January 28, 2002

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT

SUBJECT: Audit Report - Disposal of Excess Real Property
(Report Number CA-AR-02-002)

This report presents the results of our audit of the disposal of excess real property, (Project Number 00HA049FA000). This was a self-initiated audit. The objective of our audit was to determine if Postal Service real property was being utilized or reported for disposal if it was not.

The audit revealed 30 properties purchased for $45 million that were not developed and utilized by the Postal Service and had not been referred for disposal. During our audit, one property was returned to the original owner and 12 properties purchased for $5.3 million were referred to Realty Asset Management for disposal. Two of the 12 properties were sold for a total of $182,000. The remaining properties have an estimated total value of $4.1 million as of December 13, 2001. We agree with management's decision to refer the properties for disposal. This action will result in a better use of funds of $4.1 million.

We recommended management review all properties, including the remaining properties for $39.6 million and dispose of those properties which are not needed. Management agreed with the recommendation to review undeveloped and unused properties. However, they stated the recommendation should be reworded to require the areas, not districts to review undeveloped properties. Management further stated they would request the areas to review all undeveloped and unused real properties, and by the end of fiscal year 2002, advise Realty Asset Management of those properties that should be disposed. Management's comments are responsive to our concerns. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, or need additional information, please contact Lorie Siewert, director, Contracts and Facilities, at (651) 855-5856, or me at (703) 248-2300.

John M. Seeba
Assistant Inspector General
for Financial Management

Attachment

cc: Keith Strange
Rudolph K. Umscheid
David W. Eales
Randy W. Alder
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction	This audit report presents the results of our review of the Postal Service's disposal of excess real property. The audit was self-initiated to determine whether real property was utilized, and if not, referred for disposal. Specifically, this audit focused on real properties purchased through the Postal Service's advanced site acquisition and land banking processes.
Results in Brief	The audit revealed 30 properties purchased for $45 million that had not been developed and utilized – one for almost 18 years. The Postal Service did not use these properties, in part, because operational requirements changed and budget constraints prevented development of the property. Also, these properties were not reported to Realty Asset Management for disposal. During our audit, one property was returned to the original owner and 12 properties purchased for $5.3 million were referred to Realty Asset Management for disposal. Two of the properties were sold for a total of $182,000. The remaining properties have an estimated total value of $4.1 million as of December 13, 2001. The properties individually range in value from $10,100 to $2.5 million. Referring the properties to Realty Asset Management for disposal will result in a better use of funds of $4.1 million. Additionally, because of the Postal Service's restrictions on capital investments, all undeveloped and unused real properties, including the remaining 17 properties covered in our audit should be reviewed to determine if they are candidates for disposal. Efficient and economical disposal of unused property could provide additional financial resources for the Postal Service.
Summary of Recommendations	We recommended Postal Service management require a review of all undeveloped real property and refer those properties that are no longer needed to Realty Asset Management to begin the disposal process.
Summary of Management's Comments	Management agreed with the recommendation to review undeveloped and unused real properties, but stated that the areas, not districts, should refer excess properties to Realty Asset Management to begin the disposal process. Management stated they would request the areas to review all undeveloped and unused real properties, and by the end of Quarter 4, fiscal year 2002, advise Realty Asset

Management of those properties that should be disposed of. Regarding management's assertion that prior comments were not incorporated into the draft report, we acknowledge the oversight. We have now fully addressed those comments and made revisions as appropriate. Management's comments, in their entirety, are included in Appendix C of this report.

Overall Evaluation of Management's Comments

Management's comments are responsive to our concerns and address the issues identified in this report.

INTRODUCTION

Background

Generally, property for new or expanding facilities may not be acquired until the full construction project is approved. However, Postal Service policy allows for advance acquisition of property as long as there is minimum risk of loss to the Postal Service.

This strategy can also be adopted when expansion of an existing Postal Service facility is probable. In such a case, the Postal Service uses the concept of land banking[1] to ensure that property is available for future Postal Service facility development.

Chapter 4, Sections 467 and 468 of the August 1996 edition of the Realty Acquisition and Management Handbook (RE-1), outlines the policies, procedures, and guidelines for both advanced site acquisition and land banking alternatives. The General Investment Policies and Procedures Handbook (F-66), and Capital and Program Evaluation Instructions also provide guidelines for these transactions. The Administrative Support Manual, updated January 11, 2001, stipulates what action must be taken when property is not developed, or identified as excess inventory.

Objective, Scope, and Methodology

Our objective was to determine if Postal Service real property was needed and being utilized and, if not, was reported for disposal. Specifically, this audit focused on real properties purchased through advance site acquisition and land banking.

To accomplish our objective, we reviewed records from the Postal Service Facilities Management System and records from the Realty Asset Management Office. We reviewed Postal Service policies and procedures, and headquarters directives related to advance site acquisition and land banking.

[1] Land banking involves the identification, evaluation, selection, and purchase of property in areas where there is a projected future operational need, but the specific project is not identified in the Five-Year Capital Investment Plan. Properties are considered for land banking in locations where there is a scarcity of land or where future expansion opportunities exist.

Our audit universe consisted of 454 Postal Service properties purchased between January 1, 1970, and December 31, 2000, for $150 million. We conducted field visits at 11 facilities service offices: Atlanta, Capital Metro, Columbia, Dallas, Denver, Great Lakes, Kansas City, Mid-Atlantic, New York, Pacific, and Windsor.

We reviewed and researched real property files and held discussions with facilities service office officials. We sent letters to 32 districts regarding properties that were identified as undeveloped to determine if the properties could be identified as excess.

This audit was conducted from September 2000 through January 2002 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

No prior Office of Inspector General (OIG) reviews on utilization of space or disposal of excess real properties have been performed. However, the following General Accounting Office (GAO) reports have been issued addressing the subject matter of our review:

Postal Service Conditions Leading to Problems in Some Major Purchases (GAO/GGD-96-59, January 1996), addressed the Postal Service's purchasing program. This report identified seven purchases that did not reflect favorably on the Postal Service's procurement policy. One of the purchases identified was a site that was acquired in [redacted], which was unusable because of toxic contamination. The purchase of this property was later rescinded with the Postal Service receiving the sale price plus interest. According to the report, problems with real estate transactions were apparently due to shortcutting important integrity safeguards through a mistaken sense of urgency. Management indicated it had taken steps to correct any violations of policy or safeguard and to prevent recurrence.

U.S. Postal Service Deficiencies Continue While Antelope Valley Project Status Remains Uncertain (GAO/GGD-99-147, August 1999), addressed the acquisition of land in [redacted]. According to the report, in October 1991, while the overall project was still under development and review, the Postal Service acquired a 25-acre site [redacted], at a cost of $6.5 million using its advanced site acquisition procedures. Also, the report stated that as of July 1, 1999, the project was on hold and the land could remain unused for several more years unless action was taken. The report included a recommendation that the postmaster general take action to determine whether the site in [redacted], should be retained, and to ensure the project was considered in the appropriate funding and approval process.

Management stated that the [redacted], project would be considered along with other such facilities during the next round of project reviews and prioritization.

AUDIT RESULTS

Excess Property Was Not Referred for Disposal

We found the Postal Service does not need some of its real property and had not referred these properties for disposal. Specifically, we reviewed the Postal Services' purchase of 30 real estate sites for $45 million under the advanced site acquisition and land banking programs. One of these properties was purchased as far back as 1984. We determined that 13 of the 30 properties were excess. One property, which was donated to the Postal Service, should be returned to the original owner. Twelve properties, purchased for $5.3 million, should be disposed of by Realty Asset Management.
[redacted]

The Postal Service did not use these properties in part, because operational requirements changed and budget constraints prevented development of the property. During our audit, 12 properties purchased for $5.3 million were reported to Realty Asset Management for disposal as excess property. Two of the twelve properties were sold for $182,000. Two other properties did not have an estimated value in the Facilities Asset Management Program. The remaining eight properties have an estimated market value of $4.1 million as of December 13, 2001. These properties individually range in value from $10,100 to $2.5 million.

The property located in [redacted], was donated in June 1992 to the Postal Service as the site for a new Postal Service facility. The donation agreement contained a "reverter clause," which stipulated, if the property was not developed within 18 months from the date of acceptance of the property by the Postal Service, the property would revert back to the original owner. Postal officials stated the current residents, in response to community contact regulations, indicated they did not want to use this property for their new post office. As a result, the [redacted] returned the property to the original owner.

Unused Real Property Costing $39.6 Million Not Considered for

Postal Service officials have not determined whether the remaining 17 properties (See Appendix B for a list of properties), valued at $39.6 million should be excessed and

Disposal

considered for disposal. These properties were listed on the Five-Year Capital Investment Plan and identified for future development. However, we believe the current freeze on capital projects may make future use of these properties unlikely. Also, we noted that no contracts have been awarded to develop these properties.

For example, the [redacted], site was purchased in 1991 for $47,200 with the intention of building a new post office. However, management advised us that the current lease rate on the existing post office in [redacted] was so low that a cash flow analysis[2] would not support the capital investment of building a new office. Management also stated that the current lease is valid until 2004 and a new facility would only be184 square feet larger than the existing post office.

In addition, [redacted], [redacted] site was purchased in 1991 for $6.5 million under the advanced site acquisition program for a new mail processing facility. According to district management, this site is needed since the population growth rate in [redacted] is increasing. However, we believe, due to the freeze on capital projects, the Postal Service should review the need for this property. In this regard, we noted Section 517.11 of the Administrative Support Manual 13, requires periodic review of real property to determine whether it is still needed or can be referred for disposal.

The following table shows properties, by facilities service office, identified for future development that should be reviewed and considered for disposal.

[2] A cash flow analysis itemizes investments and costs/savings in order to determine the return on investment and net present value of implementing the project.

[redacted]			
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]
[redacted]		[redacted]	[redacted]

*Difference due to rounding

Recommendation

We recommend that the chief operating officer and executive vice president:

1. Require areas to review all undeveloped and unused real properties, including the remaining 17 properties purchased for $39.6 million, and refer any excess properties to Realty Asset Management to begin the disposal process.

Management's Comments

Postal Service management stated they previously provided comments to an earlier draft and are now formalizing them because no changes were made.

Overall, management agreed with our recommendation to review undeveloped and unused real properties. However, they stated the recommendation should be reworded to require the areas, not districts, to review undeveloped and unused real properties and refer any excess properties to Realty Asset Management to begin the disposal process.

Management stated they would request the areas to complete the review of properties by the end of Quarter 4, fiscal year 2002.

Postal Service management also provided additional suggestions for improvement to selected language used in the report.

Evaluation of Management's Comments

Management's comments are responsive to our concerns. Based on management's comments, we revised the recommendation to require the areas to review undeveloped and unused real properties and to refer any properties to Realty Asset Management to begin the disposal process.

We also addressed each of management's additional comments and incorporated suggested changes where appropriate.

APPENDIX A

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

3 [redacted].

4 [redacted].

[redacted] 5 [redacted].

[redacted]						[redacted]

[redacted].

APPENDIX B

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]					

[redacted].

[redacted].

APPENDIX C. MANAGEMENT'S COMMENTS

RUDY UMSCHEID
VICE PRESIDENT, FACILITIES

UNITED STATES POSTAL SERVICE

November 8, 2001

JOHN M. SEEBA
ASSISTANT INSPECTOR GENERAL FOR FINANCIAL MANAGEMENT

SUBJECT: Draft Report—Disposal of Excess Real Property
(Report Number FA-AR-02-DRAFT)

This is in response to the subject draft audit transmitted to this office on October 15. We previously had provided comments to an earlier draft. However, since no changes seem to have been made from that earlier draft, we are formalizing our comments.

Prior Audit Coverage
Page 2 of the draft audit discusses prior audit coverage, and includes a GAO audit from 1996. The present language used in the OIG audit misinterprets the GAO audit and findings. The GAO audit and conclusions related to various purchases, not just real property. As such, some of the issues cited do not relate to the facility project in [redacted] It is also important to note that while the GAO audit was dated 1996, it included data from previous reports—most notably the [redacted] acquired in 1986. We see no value in rehashing an issue that took place 15 years ago. This acquisition is not reflective of current policies. As a result, it should be removed from the current audit.. However, if this section remains, the second paragraph should be revised as follows, to reflect the actual report and findings:

> This report identified seven purchases of equipment, services, and real property over a ten-year period that did not reflect favorably on the Postal Service's procurement policy and/or the application of those policies. [The remainder of the original sentence should be deleted. The audit did not indicate that these purchases reflected unfavorably on "the wisdom of exempting the service from many of the purchasing rules that apply to other federal agencies." The quoted language is a question from the Congressional Committee which requested the audit.] One of the purchases identified was a site that was acquired in [redacted] which was unusable because of toxic contamination. The purchase of this property was later rescinded, with the USPS receiving the sale price plus interest. According to the report, problems with this real estate transaction were apparently due to shortcutting important integrity safeguards through a mistaken sense of urgency. [The next sentence is deleted because it refers to other purchases in the GAO audit, not the real property acquisition.] Management indicated it had taken steps to correct any violations of policy or safeguards, and to prevent recurrence. [The reference to management's comments is changed because the language used in the OIG report does not relate to the real property purchase and misstates what management agreed to (the single purchasing executive does not report to the Postmaster General, and Facilities retains authority for real estate transactions).]

Audit Results
On page 4 of the audit, it indicates that "…the Postal Service purchased 30 real estate sites for $45 million under the advanced site acquisition and land banking program." This sentence could be interpreted to mean that only 30 sites were purchased under these programs since 1970. The sentence should be revised to indicate that the audit is questioning 30 of the properties purchased under these programs.

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In that same paragraph on page 4, the audit indicates that 12 of the properties (shown in Table 2) have an estimated value of $4.7 million. Values given the auditors for properties were reflective of the market at that time. Subsequent changes in the market have impacted, and will continue to impact, the values. In addition, two of the properties have been disposed of. As a result, the narrative and table should be updated to reflect the current status of the properties; and the narrative should use a range of values, rather than $4.7 million. Similar changes should be made in the Executive Summary of the audit report.

In the second paragraph on page 4, the narrative indicates that as a result of the audit, the 12 properties were reported to Realty Asset Management for disposal. We do not know if it was the audit that caused the properties to be identified to Realty Asset Management.

In the third paragraph on page 4, the audit indicates that as a result of the audit [redacted] was returned to the original owner. In fact, the property was returned because the current residents—in response to our community contact regulations—indicated they did not want to use that property for their new post office. As a result, the property was returned; a new location found; and a replacement post office occupied in March 2001.

On pages 4 and 5, the draft audit includes a discussion of the [redacted] purchased in 1991. It indicates that "the current lease rate on the existing post office…was so low that a cash flow analysis would not support the capital investment of building a new office." This misstates capital investment policy, since facility projects are justified on space, safety, service, and operational needs and do not have to meet a financial return threshold.

Recommendation

The recommendation should be reworded. The areas, not districts, should review undeveloped and unused real properties. The areas are in a better position to assess whether a particular project will receive funding in the future, including those sites purchased for plant-related functions. In addition, the districts (areas) cannot dispose of excess property; therefore, the wording should require the areas to refer such properties to Realty Asset Management to begin the disposal process.

If you have any questions on these comments, please let me know.

Rudy K. Umscheid

cc: Mr. Donahoe
Mr. Eales
Mrs. Van Loozen
Ms. Weir

RUDY UMSCHEID
VICE PRESIDENT, FACILITIES

UNITED STATES
POSTAL SERVICE

January 17, 2002

JOHN M. SEEBA
ASSISTANT INSPECTOR GENERAL FOR FINANCIAL MANAGEMENT

SUBJECT: Draft Report—Disposal of Excess Real Property
(Report Number FA-AR-02-DRAFT)

On November 8, 2001, I submitted comments to the subject draft audit, including a suggested revision to the recommendation. I understand the recommendation has been changed as suggested.

Therefore, this is to indicate that management will request that the areas:

a) review all undeveloped and unused real properties, and
b) by the end of Quarter IV, Fiscal Year 2002, advise Realty Asset Management of those properties that should be disposed of.

cc: Mr. Donahoe
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