



November 9, 2007

DAVID L. SOLOMON
VICE PRESIDENT, NEW YORK METRO AREA OPERATIONS

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Use of Existing Postal-Owned Space in the New York Metro Area (Report Number SA-AR-08-002)

This report presents the results of our self-initiated audit of the use of existing postal-owned space in the New York Metro Area (Project Number 07YG005CA000). This is our fourth report in a series to determine what each area does to optimize underutilized and vacant space. At the conclusion of our area audits, we will issue a capping report addressing common issues and best practices noted.

Background

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

The FSOs are responsible for the majority of the Postal Service's facilities program work. This includes planning, leasing, contracting, acquiring, designing, and constructing facilities to house postal operations. Facilities headquarters provides organizational administration, policy and procedure development, and realty asset management functions.

The Realty Asset Management (RAM) organization, located at Facilities headquarters, provides internal expertise to identify, analyze, and maximize the return on underutilized and excess real property assets that the Postal Service controls. This organization generates income from real estate assets by developing Postal Service real property to its highest and best use, outleasing excess postal-owned space or subleasing excess-leased postal space to governmental and public tenants, and selling excess real property.

The Postal Service is to use the criteria contained in *Administrative Support Manual* (ASM) 13, Chapter 5, Sections 13 and 517, to identify underutilized and vacant space. These criteria stipulate that installation heads review the inventory of postal-owned property at least annually to determine whether there are any properties for which the Postal Service has no foreseeable need. According to Postal Service management, headquarters has requested the field to input information regarding vacant and excess space to a national database (Facilities Database [FDB] system). This provides a standard format for annual reporting and a method to submit additional excess space as it becomes available.

RAM relies upon installation heads to report excess space through the “My Post Office” application within the Postal Service’s intranet. RAM then contacts the installation heads to obtain additional information about the reported space and determine whether it fits the criteria for excess space. RAM downloads the information from the Facilities Management System (FMS) in the form of the *Vacant Space Report* and uses it to determine workload and to prioritize their efforts to market the excess space.

The Postal Service owned 8,479 facilities as of June 15, 2007. In addition, the Postal Service leased 25,431 facilities totaling over 550 million square feet and spent over \$829 million on lease contracts annually. The New York Area owned 459 facilities and leased 1,126 facilities, totaling over 13 million square feet at an annual rent of over \$104 million.

Objective, Scope, and Methodology

The objective of the audit was to determine whether the Postal Service could realize cost savings by optimizing underutilized and vacant space to avoid future leasing costs. Specifically, we evaluated the procedures and systems the Postal Service uses to identify underutilized and vacant space and whether it uses this information to determine leasing needs. Our audit scope included underutilized, vacant, and leased administrative space in the New York Metro Area. We chose to focus our review on administrative space because management can most easily move the administrative departments to new locations. Through discussions with postal officials, we learned that retail units and processing and distribution centers are often problematic to move due to service area concerns, and the cost and effort involved in conforming new facilities to meet Postal Service specifications.

To accomplish our objective, we reviewed documentation and applicable policies and procedures. We also visited postal facilities, interviewed managers and employees, and examined any other material deemed necessary to accomplish our audit objective. We judgmentally selected two districts, the New York and Northern New Jersey Districts, within the New York Metro Area to visit. We chose these districts based on their proximity to the New York Metro FSO and the area office. In addition, the Northern New Jersey district had the most leased administrative space in the area. (See Appendices A and B.)

We conducted this performance audit from December 2006 through November 2007 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 August 22, 2007, and included their comments where appropriate.

A previous U.S. Postal Service Office of Inspector General (OIG) audit identified weaknesses in the computer systems we relied on for data.¹ The audit team helped alleviate those risks by using the FDB to provide support for the data we received from Facilities Management System – Windows (FMSWIN). We relied on computer-generated data from several Postal Service financial systems, including FMSWIN and the FDB, after performing specific internal control tests on these systems' data, to include verifying locations of specific Postal Service properties. For example, we verified different facilities' data by talking to Postal Service management and comparing the data in the two computer systems. In addition, Postal Service management stated the Building section within the FDB Real Estate module lists five data fields that were directly populated from the FMS and these fields should be the same in electronic FMS² and the FDB system.

Prior Audit Coverage

In the last 5 years, the OIG issued the following reports specifically related to the audit objective, although not necessarily specific to the New York Metro Area:

1. *Use of Existing Postal-Owned Space in the Pacific Area* (Report Number CA-AR-07-005, dated June 14, 2007); and *Use of Existing Postal-Owned Space in the Great Lakes Area* (Report Number CA-AR-07-002, dated May 18, 2007). These were the first two reports in this series that revealed that the Pacific and Great Lakes Areas did not have formal procedures in place to track underutilized and vacant space. As a result, it was not possible for the audit team, or management, to identify all underutilized or vacant space and thereby determine whether the Postal Service could realize savings by avoiding future lease costs. We recommended that the Pacific and Great Lakes Areas formalize and document procedures to identify, track and report underutilized and vacant space, as well as regularly update the Excess Space Report. Management agreed with these recommendations and implemented corrective actions. We also recommended that the Pacific Area move the Pacific FSO to vacant space at the Embarcadero Postal Center, to avoid future leasing costs. Management disagreed with this

¹ Audit Report – *Review of the Facilities Management System for Windows* (Report Number IS-AR-02-003, dated February 22, 2002).

² FMSWIN data was transitioned to the next generation facilities system, electronic FMS, on December 4, 2006.

recommendation because they were considering selling the Embarcadero Postal Center. They agreed to consider relocating the FSO into the vacant space if plans to sell the property change.

2. *Financial Opportunities of Underutilized Land* (Report Number CA-MA-04-004, dated July 1, 2004). This report identified underutilized property and stated that policies and procedures do not exist to require identification of underutilized land at active facilities. We recommended that Realty Asset Management continue its efforts to dispose of underutilized land, and revise the policy requiring districts to identify underutilized land in their reviews of excess property. Management agreed with the recommendations and implemented corrective actions.
3. *Realty Asset Management Program* (Report Number CA-MA-04-002, dated January 9, 2004). This report revealed that the process for identifying and reporting excess facilities and vacant space needed improvement. Postal Service area officials did not annually review their inventory of postal-owned property, nor did they identify vacant leased space. Management agreed with our recommendations to communicate and enforce existing annual requirements to review and identify any excess postal-owned property with appropriate area and Facilities personnel; enhance reporting requirements of annual reviews; and develop a process to identify excess space on a regular basis.

Results

Procedures for Tracking and Reporting Underutilized and Vacant Space in the New York Metro Area

The New York Metro Area did not monitor or actively track and report underutilized and vacant space. Further, neither the audit team nor New York Metro Area management could identify all underutilized and vacant space in the area. As a result, there was no way to ensure the area optimized the use of such space to avoid future leasing costs. ASM 13, Chapter 5,³ requires installation heads to review the inventory of postal-owned property at least annually, to determine whether there are any properties for which they have no foreseeable need, and report it through the FDB System.

Although at the time of our audit we identified efforts by New York Metro Area and FSO management to identify and utilize postal-owned vacant space,⁴ we determined they did not formalize, communicate, or enforce policies and procedures outlined in the ASM to

³ ASM 13, Chapter 5; Section 513, page 6; Section 517, page 10.

⁴ The Northern New Jersey District has a liaison between the district and the FSO whose priorities are leases, repairs and alterations. As a result, the liaison is aware of vacant and underutilized space in the area and helps communicate that information between the Northern New Jersey District and the FSO. In addition, the New York Metro Area began a unique approach to generate revenue by selling to developers the postal-owned rights to build on existing property.

ensure consistent tracking and reporting of such space. We believe the Postal Service would benefit from using a consistent method to identify, track, and report on underutilized and vacant space. The Postal Service may be missing opportunities to reduce future lease costs and realize long-term savings for the organization when there are informal and inconsistent procedures to actively track leased space and identify underutilized and vacant space.

Recommendation

We recommend the Vice President, New York Metro Area Operations, in coordination with the Vice President, Facilities:

1. Develop procedures for communication between installation heads, district managers and Facilities Service Offices to identify and track underutilized and vacant space.

Management's Comments

Management agreed with the finding and recommendation and stated that installation heads will be reminded semi-annually of their responsibility to report excess space, building and land utilization utilizing the FDB program. In addition, they stated, New York FSO and New York Metro Area personnel will work together to identify underutilized and excess real property with the intent of ensuring the available space is reviewed, analyzed, and put to its highest and best use.

Management added that since there is no centralized tracking system, which includes both administrative and rentable space, headquarters level management should address the need for a national database, rather than establishing and maintaining an individual area system. They felt that the current revenue generation effort by the Realty Asset group should assist in the disposal, development and management of excess space.

Management also stated the Facilities Condition Assessment Program is currently underway for fiscal year 2008, and these facility assessments should provide updated and verifiable excess space information for all Postal Service-owned facilities by 2011. In addition, they stated it is standard operating procedure for Facilities to review all available space within a 10-mile radius of any facility where the Postal Service is considering renewing a lease. Management comments in their entirety are shown in Appendix C.

Evaluation of Management's Comments

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

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 Colleen McAnte 
VERIFY authenticity with Approve!
C McAnte

for Darrell E. Benjamin Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Katherine S. Banks

APPENDIX A

VACANT SPACE IN THE NEW YORK METRO AREA BY DISTRICT*

District	Square Footage of Vacant Space**
New York	No vacant office/retail space reported
Central New Jersey	1,239
Northern New Jersey	No rentable vacant office/retail space reported
Triboro	No vacant office/retail space reported
Westchester	No vacant office/retail space reported
Long Island	No vacant office/retail space reported
Caribbean	2,719
Total	3,958

* Per the *Vacant Space Report* obtained from the FMS portal April 12, 2007.

** Excludes storage space, restroom vacancies, and space marked unrentable.

APPENDIX B

NEW YORK METRO AREA LEASED ADMINISTRATIVE SPACE BY DISTRICT

District	Interior Square Footage	Annual Rent
New York	0	\$0
Central New Jersey	0	\$0
Northern New Jersey	35,000	\$475,689
Triboro	0	\$0
Westchester	0	\$0
Long Island	30,250	\$750,000
Caribbean	25,832	\$34,873
Total	91,082	\$1,260,562

APPENDIX C. MANAGEMENT'S COMMENTS

FACILITIES - HEADQUARTERS



October 24, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTS

SUBJECT: Use of Existing Postal-Owned Space in the New York Area
(Report Number CA-AR-07-DRAFT)

This is in response to the Draft Audit Report #CA-AR-07-DRAFT, Use of Postal-Owned Space in the New York Metro Area. The New York Metro Area acknowledges the observation specified in the "Results" section of the draft audit report.

The New York Metro Area appreciates the revision made in Appendix B, "Leased Administrative Space by District" (from the initial draft audit report) indicating a reduced interior square footage for the Caribbean District from 250,963 to 25,832 square feet. However, we do not agree that the 72,442 square feet in the Northern New Jersey District should be attributable to the New York Metro Area. As this total space includes Headquarters organizations, (Inspection Service, FSO and OIG) only the 35,000 square feet occupied by the District Office should be included in the table. The annual rent for this space is \$475,689.

Recommendation 1: Develop procedures for communication between installation heads, district managers, and Facilities Service Offices to identify and track underutilized and vacant space. (The report recommends that the Vice President, Area Operations, New York Metro Area, coordinate with the Vice President, Facilities).

Response: We agree with this recommendation. Installation heads will be reminded semi-annually of their responsibility to report excess space, buildings and land utilizing the Facilities Database System (FDB) program. The New York Facilities Service Office and the New York Metro Area personnel will also work together to identify underutilized and excess real property with the intent of ensuring the available space is reviewed, analyzed, and put to its highest and best use.

At the present time there is no centralized tracking system which includes both administrative and rentable space nationwide. The absence of a complete excess property tracking system hampers the identification and utilization of all usable space. The need for a national database of all usable space would be best addressed at the Headquarters level rather than establishing and maintaining an individual area system. The Revenue Generation effort currently underway by the Realty Asset group in Facilities should assist in the identification and management of potential disposal and developmental opportunities for excess space.

The implementation of the Facilities Condition Assessment program by Facilities should also assist in meeting this goal. Facility assessments are currently underway for FY'08 and should provide updated and verifiable excess space information for all USPS-owned facilities by 2011. It is also standard operating procedure for Facilities personnel to review available space in all facilities within a ten mile radius of any facility where a lease is being considered for renewal.

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- 2 -

We appreciate the efforts of the OIG audit team in the review of existing Postal-owned space in the New York Metro Area. As we move forward with this effort the Facilities Service Office, and New York Metro Area personnel will work closely to identify excess space and land which can be better utilized or identified for out-leasing or disposal.



David L. Solomon
Vice President, New York Metro
Area Operations



Tom Samra
Vice President, Facilities

- 3 -

cc: **Steve Roth**
Henry Burmeister
Paul Tyburski
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Darrell Benjamin
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