



May 14, 2007

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Postal Service Facilities Maintenance and Repair Costs
(Report Number CA-AR-07-003)

This report presents the results of our audit of the maintenance and repair costs of postal-owned or leased facilities (Project Number 06YG004FA000). This audit was self-initiated to determine whether the U.S. Postal Service can realize cost savings by optimizing the planning and recording of maintenance repairs and alterations of postal-owned and leased facilities. Specifically, we evaluated the Postal Service's systems and processes used to identify repairs and alterations, authorize funding, prioritize repairs, budget, and account for repairs and alteration expenses.

Background

Facilities is an enabling organization within the Postal Service whose primary mission is to: (1) provide quality real estate, facilities products, and services to meet the present and future needs of postal organizations and (2) realize optimum value from facilities assets and transactions. Facilities' headquarters is located in Arlington, Virginia, and there are eight Facilities Services Offices (FSO) throughout the country.

The FSOs accomplish the majority of the Postal Service facilities program work. This includes planning, leasing, purchasing, designing, and constructing facilities to house postal operations. Organizational administration, policy and procedure development, and realty asset management functions were administered from Facilities' headquarters. Now the FSOs are administering these functions.

Facilities budgets for major facility projects and several special programs and corporate-wide activities. The FSOs plan, prioritize, and budget all other facility projects with input from the areas/districts.

Historically, the districts' Administrative Service Offices (ASO) generally handled all facilities repairs and alterations that cost less than \$100,000. The ASOs also enforced lessor maintenance issues and used contractors to paint, replace flooring and ceiling tiles, maintain handicapped ramps, and perform other repairs as needed. When repairs and alterations exceeded \$100,000, the FSOs took over responsibility for the work.

The Postal Service re-engineered the facilities support process by developing the Facilities Single Source Provider (FSSP) program. Each postal area was to implement this program by the end of fiscal year (FY) 2005. Under the FSSP program, the Postal Service incorporated all facilities services previously provided by the FSO, ASO, and the area Processing and Distribution Team under the management of the FSO. Additionally, facility repair work and lessor maintenance enforcement services managed by postmasters were also assumed by the FSO. With the implementation of the FSSP program, the planning and approval staff will assist the districts, areas, and FSOs in the planning and approval process for all capital and expense repair and alteration projects.

Management offers repairs and alterations that are the responsibility of the Postal Service to the Field Maintenance Office in accordance with Handbook EL-912.¹ The Field Maintenance Office may elect or decline to perform the work for various reasons, including cost, efficiency, availability of equipment, and qualification of employees. If the Field Maintenance Office performs the work, the Postal Service incurs only material costs, as payroll already absorbs labor costs. Conversely, if the Field Maintenance Office declines the work, the Postal Service contracts it to private entities and incurs labor and material costs.

Repair and alteration expenses are accounted for in expense account classification code 3B of the *Postal Service Financial Report* (PSFR). Capital repairs and alterations are defined as expenditures that add value to a facility and are accounted for as code 63 in the PSFR. The FSO determines whether the expenditure is accounted for as code 3B or code 63.

Objective, Scope, and Methodology

The objective of this review was to determine whether the Postal Service could realize cost savings by optimizing the planning and recording of maintenance repairs and alterations of postal-owned and leased facilities. Specifically, we evaluated the Postal Service's systems and processes used to identify repairs and alterations, authorize funding, prioritize repairs, budget, and account for repairs and alteration expenses.

To accomplish our objective, we reviewed applicable Postal Service policies and procedures. We interviewed Postal Service officials to gain an understanding of the procedures for postal facility repairs and alterations. We reviewed supporting documentation for a stratified statistical random sample of a universe of 6,250 repair and alteration expense projects from FYs 2004 and 2005 in four judgmentally selected areas (Great Lakes, Northeast, Southeast and Western) that we visited. We traced repair and expense payments to the general ledger. We also researched other federal agencies and businesses for best practices in the area of maintenance, repairs, and alteration expense management.

¹ *Agreement between United States Postal Service and American Postal Workers Union, AFL-CIO 2000-2003*, Article 32.

We conducted this audit from February 2006 through May 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials on February 20, 2007, and included their comments where appropriate.

Prior Audit Coverage

Our review of U. S. Postal Service Office of Inspector General's (OIG) prior audits disclosed information specifically related to the survey objectives. Over a period of 5 years, there have been four audits/reports on the subject of, or related to, maintenance and repair costs. The Government Accountability Office (GAO) also conducted an audit in 1999 that directly relates to this audit.

1. *Management Advisory — Data Integrity and Reliability of the Facilities Single Source Provider System* (Report Number FA-MA-05-002, dated August 11, 2005). This report identified errors in the acceptance rates recorded in the FSSP system for 34 districts in the Southeast Area. Backdating transactions was not restricted and there was no log or audit trail to track changed or deleted transactions.
2. *Repairs and Alterations of Postal Service Facilities* (Report Number CA-MA-04-005, dated July 23, 2004). Postal Service officials in the Dallas District effectively managed expensed repairs and alterations for Postal Service buildings and leased facilities. Specifically, district ASO personnel developed an annual plan for expensed repairs and alterations projects and they started or completed all approved expensed repairs and alterations projects during FY 2003. However, in FY 2003, it appeared the Dallas District did not appropriately use funds budgeted for expensed repairs and alterations, which would cause Postal Service facilities to require more costly future repairs.
3. *Facility Conditions at Groton, Connecticut* (Report Number LH-AR-03-010 dated May 29, 2003). This report identified eight potential unsafe working conditions due to months or years of neglected maintenance. The unsafe working conditions included electrical shock and safety hazards, questionable bacteria, and mold.
4. *Allegations of Unsafe Working Conditions at the Dallas Downtown Station* (Report Number LM-AR-00-002 dated March 20, 2000). The OIG conducted the audit in response to allegations made by a former Dallas Downtown Station employee as well as a union official. The audit confirmed three of the five allegations, as well as several others, which were not included in the original allegations. These conditions increased the risk of injury to Postal Service employees and customers, and compromised Postal Service property.

5. The GAO report titled *Military Infrastructure, Real Property Management Needs Improvement* (Report Number GAO/NSAID-99-100, dated September 1999) reported the Department of Defense did not have a comprehensive strategy for maintaining the services' infrastructure. Rather, each service set its own strategy for maintaining it. As a result, the services differed in the way they rated property conditions, prioritized repairs, and allocated resources.

The GAO also found that there was little relation between identified real property management needs and the funds the services allocated for it. None of the services' real property management spending plans provided sufficient funding to keep their total backlog of repairs at current levels.

GAO auditors identified several promising best practices:

- Establishing a single system for assessing facility conditions.
- Prioritizing budget allocation based on physical condition, relevance of facilities to the mission, and life cycle costing and budgeting.
- Setting up a single property management budget that is controlled by a central office with the power to shift resources to facilities with the greatest need.
- Restricting real property management funds for maintenance purposes.
- Charging an annual maintenance fee, based on square feet used, to ensure adequate funding for facilities.

Results

Our review of four FSOs indicated the Postal Service could reduce costs associated with facility repair and alteration by taking a more proactive approach. Industry and other government agencies have found management can best control repair and alterations expenses when they are highly proactive. A highly proactive approach to repairs and alterations projects requires a national strategy that includes regular facility inspections.

A comprehensive national strategy program that includes regular inspections will allow the Postal Service to control future repair and alteration costs and reduce the risk of incurring greater costs by identifying problems earlier. The Postal Service has not fully implemented a comprehensive national strategy for repairs and alterations. In addition, insufficient budgeting for repairs and maintenance may be hampering the Postal

Service's ability to be proactive. The Postal Service spends less than the national average for repairs and alterations of its facilities than similar businesses.²

During the audit we also noted several accounting issues related to the recording of line 3B expenditures. We noted expenses that should be recouped from the landlord through rent reduction instead of being expensed. We also noted lease support expenses that were recorded on line 3B because there were no other expenditures lines available for recording this. Finally, we observed credit card charges corresponding to line 3B that were recorded on other expenditure lines due to the coding of credit card transactions during processing.

A Proactive Approach to Repairs and Alterations is the Preferred Practice

A proactive approach to repairs and alterations appears to be a better practice than a reactive one. For example, a National Aeronautics and Space Administration report, dated January 2001, set a goal of less than 30 percent for reactive maintenance. In 1999, General Motors and the United Auto Workers agreed that 70 percent of all maintenance work would be proactive. In January 2001, General Motors reached their 1999 goal and raised it to an 80/20 ratio.

The following organizations use or suggest a proactive approach to maintenance and repairs.

- The State of Georgia's Department of General Administration, Division of Capitol Facilities, depends on a proactive approach to maintenance because the reactive approach only defers expenses and results in a greater loss of money, property, and work time.
- The Lyons/Waldron Consulting Group suggests adopting a proactive roof maintenance program that allows most companies to save money annually.
- The Commission on Engineering and Technical Systems, a committee of the Division on Engineering and Physical Sciences, National Research Council, recommends the federal government strategically plan maintenance and repair of its facilities in order to optimize available resources, maintain the functionality and quality of federal facilities, and protect the public's investment.

In an effort to proactively identify facilities repairs, three Postal Service FSOs currently use an "Open Season" process. For a 30-day period at the beginning of the fiscal year, all districts are asked to turn in their problems through the FSSP program. The issues are recorded, prioritized, and — if funding is approved — the work is planned. Since

² Retail business and factory plant operation and maintenance average costs as reported by the International Facilities Management Association (IFMA) benchmarks in 2005. IFMA is the largest and most widely recognized professional association for facility management, supporting more than 18,500 members.

Facilities has found this process to be effective, it held a national open season recently to support the budget process.

Policies and Procedures to Proactively Identify Potential Repairs and Alterations of Facilities Need Improvement

Generally, the Postal Service does not perform inspections or preventative maintenance of customer service facilities to prevent unplanned repairs and alterations. According to Postal Service officials, the FSOs do not have the manpower or the resources to perform the required inspections. Additionally, facilities personnel do not think local building managers possess the expertise to conduct the inspections. In an effort to address these issues, Facilities Management initiated a pilot program with the Logistics Management Institute (LMI) to conduct inspections of Postal Service customer service facilities. To enhance this program, the Postal Service hired contracted building inspectors and held formal training in March 2007.

Without proactive facility inspections, the Postal Service will not have adequate control over future repair and alteration costs and will risk incurring greater costs by not identifying problems earlier in the process. For example, the Postal Service could have avoided unsafe working conditions and additional costs of repairs at two sites by being more proactive with facility inspections. Specifically, in FY 2003, we reported the Groton, Connecticut, Post Office had eight potentially unsafe working conditions due to months or years of neglected maintenance. This included electrical shock and safety hazards, questionable bacteria, and mold. We also reported in FY 2000, that the Dallas Downtown Station had unsafe working conditions that included water leaks that caused electrical and fire hazards, deteriorating lead-based paint, and falling debris.

According to Handbook RE-13,³ inspections are to be performed on each building (whether owned or leased) every 5 years. However, that requirement has not been enforced because, according to Postal Service officials, the FSOs do not have the manpower or the resources to perform the required inspections. Although the Postal Service is updating the handbook, best practices dictate the need for regular facility inspections. Facility inspection best practices include the General Motors Corporation using an outside auditing firm to inspect its facilities twice a year. Also, the Florida Legislature Office of Program Policy Analysis and Government Policy reported that an effective proactive maintenance program can reduce maintenance and operations costs, reduce service outages, and extend the useful life of expensive buildings systems. The report concluded that the program should include routine inspections of facilities and custodial operations.

While we identified a FSO that strives to keep unplanned projects (reactive) at 33 percent, approximately 49 percent of the 452 repair and alteration expense projects

³ *Repair and Alteration of Real Property Facilities*, Sections 230, 231, and 232, dated October 30, 1987.

reviewed were unplanned. Our analysis of best practices at other federal agencies and businesses noted goals that limit reactive maintenance to 20-30 percent.

Recommendation

We recommend the Vice President, Facilities:

1. Inspect Postal Service facilities at least once every 5 years to build upon the current efforts of the Facilities Services Offices to establish a more proactive repairs and alterations program.

Management's Comments

Management agreed with the finding and recommendation and stated they are implementing a standardized approach to the identification, pricing and prioritization of building repairs, and a formal building inspection program. Management stated that postmasters will complete a web-based self-assessment for buildings less than 6,500 square feet. In addition, Facilities contract employees will inspect buildings that are greater than 6,500 square feet every 3 years. Management stated that Postal Service maintenance staff will conduct inspections of large plants annually, with a cross-functional engineering team conducting a more thorough inspection every 5 years.

Management stated Facilities is currently working with Maintenance to capture this information in a central database to allow for prioritization and budgeting of necessary repairs. In addition, Facilities is making the self-assessment module available to all postmasters and station managers in customer service facilities from April 2 through May 11, 2007, as part of a national open season to report building deficiencies. Management's comments in their entirety are included in the appendix to this report.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and actions planned should correct the issue identified in the finding.

The Postal Service Does Not Have a Comprehensive National Management Strategy for Repairs and Alterations

The Postal Service is hampered by not having a comprehensive national management strategy for maintaining its facilities. National management strategies give organizations guidelines for critical processes and help address issues that negatively affect the organization. A comprehensive national management strategy would provide clarity to repairs and alterations issues throughout the Postal Service and allow it to better leverage its resources.

Although the FSSP program is an attempt to address this issue nationally, each FSO establishes its own criteria for assessing the condition of its properties, urgency of repairs, prioritization of needs, and allocation of money for repairs and alterations. This results in inconsistency among FSOs and makes it difficult to benchmark the FSOs against one another to determine how to ensure the greatest return on investment. As a result, there is disparity among the different areas regarding what is repaired and the priorities for those repairs.

Other national initiatives the Postal Service is implementing are the Open Season program and the use of contracted facility inspectors. In addition, the FSO, rather than the area, will manage the 3B budget. The combination of these factors indicates that Facilities management is moving toward a comprehensive national management strategy.

Recommendation

We recommend the Vice President, Facilities:

2. Enhance efforts to develop and implement a comprehensive national management strategy to provide overall guidelines for the repairs and alterations program.

Management's Comments

Management agreed with the recommendation and stated that recognizing the importance of these initiatives, they have established a new position, Manager, Repair and Alteration Programs. Management anticipates filling this position by the end of summer 2007. This new manager will work with the Manager, Facilities Field Operations to develop strategies for a national program that will include process standardization and performance measurement. In addition, management has implemented a "red/green" report card in order to maintain focus on objectives and identify potential shortcomings. Also, Managers, Design and Construction, in the FSO's are now required to audit their project managers annually to assure consistency of process and budget management.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and actions planned should correct the issue identified in the finding.

The Postal Service Spends Less Than Industry Standard on Maintenance and Repair Costs Per Square Foot

In FY 2005, Facilities personnel calculated the Postal Service facility maintenance cost averaged \$.65 per square foot. This figure did not include large plants that have their own maintenance staff. In comparison, the federal government spent \$1.83 per square

foot, and the retail industry spent \$1.90.⁴ Further, in March 2005, Whitestone Research⁵ conducted an annual comparison of maintenance and repair costs, and found the annual average paid for a two-story office building was over \$2 per square foot. This issue becomes more critical when considering the aging facility inventory of the Postal Service. Specifically, 37 percent of the net square feet are in buildings over 30 years old.

The LMI study conducted in FY 2005 found that 53 percent of Postal Service customer services facilities inspected were in either marginal or poor condition. The study also concluded that an average 47 percent of the facilities were past their architectural, electrical, and mechanical life cycle. Senior Facilities management shared the concern that without more spending on repairs and alteration those costs will turn into capital projects in the future. Without adequate spending on maintenance and repairs costs, the Postal Service risks spending more on replacement and capital projects because repairs are not identified earlier in the process.

Recommendation

We recommend the Vice President, Facilities:

3. Determine if spending for repairs and alterations is adequate to allow for optimum service for the Postal Service's facilities in conjunction with a comprehensive national management strategy.

Management's Comments

Although management did not specifically state their agreement with this recommendation, they indicated that their research is consistent with the findings documented in this report. Further, management stated in general, it appears that Postal Service funding for expense repairs falls short of industry averages. Management believes the inspection program will assist them in developing reliable, needs based budgets, and in prioritizing projects. Management stated they are currently developing budget proposals for FY 2008, and the national open season concluded on May 11, 2007, will support the proposals.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and actions planned should correct the issue identified in the finding.

⁴ Average maintenance costs as reported by IFMA operations and maintenance benchmark.

⁵ Whitestone Research specializes in applied economic research and software development. They annually publish the *Whitestone Building Maintenance and Repair Cost Reference*, which details maintenance and repair cost statistics for 200 U.S. metropolitan areas and 10 Canadian cities.

Other Items

Lessor Responsible Expenses

While reviewing FSO project files in the Great Lakes Area, we found management did not recoup expense costs for two lease repair projects. The FSO paid the expense to expedite the repairs even though the lease agreements required the lessor to do so. Later, management attempted to recoup the cost of repairs, but did not continue to follow up because of a change in personnel. FSO management told us they were unaware these expenses had not been recouped.

We brought this issue to the attention of the Great Lakes FSO who is now recouping the repair expense through rent reduction (totaling \$22,396). Therefore, we are not making a recommendation at this time. We will be reporting the \$22,396 as a recoverable questioned cost in our *Semiannual Report to Congress*.

Non-Repair and Alteration Expenses Charged to Line 3B

We found the FSOs recorded lease support to the repair and alterations expense line 3B. This includes advertisement, drawings and studies, site selection, and rental appraisals. There is no other option available to record these expenses when making payments in the Facilities Management System. Expenses recorded to an expense line should meet the definition of the line item. Because of this practice, the expense line does not reflect actual costs of repair and alterations.

We discussed with management the possibility of creating a separate General Ledger Account for these types of expenses and determined that there would be no benefit because the amount of lease support expensed to line 3B is immaterial (1.31 percent of total repairs and alterations expenditures during scope period).

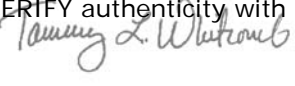
Credit Card Charges

We also found that credit card charges for repair and alteration were expensed to lines other than 3B. These charges were recorded to lines 31 (supplies), 34 (services), and 37 (equipment rent and repair). This issue is a result of Standard Industry Codes (SIC) assigned to vendors by the credit card companies that are mapped to accounts on the general ledger other than repairs and alterations.

Although we found \$70,000 of these incorrect charges in one area in FY 2005, this amount is immaterial in relation to the over \$256 million that was spent on repairs and alterations in FY 2005. In addition, management informed us they are implementing procedures to review the vendor SIC code and what is being purchased.

We made these observations during the course of our audit and we are not providing recommendations at this time.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Andrea L. Deadwyler, Director, Inspection Service and Facilities, or me at (703) 248-2100.

E-Signed by Tammy Whitcomb
VERIFY authenticity with ApproveIt


Tammy L. Whitcomb
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Attachment

cc: Susan M. Brownell
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APPENDIX. MANAGEMENT'S COMMENTS

TOM A. SAMRA
VICE PRESIDENT, FACILITIES



April 2, 2007

JUDY LEONHARDT
ACTING DEPUTY ASSISTANT INSPECTOR GENERAL
HEADQUARTERS OPERATIONS

SUBJECT: Postal Service Facilities Maintenance and Repair Costs
Report Number CA-AR-07-DRAFT

I am writing in response to the subject report dated March 8. Your results are consistent with our findings and several initiatives are underway that address your recommendations.

Recommendation 1:

Inspect Postal Service facilities at least once every five years to build upon the current efforts of the Facilities Service Offices to establish a more proactive repairs and alterations program.

Management Response

We agree with the need for a formal building inspection program. In Fiscal Year 2005, Facilities contracted with Logistics Management Institute to develop a national database that will house all building inspection data and costs for necessary repairs. This was the first step towards implementing a standardized approach to the identification, pricing, and prioritization of building repairs.

A formal building inspection program is currently being implemented. It will consist of three parts. For buildings less than 6500 square feet, postmasters will complete a web based self assessment that will be downloaded into the inspection database.

Customer service facilities greater than 6500 square feet will be inspected by Facilities contract employees. These buildings will be inspected every three years. These inspectors have been hired and formal training was held March 22 and 23.

The large plants will be inspected annually by postal maintenance staff. Facilities is currently working with Maintenance to capture this information in the central database to allow for prioritization and budgeting of necessary repairs. In addition, Facilities will supplement the Plant Maintenance staff every five years with a cross functional engineering team to conduct a more thorough inspection.

To kick off the program, Facilities is making the self assessment module available to all Postmasters and Station Managers in customer service facilities from April 2 through May 11 as part of a national Open Season to report building deficiencies. This will be a significant initiative to populate the database and identify potential problem buildings needing attention.

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Recommendation 2:

Enhance efforts to develop and implement a comprehensive national management strategy to provide overall guidelines for the repairs and alterations program.

Management Response:

We agree with your recommendation. Recognizing the importance of these initiatives, a newly created Manager, Repair and Alteration Programs, has been established. Presently, there is an employee detailed into the position, but it is anticipated that it will become permanently filled by the end of summer 2007.

The Manager, Facilities Field Operations, is working with the Manager, Repair and Alteration Programs, to develop strategies for development of the national program that include process standardization and performance measurement.

Facilities has already implemented a "red/green" report card that is issued monthly to the Facilities Service Offices in order to maintain focus on objectives and identify potential shortcomings for correction. In addition, there is now a requirement for the Managers, Design and Construction, in the Facilities Services Offices to audit their project managers annually to assure consistency of process and budget management.

Recommendation 3:

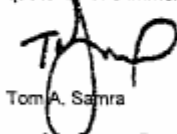
Determine if spending for repairs and alterations is adequate to allow for optimum service for the Postal Service's facilities in conjunction with a comprehensive national management strategy.

Management Response:

Our research is consistent with the findings documented in your report regarding funding of building repair projects. In general, it appears that postal funding for expense repairs falls short of industry averages. It is our feeling that the building inspection program will assist us in the development of reliable, needs based budgets. It will also allow us to prioritize projects and make certain the limited funds are being spent on the most critical items.

We are currently developing budget proposals for Fiscal Year 2008. The proposal will be supported by the national Open Season which will conclude on May 11.

I appreciate your feedback on this critical program. Please let me know if you have any further questions or comments.



Tom A. Samra

cc: Ms. Brownell
Ms. Brennan
Ms. Feindt
Mr. Wilson
Mr. Black
Ms. Kendall
Mr. Goodwin