



Treasury Inspector General for Tax Administration

THE INTERNAL REVENUE SERVICE EXPECTS TO SPEND ABOUT \$13 MILLION TO RECOVER FROM THE 2006 FLOOD OF ITS HEADQUARTERS BUILDING

Issued on July 13, 2007

Highlights

Highlights of Report Number: 2007-10-113 to the Acting Internal Revenue Service Commissioner.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) will spend about \$13 million to recover from the flood but did not require any new funding over its existing budget. There was minimal impact on the taxpayer because most of the funds did not come at the expense of other IRS programs; rather, the funds came from yearend surpluses, rent credits from the damaged building, and user fees.

WHY TIGTA DID THE AUDIT

On June 25, 2006, water from a severe rain storm damaged the IRS Headquarters building's electrical, heating, and air-conditioning systems. The storm also destroyed offices, vehicles, furniture, and computer equipment located in the basement and garage. The approximately 2,200 employees who worked in the building, including the top executives of the IRS major functional areas, were assigned temporary space in other IRS facilities or began telecommuting during the repair and rebuilding efforts.

The overall objective of this review, initiated at the request of the Ranking Member of the United States Senate Committee on Finance, was to determine the costs incurred by the IRS to recover from the flooding of its National Headquarters building, including whether the reported expenses were properly related to the flood and proper procurement processes were followed.

WHAT TIGTA FOUND

As of December 31, 2006, the IRS had spent about \$11.6 million to recover from the flood. It expects to spend another \$1.6 million, for a total cost of about \$13.2 million. These costs were approximately \$7.9 million (37 percent) less than the original estimate of \$21.1 million for temporary work space, moving personnel to and from the temporary space, assisting with building cleanup efforts, and replacing damaged

equipment. IRS officials suggested several factors caused the initial estimate to be high:

- The original estimates were developed before functions had the opportunity to thoroughly assess the damage and research the costs to replace the equipment.
- The General Services Administration paid more of the costs than expected.
- The original estimate included funds for contingencies that were not needed.
- Technology improvements resulted in lower costs for some replacement items.
- Not all destroyed items were replaced.

Although all IRS functions were affected by the flood, the four functions with the highest estimated costs were Agency-Wide Shared Services (about \$8 million); Modernization and Information Technology Services (about \$2.7 million); Chief Counsel (about \$1.6 million); and Criminal Investigation (about \$0.7 million). Approximately 70 percent of the costs were related to rent for temporary space, automated data processing equipment, services and maintenance, and salaries for those involved in the recovery efforts.

Our review of a statistical sample of flood-related purchase transactions showed the IRS purchases were appropriate. The purchases examined were related to the flood, and existing Federal Government contracts with approved vendors were used to obtain the needed services and equipment. In addition, the office of the Chief Financial Officer monitored the functions' spending during the latter part of Fiscal Year 2006 to ensure sufficient funds were available to cover the costs to purchase replacement items.

On December 8, 2006, the IRS and the General Services Administration considered the building ready for reopening and IRS staff began to return.

WHAT TIGTA RECOMMENDED

TIGTA made no specific recommendations as a result of the analyses performed during this audit. IRS management reviewed a draft of this report and agreed with the facts and findings presented; their comments have been considered and, where appropriate, incorporated into this report.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710113fr.pdf>.

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