>3</sup>SEC has eight leases and subleases of space in the headquarters building, ranging from \$22.95 to \$35 per square foot, including taxes and operating expenses, compared to \$19.01 per square foot for the Operations Center, including first-year taxes and operating expenses.

Figure II.2

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## Computers Moved for Chairman's New Office

- No relationship between moving computers to Alexandria and plans for Chairman's new office
  - Computers moved to establish needed backup system
  - New computer space is less expensive and has better facilities than headquarters
-

ALLEGATIONS AND OUR ANALYSIS

Figure II.1

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## Allegations Regarding SEC Operations Center

- Computers moved for Chairman's new office
  - Fitness center for Chairman's new office
  - Headquarters was wired for computers and had space
  - \$5-\$10 million moving cost
  - Operations Center not close to transportation and food
  - Minorities have views of trash dumpsters
  - High risk of losing files
-

Our objective was to investigate allegations contained in a letter sent to Chairman Dingell and to determine whether the Securities and Exchange Commission's (SEC) lease of space in Alexandria, Virginia, would benefit the government (fig. 1). To investigate the allegations, we interviewed agency officials, including the SEC Chairman, the Executive Director and his staff; the Lease Management Specialist who commissioned the market survey of available computer space in the Washington, D.C., area and prepared cost comparisons; the Director of the Office of Administrative Services; and the Director of the Office of Human Resources. We also interviewed officials at the Operations Center, including the Associate Director of the Office of Filings, Information, and Consumer Services (OFICS); a branch manager of the Office of the Information Services Management (OISM); and the Director of the Office of Electronic Data Gathering, Analysis, and Retrieval (EDGAR) Management. We also interviewed the owners of the SEC headquarters building and the Operations Center and an SEC contract attorney who provided legal advice to the agency regarding the lease.

We reviewed SEC documents pertaining to the move, including the market survey of computer space in the Washington area, the solicitation for offers for the Operations Center and a new headquarters building, cost comparison memoranda, the resulting lease for the Operations Center, floor plans for renovating the top floor of the headquarters building, moving cost data, a June 1991 SEC Inspector General review of the allegations, and the SEC's 1987 and 1988 Federal Managers' Financial Integrity Act reports.

We investigated the allegation that minorities have views of dumpsters, while predominantly white staff have views of woods, by observing the Operations Center window exposures. We also collected data from the SEC Human Resources Department regarding the minority composition of employees working at the Operations Center. To assess the proximity of the Operations Center to eating establishments, we canvassed the number of establishments within 1 mile of the facility. We also reviewed the schedule for the shuttle that runs between the Operations Center and the nearest Metro station.

To determine whether SEC's lease in Alexandria would benefit the government, we compared the cost of renting space in the Operations Center with what we estimated SEC would pay for space in its headquarters, if available, or its equivalent. Our estimate was based on information obtained from the General Services Administration's (GSA) regional appraiser, who estimated the cost of renting space downtown, and the owner of the SEC headquarters, who gave us a rate estimate for space in the headquarters building. We also interviewed GSA's Deputy Regional

## C O N T E N T S

	<u>Page</u>
LETTER	1
APPENDIXES	
I	OBJECTIVE, SCOPE, AND METHODOLOGY 7
II	ALLEGATIONS AND OUR ANALYSIS 10
III	CHRONOLOGY OF EVENTS 31
TABLES	
II.1	Estimated Initial Moving Costs and Annual Operating Expenses 22
II.2	Annual Salaries of New Administrative Positions Created for the Operations Center 23
II.3	Estimated Cost Savings of Leasing the Operations Center 24
II.4	Eating Establishments Near the Operations Center 26
FIGURES	
I.1	Scope 7
II.1	Allegations Regarding SEC Operations Center 10
II.2	Computers Moved for Chairman's New Office 12
II.3	Fitness Center for Chairman's New Office 16
II.4	Headquarters Was Wired for Computers and Had Space 18
II.5	\$5 Million to \$10 Million Moving Cost 20
II.6	Operations Center Not Close to Transportation and Food 25
II.7	Minority Staff Have Views of Trash Dumpsters 28
II.8	High Risk of Losing Files 30

### ABBREVIATIONS

EDGAR	Electronic Data Gathering, Analysis, and Retrieval
GSA	General Services Administration
NBW	National Bank of Washington
OFICS	Office of Filings, Information, and Consumer Services
OISM	Office of Information Services Management
SEC	Securities and Exchange Commission

headquarters to Alexandria. SEC's public reference room remains at headquarters.

Our detailed analysis of each of the allegations is contained in appendix II. A chronology of events relating to the move is included in appendix III.

#### HEADQUARTERS LEASE ISSUE

In the course of our work, we became aware of and pursued another issue related to the allegation concerning renovations to the top floor of the headquarters building for the Chairman's office. This matter involves SEC's plans to find replacement space for its headquarters.

SEC is considering moving to a new headquarters building and issued a solicitation for offers for a new building, which SEC expects to occupy in late 1994 or early 1995. At the same time, SEC is negotiating a succeeding long-term lease for its existing headquarters building and plans to make use of space on the top floor that was vacated by the move to Alexandria and other space vacated by a former private sector tenant. Agency officials said that floor must be renovated to install a fire sprinkler system, which the space currently lacks, and to convert the space previously occupied by the private sector tenant for government use. SEC floor plans for the space show five private restrooms for the four Commissioners and the Chairman on the top floor of the building.

GSA is considering taking over the lease for the SEC building should SEC move to a new headquarters. However, GSA officials said the tenant they had in mind for this space would not need private restrooms. GSA officials also said that they should be involved in planning the renovations, since GSA's tenant probably would occupy the space for more time than SEC over a long-term succeeding lease.

#### RECOMMENDATION

To protect the government's interests in the event that SEC selects a new headquarters, we recommend that the SEC Chairman direct SEC officials not to enter into a long-term succeeding lease for the existing headquarters building or renovate it until (1) GSA commits in writing to take over the remaining term of the lease if SEC vacates the space in 1994 or 1995; and (2) SEC and GSA agree on how to configure and renovate the top floor to meet government needs for the space over the long term, thus avoiding a possible second renovation if GSA takes over the space. If SEC and GSA cannot reach agreement on these matters, we recommend that SEC not enter into a long-term lease for its present

BACKGROUND

In early 1991, SEC sought to lease additional space outside of its Washington, D.C., headquarters building to accommodate additional staff and to establish an off-site backup capability for its computer system. Although GSA secures office space for most agencies, Congress granted SEC independent leasing authority under the Securities and Exchange Commission Authorization Act of 1990. Officials searched for space in the Washington, D.C., metropolitan area and located a building in Alexandria, Virginia, formerly occupied by the National Bank of Washington (NBW), which had closed. In August 1991, SEC signed a 15-year lease for 81,313 square feet of space in the NBW building. In November 1991, 123 headquarters employees were transferred to the Alexandria facility, which is called the Operations Center.

In general, we believe agencies should consider transferring those operations that do not need to be housed in expensive downtown office space to lower-cost locations.<sup>1</sup> We also believe that the government can generally realize significant cost savings through ownership of federal office space, rather than leasing.<sup>2</sup>

In September 1991, an anonymous employee wrote to Chairman Dingell citing several allegations regarding the Operations Center lease. These allegations held that (1) SEC's computers were being moved to Alexandria to allow the agency's Chairman to relocate his office to the top floor of the agency's present building; (2) the Chairman planned to build a fitness center as part of his new office; (3) since the SEC headquarters building already was wired for computers and could have accommodated additional staff, leasing the Operations Center was unnecessary; (4) moving to Alexandria would cost \$5 million to \$10 million initially and duplication of services at the new facility would increase operational costs; (5) the Operations Center is not convenient to public transportation and eating establishments; (6) minority staff members have views of trash dumpsters; and (7) files may be lost while being routinely transported between headquarters and Alexandria.

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<sup>1</sup>Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sept. 28, 1990).

<sup>2</sup>Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

