



August 25, 2010

GLORIA E. TYSON
DISTRICT MANAGER, CHICAGO DISTRICT

SUBJECT: Audit Report – Facility Optimization: Chicago District
(Report Number DA-AR-10-009)

This report presents the results of our audit of facility optimization in the Chicago District (Project Number 09YG048DA000). The U.S. Postal Service Office of Inspector General (OIG) initiated this audit due to the district's high-risk ranking identified through our Real Estate Risk Model (RERM). Our objective was to identify opportunities for the Chicago District to optimize existing real estate. See [Appendix A](#) for additional information about this audit.

The Chicago District uses 79 facilities with over 2.3 million interior square feet (SF). While the district employs these facilities, it has experienced a significant reduction in workload over recent years. From fiscal year (FYs) 2005 to 2009, mail volume has dropped 30 percent. Customer traffic has also declined in post office lobbies as retail transactions shift to alternate access locations. From FYs 2005 to 2009, alternate access revenue in the Chicago District has increased by 51 percent. This reduction in workload provides an opportunity to reevaluate space needs and identify potential excess space.

Conclusion

The Chicago District has 740,529 square feet in excess of what their workload suggests they need. A breakdown of excess space identified at sites in the district indicated that 82 percent of the excess space was associated with stations and carrier annexes. Postal Service has the option to optimize excess real property through:

- Disposals – selling property.
- Outleasing – leasing owned property.
- Subleasing/Assignment – reassigning leased property.
- Development – investing in real estate projects.

With two major efforts underway, the Postal Service has begun taking action to optimize existing space. Specifically the Chicago District plans to dispose of 200,600 SF of this excess space through approved optimization projects, with another 14,000 SF planned

for evaluation in calendar year 2010. Although it has made progress, the Postal Service can do more to dispose of excess interior space in a timelier manner.

Postal Service policy¹ requires installation and district heads to annually review and report excess property. The opportunity to optimize excess interior space in the Chicago District exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to effectively accomplish this task.
- The excess space reporting system does not track metrics such as dates identified or space conditions to allow for the prioritization of disposal actions.

We estimate that if the Chicago District initiates disposal² action for the excess space we identified, there is a potential opportunity to realize \$23,517,019 over typical and remaining lease terms. We consider this amount to be funds put to better use.³ See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our calculation of monetary impact.

We recommend the district manager, Chicago District, in coordination with the manager, Great Lakes Facility Service Office:

1. Ensure installation heads have the proper guidance for identifying and reporting excess space.
2. Include additional metrics, such as dates and space conditions, to track, monitor, and report excess space within the Chicago District and initiate disposal action for excess space identified.

¹ Per the *Administrative Support Manual (ASM)* 13, Section 517.11, installation heads must review the inventory of Postal Service-owned property at least annually to determine whether there are any properties the Postal Service no longer needs and report that excess property through the Facilities Database. Section 517.34 states that installation heads, district managers, and vice presidents of Area Operations should report all excess space in Postal Service-owned or leased buildings.

² Disposal actions available include sale, termination of lease, consolidation, and/or subleasing. At a minimum, the Postal Service can out-lease or initiate a sublet action for owned or leased property, respectively.

³ Funds that could be used more efficiently by implementing recommended actions. This amount does not include excess square feet that are part of an approved node study.

Management's Comments

Management agreed with both of our recommendations and stated corrective actions to address the recommendations will be in place by the end of quarter two, fiscal year 2011. While management agreed to develop a more accurate process and additional metrics to better manage excess space, management did not agree with the amount of excess space or the potential monetary impact reported. Specifically, they disagreed with the methodology used to calculate excess space, the cost factors used to value the excess space and the calculation of the monetary impact reported.

In reference to the level of excess space reported, management conveyed that our methodology does not include allowances for:

1. Unusable space such as basements and corridors. The audit treats every square foot as usable and leasable.
2. Existing functions not included in standard designs.
3. Inefficiencies in current building layouts and support space due to code requirements.
4. Historic property.
5. Parking and dock space requirements.
6. Large inflexible retail lobbies.

In reference to the cost factors used in our calculations, management disagreed with the:

- Amount of facilities within the district.
- Level of approved optimization studies reported.
- Square foot value assigned to excess space.
- Build out cost factors.

As such, management believes the accurate way to calculate monetary impact is by multiplying usable excess space by sublease value less conversion cost. This calculated outcome can then be adjusted for maintenance and utility savings.

Finally, management expressed the challenges facing the Postal Service when disposing property in poor market conditions and actions they have already taken to reduce excess property. In particular, management has focused its attention on properties that have more than 10,000 interior square feet, which represents 16 percent

of buildings and 76 percent of interior square feet. This allows Postal Service to capture the largest opportunities for excess space that is usable. See [Appendix E](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the audit report. With respect to the methodology used to calculate excess space, we did not determine whether the excess space identified was usable, in part because Postal Service systems do not identify usable areas. We agree realty management policies and systems need to be updated to define usable areas. According to commercial realty standards,⁴ usable areas are generally measured from "paint to paint" inside the permanent walls to the middle of partitions. No deductions are made for columns and projections necessary to the building. Our calculations reflect these standards.

As it relates to the usability of basements, we note that Postal Service headquarters and many federal agency buildings utilize basement space. We did not include allowances for existing functions, building layout inefficiencies, and inflexible spaces because the Postal Service's current space standards did not specify these allowances. Our audit focused on interior excess space and thus excess parking and dock space was outside the scope of the audit.

Postal Service management also conveyed that we did not consider the historic nature of buildings and that they are possibly restricted in making changes to these buildings. While we agree that there are properties held by the Postal Service that are historic in nature, we do not feel this has a large impact in the presentation of our results. The number of eligible historic buildings listed in the Postal Service's systems account for less than one percent of their properties. Also, while the Postal Service is required to consult with historical organizations, they are not bound by those consultations or decisions.

For clarification, the discrepancy in the number of facilities highlighted by Postal Service is the result of limiting the scope of our audit to buildings classified as post offices in the facilities database. We also included in our review processing plants located near selected sites. The number of facilities conveyed by Postal Service includes all facility classifications or types within the district. The cost factors used in our calculations represent district averages recorded in Postal Service facility databases as of October 2009.

Postal Service management asserted that the audit team did not consider all the node studies from FY 2009. We considered all the "approved" node studies, rather than "completed" node studies. An "approved" node study represents concurrence by area office management and therefore is an active consolidation effort. A "completed" node

⁴ www.boma.org

study is merely a study of consolidation options in which the area office management has yet to agree to a specific course of action.

We requested specific “build-out” costs from the Postal Service for the Chicago District. The Postal Service responded that they do not have a methodology of determining these costs at a national, area, or district level. As such, to determine build-out cost we used the average build-out costs for the area as presented in their node studies. We note that build out costs are negotiable and lessees, at times, absorb the cost of conversion. We built in several tolerances relating to the size of excess space at sites reviewed and considered the marketability of properties within the districts. We recognized realty market conditions and discounted our excess space calculations by the national commercial vacancy rate of 14 percent. As such, we consider our presentation of monetary impact as fair and conservative.

Finally, we recognize the efforts made to optimize Postal Service real estate and management’s attention to properties greater than 10,000 square feet. We believe that once management modernizes its realty management systems to have greater visibility of excess space, it will be able to better prioritize disposal actions associated with its full building inventory.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, director, Engineering and Facilities, or me at 703-248-4546.

E-Signed by Mark Duda 
VERIFY authenticity with ApproveIt


Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachment

cc: Steven J. Forte
Tom A. Samra
Jo Ann Feindt
Sharad C. Shrestha
Corporate Audit Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Chicago District leases or owns 79 facilities with over 2.3 million interior SF to process the mail. The consolidation or closure of facilities is a widely discussed topic due to declining mail volume and the resulting financial condition of the Postal Service. In response, Postal Service Facilities and Retail Management organizations have implemented initiatives to optimize space, namely, initiation of the Facility Optimization Program and the Station and Branch Optimization Consolidation (SBOC) program.

In April 2008, the vice president of Facilities initiated the Facility Optimization Program to balance the portfolio of existing delivery facilities with the Postal Service’s current and projected space needs. The program’s objectives are to generate revenue and reduce rent obligations and operational costs. The process entails identifying, investigating, analyzing, and approving space before executing the approved optimization action. The Great Lakes Area has 10 approved optimization studies, with one in the Chicago District.

Established in May 2009, the SBOC program provides tools and strategies to evaluate the effectiveness of Postal Service retail placement in support of the *Transformation Plan’s* goals of improved service and increased revenue. At the district level, as of January 29, 2010, one station was under consideration for closure.

To supplement and expand on existing Postal Service initiatives, the OIG developed a Real Estate Risk Model (RERM) to identify and prioritize emerging facility risk. The risk model measures facility performance results by district for the following nine metrics:

Table 1. Risk Metrics

RERM METRICS	
Ratio of Mail Volume to Interior Square Footage	Excess Postal Service Identified Interior Space
Ratio Revenue to Interior Square Footage	Excess Land
Ratio of Total Expense to Interior Square Footage	Facility Condition
Ratio of Employees to Interior Square Footage	Density, Geographic Location
Ratio of Retail Revenue to Total Expense	

The Chicago District ranked as most at risk of all 74 districts as of Quarter 2, FY 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to identify opportunities for the Postal Service's Chicago District to optimize existing real estate. We visited 32 of 79 facilities in the Chicago District, which represents 80 percent of OIG-calculated total excess space. The scope of the audit included main post offices, carrier annexes, stations, branches, and mail processing facilities. To accomplish our objective we visited selected facilities, conducted interviews, and examined other relevant materials.

We used Postal Service criteria⁵ for new space projects to establish space requirements for post office facilities in the Chicago District. Our excess space metric subtracts the earned facility size from the actual facility size⁶ to calculate the excess space. To determine the earned facility size, we used the Space Requirements Model matrix⁷. The matrix computes earned space based on the delivery and retail workload conducted at each site. We compared workload data from Postal Service databases⁸ to the number of carrier routes, the number of rented post office box sections, and peak window usage. Our method differs from existing Postal Service initiatives⁹ because it focuses on the total facility size, not specific operations. We designed our metric primarily for customer service facilities. We obtained the measurements for excess space at processing plants from respective industrial engineers.

Facilities management suggested we use detailed facility information available in recently conducted space surveys to calculate our excess space. This approach would provide greater insight into the type and location of space designated as excess. While this method has merit, we were not able to use this approach because the space surveys were conducted only at buildings with 10,000 or more net interior square feet. These buildings — while containing the majority of the Postal Service interior space — only accounted for 16 percent of the total number of facilities nationally. Consequently, we opted to use a global approach and assess excess space at the total facility level.

We modified our metric as follows to address obstacles in applying it to existing real estate resources.

- We established thresholds to remove post offices with less than 100 SF of excess space and carrier annexes with less than 300 SF of excess space.
- We used Non-Flat Sequencing System building standards for customer service sites.

⁵ We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations.

⁶ Interior square footage obtained from the electronic Facilities Management System (eFMS).

⁷ In support of newly established criteria, the Headquarters Facility Group, Planning and Approval, designed matrices to assist with space requirements for planned facilities. We used the Space Requirements Matrix for Non-Flat Sequencing System (FSS) offices.

⁸ WebBATS Monthly Summary Data for issued P.O. Box information, Intelligent Mail and Address Quality (IMAQ) Delivery Statistics Summary for route information, and Retail Data Mart for earned peak modeled window staffing.

⁹ SBOC and Facilities Optimization Program.

- We provided additional support space by calculating retail and delivery space requirements separately.
- We provided additional delivery space for facilities with more than 51 routes. The additional routes received the space designated for a separate total facility instead of following the Postal Service's practice of adding an additional 123 SF per route.
- At facilities with unique functions, we either subtracted the space dedicated to that function from our metric or relied on Postal Service expertise to provide us with an accurate account of the building's excess space.
- Furthermore, we reduced our total monetary impact by 14 percent to address the difficulty in achieving a 100 percent realization of optimization efforts. The reduction correlates directly to the national vacancy rate for commercial real estate.

We conducted this performance audit from September 2009 through August 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on March 26, 2010 and July 15, 2010, and included their comments where appropriate.

We assessed the reliability of facility-related data by verifying the accuracy of computer-generated information by making observations during facility tours and interviewing agency officials knowledgeable about the data. We determined the data used was sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

The following audit reports are relevant to the Postal Service’s facility infrastructure.

Report Title	Report Number	Final Report Date	Report Results
<i>Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability</i>	GAO-09-937SP	7/28/2009	The Government Accountability Office added the U.S. Postal Service’s financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. It recognized the need to reduce the facility infrastructure. There is no Postal Service response in the report.
<i>Federal Real Property: An Update on High-Risk Issues</i>	GAO-09-801T	7/15/2009	Federal agencies have taken some positive steps to address real property issues but some of the core problems that led to the designation of this area as “high-risk” continue to persist. There is no Postal Service response in the report.
<i>Network Rightsizing Needed to Help Keep USPS Financially Viable</i>	GAO-09-674T	5/20/2009	The Postal Service will require actions in a number of areas, such as rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities. The Postal Service generally agreed with the accuracy of the statements and provided technical comments, which we incorporated.
<i>Use of Existing Postal Owned Space – Capping</i>	SA-AR-08-007	3/21/2008	The Pacific, Great Lakes, New York Metro, and Southeast Areas did not monitor or actively track and report underutilized and vacant space. Management agreed with the recommendation.

APPENDIX B: DETAILED ANALYSIS

Excess Space is Significant in the Chicago District

Based on facility space requirements,¹⁰ we calculated that the Chicago District maintains 740,529 SF more than what is required for its current operational workload, and this amount can be considered potential excess space. As depicted in Chart 1, excess space was 32 percent of the total interior square footage.

Chart 1 – District Interior and Excess Space Comparison

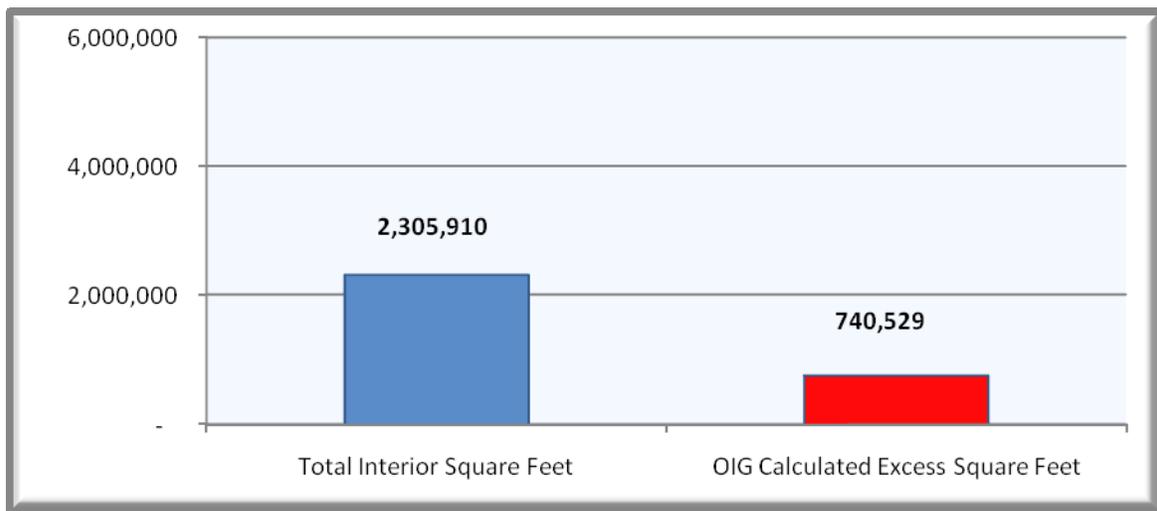


Table 2 shows the breakdown of interior square footage and OIG-calculated excess for the 79 facilities in the Chicago District. Stations (post offices) contributed 44 percent of the excess space, while carrier annexes (38 percent), finance stations (12 percent), plants (4 percent) and branches (2 percent) followed to a lesser degree.

¹⁰ We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations. In support of this newly established criteria, the Headquarters Facility Group, Planning and Approval, designed matrices to assist with the space requirements of planned facilities.

Table 2. Excess Space by Facility Type

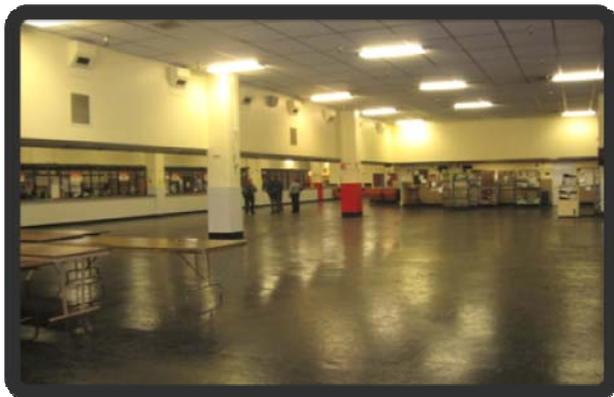
Facility Type	Facility Type Count	Percentage of Count	Percentage of Excess	OIG Excess Square Footage	Interior Square Footage
Station	35	44.30%	43.55%	322,493	722,810
Carrier Annex	9	11.39%	38.45%	284,757	416,657
Finance Station	29	36.71%	11.55%	85,512	128,359
Plant	1	1.27%	4.24%	31,381	987,295
Branch	5	6.33%	2.21%	16,386	50,789
Totals	79	100%	100%	740,529	2,305,910

To highlight excess space in the Chicago District, Illustration 1 depicts two facilities with excess interior space. Chicago Loop Station is a Postal Service-leased facility with over 65,000 square feet of excess space. The Harwood Heights Carrier Annex is an owned facility with over 17,000 square feet of excess space.

Illustration 1 – Examples of Excess Space

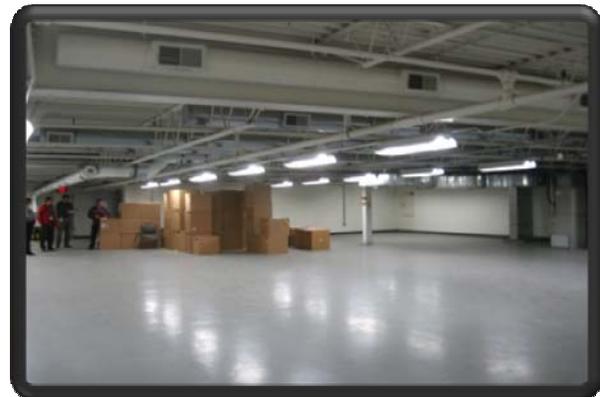
Loop Station

Interior SF: 91,866
 Earned SF: 26,500
OIG Excess SF: 65,366



Harwood Heights Carrier Annex

Interior SF: 28,485
 Earned SF: 11,000
OIG Excess SF: 17,485



See [Appendix D](#) for detailed earned space information on each of the facilities visited during fieldwork.

Causes for Excess Interior Space

The opportunity to optimize excess interior space in the Chicago District exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to effectively accomplish this task.
- Facility systems do not track metrics such as dates identified or space conditions to allow effective management of excess space.

Guidance Can Be Improved

A review of the *Facility Database User Guide* shows it does not provide sufficient guidance for identifying excess space using the workload-driven space requirements. For example, the facility database space survey asks installation heads to objectively answer “*Do you have any vacant space in your facility that is in leasable condition and has access that does not compromise the security of the operation?*” without providing further guidance or referencing space standards. While we identified excess space at 63 of the 79 Postal Service facilities, no locations answered “yes” to the vacant leasable space survey question. Further, our interviews revealed that Operations employees were unaware of the method used to identify excess space at their facility.

Facility Systems Do Not Allow for Effective Management of Excess Space

The Postal Service is experiencing considerable workload decline, which has resulted in significant excess space. However, the electronic systems that manage facility space do not collect or monitor metrics such as length of time space is underutilized or vacant or its condition to efficiently prioritize disposal actions.

For comparison purposes, we benchmarked Postal Service facility practices against the General Services Administration’s (GSA) realty management practices and found that GSA “ages” its available space for tracking, monitoring, and decision-making. The Postal Service does not have the ability to age excess space, as dates on entry are not collected.

The GSA’s Public Buildings Service also manages its leased portfolio by focusing on four primary areas: reducing vacancy, managing lease administration expenses, managing customer requirements, and analyzing market trends.¹¹ Similarly, owned facilities are monitored and analyzed using performance metrics such as revenue, funds from operations, operating costs, vacancy, net operating income, and return on equity. The Postal Service facility management systems are not able to manage property in this manner. For example, rents from leases or subleases are tracked manually using electronic spreadsheets.

¹¹ State of the Portfolio FY 2008 at:

<http://www.gsa.gov/Portal/gsa/ep/channelView.do?pageTypeld=8199&channelPage=%2Fep%2Fchannel%2FgsaOvrview.jsp&channelId=-24880>

Additionally, because the Postal Service's eFMS calculates space based on delivery and retail metrics, the excess space reported for processing and distribution plants is inaccurate. Therefore, it is not a reliable source for identifying how much excess space is available in its plants. The Postal Service plans to measure plants and update the facility database. To complete this task for our report, we requested industrial engineers, working with local in-plant support, use blueprints to identify processing equipment, staging areas, manual work areas, and excess space.

We estimate if the Chicago District initiates disposal actions, there is a potential opportunity to realize \$23,517,019 over typical and remaining lease terms. We consider this amount funds that could be used more efficiently or put to better use. See [Appendix C](#) for the monetary impact calculation and assumptions.

APPENDIX C: MONETARY IMPACTS
FUNDS PUT TO BETTER USE

Excess Interior Space Monetary Impacts

Project year	0	1	2	3	4	5	6	7	8
Fiscal year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Facilities									
Owned** Sublease Value	(\$19,047,436)	\$11,372,983	\$11,372,983	\$11,372,983	\$11,372,983	\$11,372,983	\$11,372,983	\$11,372,983	\$2,843,246
Utility Savings		\$451,648	\$460,681	\$469,894	\$479,292	\$488,878	\$498,655	\$508,629	\$127,157
custodial savings		\$177,814	\$177,814	\$177,814	\$177,814	\$177,814	\$177,814	\$177,814	\$44,454
<u>Leases Expiring FY 2009***</u>									
Sublease Value	(\$1,775,889)	\$627,994	\$627,994	\$627,994	\$627,994	\$627,994			
Utility Savings		\$42,109	\$42,952	\$43,811	\$44,687	\$45,581			
custodial savings		\$42,275	\$42,275	\$42,275	\$42,275	\$42,275			
<u>Leases Expiring After 10/1/2010</u>									
Sublease Value	(\$4,299,690)	\$1,520,465	\$282,850	\$268,153	\$215,461	\$125,496	\$67,332	\$0	
Utility Savings		\$101,953	\$19,346	\$18,707	\$15,332	\$9,109	\$4,985	\$0	
custodial savings		\$102,354	\$19,041	\$18,051	\$14,504	\$8,448	\$4,533	\$0	
Subtotal	(\$25,123,014)	\$9,802,207	\$8,408,545	\$8,402,293	\$8,352,954	\$8,261,189	\$7,488,913	\$7,422,037	\$1,855,509
Cash Flows @ Sub Lease Efficiency Rate	(\$21,605,792)	\$8,429,898	\$7,231,349	\$7,225,972	\$7,183,540	\$7,104,622	\$6,440,465	\$6,382,952	\$1,595,738
Discounted at USPS cost of borrowing	(\$21,605,792)	\$8,144,828	\$6,750,541	\$6,517,412	\$6,260,040	\$5,981,901	\$5,239,322	\$5,016,942	\$1,211,821

Net Present Value: \$23,517,019

Build-Out Costs SF	\$53.56	Utilities Savings SF per Year	\$1.27
Lease Savings SF per Year	\$18.94	Utility Cost Escalation Rate	2.0%
USPS Cost of Borrowing	3.5%	Custodial Rate SF	\$2.55
Sub-lease Efficiency Rate	86%		

Assumption: **Weighted Average Lease Years = 7.3

Value Assigned to Excess Space

The lease cost per square foot for the Chicago District is \$18.94. Using Facility Inventory Reports from the eFMS, we calculated this figure by dividing total interior square footage by total lease costs. The value is below \$26.79,¹² the average square foot cost for leasing commercial retail space in Chicago.

Utility Costs Associated with Excess Space

The utility cost per square foot for the Chicago District is \$1.27, with a cost escalation rate of 2 percent. Using the Financial Performance Report (FPR), Line 42, we calculated this figure by dividing total annual utility expenses for FY 2009 by the district's total interior square footage.

Maintenance Costs Associated with Excess Space

The maintenance cost per square foot for the Chicago District is \$2.55. We calculated this figure by dividing the total annual maintenance expenses¹³ (FY 2009) by the district's total interior square footage. However, we reduced the cost by 50 percent based on previously identified savings in a custodial maintenance audit.¹⁴

Build-Out Costs Associated with Implementing Optimization Actions

The build-out cost per square foot for the Chicago District is \$53.56. We calculated this figure by dividing the "build-out/Line 63 capital" costs for all approved optimization node studies in the Great Lakes Area by the total reduction in square footage identified in the approved node studies.

Ownership of Facility and Term Years

We categorized all facilities within the district by ownership – leased versus Postal Service-owned. We further grouped the leased properties by the number of term years remaining in the lease.

We calculated leases expiring before the end of FY 2010 based on the assumption the leases would be renewed for the standard 5-year period. We calculated leases expiring after October 1, 2010 for the remaining lease term; and calculated Postal Service-owned facilities over a period of 7.3 years, which was the historical national average lease term.

Sublease Efficiency Rate

We obtained the national commercial property vacancy rate of 14 percent from the National Realty Association for industrial and retail space. As such, we reduced the net present value savings realization to an 86 percent "success rate."

¹² At realtor.com comparable private sector commercial retail properties were analyzed to determine average square foot costs.

¹³ eFlash (Labor Distribution Code 38, Salary and Benefits) + FPR, Line 3F, Contract Cleaners Costs

¹⁴ *Custodial Maintenance Audit Report*, (Report Number DA-AR-09-011, dated August 13, 2009).

APPENDIX D: FACILITIES VISITED

Facility Name	Type of Facility	Interior Square Footage	Earned Building Size From Matrix	Square Feet in Approved Node Study	Potential Excess Square Footage
CARDISS COLLINS P& DC	Plant	987,295	10,000		31,381
CHICAGO CENT CARRIER ANNEX	Carrier Annex	231,000	25,000	206,000	206,000
LOOP STATION	Station	91,866	26,500		65,366
FORT DEARBORN	Station	50,896	25,000		25,896
PILSEN	Station	17,026	10,000		7,026
STOCKYARD	Station	47,548	10,000		37,548
SOUTHWEST CARRIER ANNEX	Carrier Annex	42,177	20,900		21,277
HARWOOD HEIGHTS CARRIER ANNEX	Carrier Annex	28,485	11,000		17,485
ROGERS PARK	Station	26,442	15,000		11,442
EDGEBK/LINCOLNWOOD ANNEX	Carrier Annex	25,756	11,000		14,756
UPTOWN	Station	24,930	14,500		10,430
AUBURN PARK	Station	24,839	15,000		9,839
NORTHTOWN	Station	23,633	16,000		7,633
ENGLEWOOD	Station	23,051	6,500		16,551
ROGER P. MC AULIFFE	Station	20,182	14,000		6,182
JACKSON PARK	Station	19,024	10,000		9,024
RAVENSWOOD	Station	16,904	10,000		6,904
ONTARIO STREET	Finance	15,830	3,000		12,830
NORWOOD PARK	Station	12,826	8,500		4,326
CHICAGO LAWN	Finance	12,207	2,000		10,207
OGDEN PARK	Station	11,915	8,000		3,915
HARWOOD HEIGHTS	Finance	10,790	3,000		7,790
ASHBURN	Station	10,752	7,400		3,352
AMC OHARE FINANCE	Finance	8,500	2,000		6,500
MERCHANDISE MART	Station	6,799	2,700		4,099
AMOCO POSTAL STORE	Finance	5,555	2,000		3,555
HAYMARKET	Finance	5,115	2,000		3,115
FINANCE STATION E	Finance	3,732	3,000		732
EDGEBROOK FINANCE	Finance	3,588	900		2,688
ELSDON	Finance	2,245	2,000		0
FINANCE STATION M	Finance	1,479	700		0
JOHN HANCOCK	Finance	390	500		0
Totals		1,812,777	298,100	206,000	567,849

APPENDIX E: MANAGEMENT'S COMMENTS



August 18, 2010

LUCINE M. WILLIS, DIRECTOR
AUDIT OPERATIONS @ audittracking@uspsig.gov

SUBJECT: Facility Optimization: Chicago District
Report Number DA-AR-10-DRAFT
Management's Response

Please find attached the management's response to the subject audit report dated August 3, 2010. Also, please be advised that we have not identified any portion of the report that should be exempt from disclosure under the FOIA.

We appreciate the efforts the Office of Inspector General (OIG) has taken in regards to facility optimization in the Chicago District. We agree that optimization of current facility infrastructure is a critical and an important initiative within the postal service. We look forward to working with the OIG to accomplish this very important initiative.


Gloria Tyson

Attachment

cc: Steven J. Forte
Jo Ann Feindt
Tom A. Samra
Sharad C. Shrestha
Jamie Gallagher @ CARMManager@USPS.GOV

433 W HARRISON STREET FLOOR 2
CHICAGO, IL 60699-9998
WWW.USPS.COM



August 18, 2010

LUCINE M. WILLIS, DIRECTOR
AUDIT OPERATIONS @ audittracking@uspsaig.gov

SUBJECT: Facility Optimization: Chicago District
Report Number DA-AR-10-DRAFT

Management appreciates the efforts the Office of Inspector General (OIG) has taken in regards to facility optimization in the Chicago District. We agree that optimization of current facility infrastructure is a critical and an important initiative within the postal service. The following is in response to the above subject audit and management's comments on the findings.

Management is in full agreement that excess space exists in a number of facilities and it is the reason why the optimization program was started by the Facilities Department almost 2 years ago. In addition, management agrees that the policy written in the ASM section 517 is not followed and is ineffective. This is due to the changes in organizational structure and responsibilities since it was written in 1999 which rendered this section obsolete. A different approach other than the ASM 517 to manage excess space is needed. This section will be revised and we will adjust our systems and the ASM to align to today's structure and processes which addresses the two recommendations made by the audit.

Regarding the findings of the audit, management disagrees with the amount of excess space and potential revenue based on the following:

1. The methodology utilized to determine existing usable excess space in facilities
2. Inaccurate data and cost factors utilized to calculate the potential revenue

The following are the basis of management's disagreement as outlined.

1. Methodology

As stated in the audit, management disagrees with the methodology utilized in determining excess space. This disagreement was raised in discussions with the OIG prior to the first release of this audit and in meetings that were held with the OIG prior to the reissuance of this audit. The major concern is that the methodology utilized is based on applying the current Small Standard Building Design (SSBD) which is intended for construction of new, under 10,000 sf one story facilities with today's standards and efficiencies and applying it against existing facilities constructed or leased over the past 80 years with very different standards, construction, layout and utilization. The OIG methodology takes the overall net interior square footage of the existing facilities and subtracts the overall net square footage of the SSBD (earned) and calls the delta "excess".

However, this methodology does not include allowances for:¹

- A. Unusable space such as basements, corridors etc. The audit treats every square foot in the building as usable and leasable
- B. Existing functions not included in the SSBD design such as administrative district office, training, caller service etc.
- C. Inefficiencies in current building layout due to multiple floors, stairs, elevators, columns, redundant support space required on each floor due to code requirements
- D. Historic nature of some of the buildings that hinders the possibility of making changes
- E. Parking and dock space requirements
- F. Large inflexible retail lobbies

Stockyard Station:



2nd floor Carrier Academy



Multi Story Facility

Uptown Station:



Registry cage - Not part of SSBD



Unleaseable basement

Management Recommended Methodology

Because every building is different and has a variety of the above items to contend with, Management recommends that the OIG review each specific building and determine usable excess space after making allowances for the items listed above.

2. Inaccurate Data and Cost Factors

The audit states that 740,529 square feet of excess space exist in the Chicago District with a potential to realize \$23,517,019 over typical and remaining lease terms. The OIG

¹ We excluded the Cardiss Collins P&DC from our analysis because the OIG obtained excess space measurements from respective industrial engineers and no methodology was applied.

also provides two specific recommendations for the \$23,517,019 whereby, "Funds could be used more efficiently by implementing recommended actions."

Management disagrees with these findings because of the following:

- A. The first page of the audit states, "The Chicago District uses 79 facilities with over 2.3 million square feet (SF)". Based on eFMS inventory data, this number is inaccurate. It is 103 buildings and utilizes 4.6 million square feet.
- B. Page 3 of the audit states, "The Great Lakes FSO has 10 approved optimization studies..." That number is what was approved in 2010. It did not include the optimization studies completed in 2009 which were 9 more.
- C. The amount of usable excess square footage is not correct due to the methodology as described in section 1 Methodology above.
- D. The OIG states that the Value Assigned to Excess Space is \$18.94. This was calculated by "dividing the total interior square footage by total lease costs" and reaching a number of \$18.94. However, when Facilities calculated this number based on OIG formula, we find the number to be $\$11,070,418$ (total lease cost) / $4,651,806$ (total interior square footage) = \$2.38. We believe the correct method to calculate leased per square foot cost is $\$11,070,418$ (total lease cost) / $1,050,446$ (total interior LEASED square footage) = \$10.53.
- E. Build-Out Cost: To build out the excess space and make it available to sublease, the number utilized was the total line 63 budget numbers from completed node studies divided by the square footage reduction. This is not an accurate method for determining the construction cost, because the node studies are based on terminating leases, selling owned buildings, and minimum renovation for the facilities gaining carriers and building alternate retail. The average square foot cost for this work cannot be used for build out cost for subleasing buildings, because the scope of work is completely different in these two scenarios. Management recommends that the OIG review each specific building to determine the following:
 - a. The total usable square footage
 - b. The practicality of capturing the usable square footage in one area(s) by moving and consolidating operations in the building and insuring the security of the mail is met
 - c. Cost to accomplish b.

Potential Revenue:

Management believes the accurate way to calculate potential revenue is, first applying the following formula we use in our node studies which is:

Potential Revenue = (Usable excess square footage X sublease value per square foot) minus (Total cost required to achieve this revenue.)

Then adjust for the values of maintenance and utility savings.

We described the correct method to calculate the accurate available excess square footage. When it comes to the value of subleasing the excess square footage, the only way to determine this value is by analyzing the real estate market. This must include the possibility of subleasing, the duration of subleasing, and the square foot value of

such a sublease. Also, the cost of tenant improvement must be included. Further discussion of market conditions is covered in a later section of this response.

The correct methodology to calculate the cost of making the space available is described in section 2E above.

The above makes the assumption that we would sublease all of the excess square footage. However in many cases we have no intentions of renewing the lease and vacating the building is the best financial alternative based on today's market. That is the case with the facilities in this audit. Of the facilities over 10,000 square feet, six are leased. The current plans call for us to NOT renew 5 of the leases or to negotiate a reduction of the space making a sublease not practical.

Since the \$23,517,019 over typical and remaining lease terms was not calculated according to our formula, we are unable to agree or disagree with this number.

Market Conditions:

Regardless of how much excess space exists, there needs to be a market for the space. The vast majority of postal facilities fall into the industrial /commercial real estate market. Unfortunately, it is this sector that is experiencing a severe downturn. Vacancy rates are high and demand is low.

Facilities engaged the largest 6 real estate brokerage firms in the country and all have confirmed that the property values are dropping; lease rates and demand are declining. As a result in general, our landlords are not accepting early lease terminations and our excess space must compete in a saturated market. Under this scenario, it makes it impossible for us in most cases to achieve any positive financial results by subleasing due to the capital improvement required to make the excess space available and the high demand for tenant improvement.

Conclusions:

- A. Regarding the audit recommendations:
 - 1. Management will develop a more accurate process and proper documentation for identifying and reporting excess space.
 - 2. Management will include additional metrics to track dates and conditions of excess space. This will be part of a national process.Both of these actions will be completed by end of quarter 2, fiscal year 2011.
- B. Actions already taken by management:
 - 1. Management believes that the current facilities optimization approach of focusing on the excess workroom space is an effective method for finding potential excess square footage. By currently focusing on facilities that are 10,000 square feet and greater, as opposed to all buildings in the inventory, it allows us to capture the largest opportunities for excess space that is usable.

National Data	# of Buildings	% of Buildings	Square footage	% of SF
Buildings under 10k SF	28,015	84%	68.1 million	24%
Buildings over 10k SF	5,327	16%	221.6 million	76%

2. This optimization process is a nationwide effort where by we segment and review our facilities for excess space. Our inventory is segmented by:

- a. Leased verses owned buildings
- b. Delivery only facilities
- c. GSA leased space
- d. Expiring leases
- e. Current market conditions

3. Buildings over 10,000 square feet were measured to ascertain the correct square footage per function within the facility. Based on this data, we are now able to determine what space is needed for the current operations in the facility and how much is potential excess space. After finding these candidates for excess space, a node study is developed to verify the feasibility.

The node study standard operating procedure for the optimization program includes:

- a. Establish and schedule a node study to analyze all alternatives and associated costs/savings and complete schedule for all tasks
- b. Review all market conditions to determine financial viability of utilization of the space, disposal of the facility or sublease excess space
- c. Visit potential sites to verify all applicable costs
- d. Determine best financial alternative for utilization or disposal of the excess space and obtain all necessary management approvals
- e. Track time durations from final study approval of the action to ebuy notification for disposal
- f. Establish and track disposal schedule

Generated out of optimization studies nationwide, we currently have over 120 properties on the market for sale and have scheduled to terminate 250 leases.

As a positive outcome of node studies in the Chicago District, the following actions for three facilities that are listed on the OIG audit are now complete. The NPV value of these actions is \$18 million dollars which represents 76% of the total NPV indicated in the audit.

Finance Station E

OIG claimed excess is 732 sf
 Facilities terminated lease 3,732 sf
 NPV \$1.01 million

Ontario Street Station

OIG claimed excess 12,830 sf
 Facilities terminated lease 15,830 sf
 NPV \$4.92 million

Chicago Central Carrier Annex
OIG claimed excess 206,000
Facilities sold the building 231,000 sf
NPV \$12.4 million

Management believes the Facilities optimization process, along with other national initiatives, will continue to allow us to identify usable excess space in our portfolio and extract the maximum value for the postal service out of it. Management also looks forward to working with the OIG to accomplish this very important initiative.

Cc: JAMIE GALLAGHER, ACTING MANAGER
CORPORATE AUDIT RESPONSE MANAGEMENT
U.S. POSTAL SERVICE @ CARMManager@USPS.GOV