



March 21, 2008

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VICE PRESIDENT, FACILITIES

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SUBJECT: Audit Report – Use of Existing Postal-Owned Space – Capping
(Report Number SA-AR-08-007)

This report summarizes a series of four audit reports on the Use of Existing Postal-Owned Space in the Pacific, Great Lakes, New York Metro, and Southeast Areas. We performed these audits under project numbers 06YG024FA000 (Pacific), 07YG002CA000 (Great Lakes), 07YG005CA000 (New York Metro), and 07YG004CA000 (Southeast) in response to the U.S. Postal Service *Transformation Plan* strategies to improve management of its real estate assets. We performed this capping project under project number 08YG010SA000. See [Appendix A](#) for additional information about this audit.

Conclusion

Procedures for Tracking and Reporting Underutilized and Vacant Space

The Pacific, Great Lakes, New York Metro, and Southeast Areas did not monitor or actively track and report underutilized and vacant space. Further, neither the audit team nor area management could identify all underutilized and vacant space in those areas. As a result, there was no way to ensure the areas optimized the use of such space to avoid future leasing costs. The *Administrative Support Manual* (ASM 13), Chapter 5, Sections 513 and 517, 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 Facilities Database (FDB) system. See [Appendix B](#) for our detailed analysis of this issue.

During the course of our audits in the four areas, we made the following recommendations to address the issues we encountered:

We recommended the Vice President, Pacific Area Operations, and the Vice President, Great Lakes Area Operations, in coordination with the Vice President, Facilities:

- Formalize and document procedures for the areas to identify, track, and report underutilized and vacant space to Facilities headquarters and to determine if there is vacant postal-owned space available prior to lease renewal.

We recommended the Vice President, Great Lakes Area Operations, in coordination with the Vice President, Facilities:

- Develop formal procedures to communicate underutilized and vacant space information with appropriate area personnel and designate an individual within the area to be responsible for communicating with the district managers and Facilities Service Offices regarding the availability of underutilized and vacant space in the districts.

We recommended the Vice President, Southeast Area Operations, and Vice President, New York Metro Area Operations, in coordination with the Vice President, Facilities:

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

Management's comments in response to the recommendations indicated they believed the use of the FDB system will help them address some of the issues identified during the audits. See [Appendix B](#) for our detailed analysis and a complete list of recommendations and management's comments by area.

We agree the FDB system can be an effective tool for the areas to track and report underutilized and vacant space. However, we noted that the areas we visited were not consistent regarding how they plan to utilize the FDB system.¹ As a result, we recommend the following.

Recommendation

We recommend the Vice President, Facilities:

1. In coordination with the area vice presidents, require the areas to utilize the real estate module of the FDB system to review and report vacant and excess space information annually to ensure consistency in tracking and controlling vacant and excess space throughout the Postal Service.

¹ Great Lakes and Pacific Area management plan to use the FDB to review data while Southeast and New York Metro Area management plan to use the FDB to report excess space. See [Appendix B](#) Audit Findings and Recommendations for more details regarding management's plans to utilize the FDB.

Management's Comments

Management agreed with the recommendation and stated that specific information from the FDB annual certification automatically provides data to assist the recommended requirement for facilities review. Annually, the Vice President, Retail Operations, sends correspondence to area vice presidents emphasizing the importance of FDB certification. The 2008 FDB certification ended February 22, 2008, and Facilities Realty Asset Management (RAM) plans to complete the initial review of FDB certification responses by May 31, 2008. In addition, Facilities has initiated an analysis of the impact of the Flat Sequencing System on facilities in order to better identify excess space, develop strategies to capture excess space, and capitalize on potential resultant facility efficiencies. Management's comments, in their entirety, are included in [Appendix D](#).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and the corrective actions should resolve 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 Darrell E. Benjamin, 
VERIFY authenticity with ApproveIt

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

Attachments

cc: William P. Galligan
Vice Presidents, Area Operations
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Facilities is an enabling organization within the 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 Service 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 Service operations. Facilities headquarters provides organizational administration, policy and procedure development, and RAM functions.

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

The Postal Service uses the criteria in ASM 13, Chapter 5, Sections 513 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 management, headquarters has requested the field to input information regarding vacant and excess space to the FDB system. This provides a standard format for annual reporting and a method for submitting 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 initially downloaded 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.²

The Postal Service owned 8,494 facilities as of November 21, 2007. In addition, the Postal Service leased 25,354 facilities totaling over 554 million square feet and spent over \$834 million on lease contracts annually.

² See [Appendix C](#), Vacant Space per Area.

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 Pacific, Great Lakes, New York Metro, and Southeast Areas. We chose to focus our review on administrative space because management can most easily move the administrative departments to new locations.³ Through discussions with Postal Service 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 Service facilities, interviewed managers and employees, and examined any other material deemed necessary to accomplish our audit objective. We conducted audit work in the Pacific, Great Lakes, New York Metro, and Southeast Areas.

Within the four areas, we judgmentally selected the San Francisco, Northern Illinois, Tennessee, Atlanta, New York, and Northern New Jersey Districts to visit. We chose the San Francisco, Northern Illinois, and Tennessee Districts because they had the greatest amount of underutilized/vacant administrative space in their respective areas. We chose the Atlanta and Northern New Jersey Districts because of their proximity to their respective FSOs, which could make them potential models for communication of underutilized and/or vacant space in the districts to FSO management. We chose the New York District because of its proximity to the area office and because the district does not have any leased administrative office space.

We conducted this series of performance audits from February 2006 through March 2008 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 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 and included their comments where appropriate.

A previous OIG audit identified weaknesses in the computer system we relied on for data.⁴ The audit team helped alleviate the risk of using data from that system by using

³ See [Appendix C](#), Vacant Space per Area.

⁴ Audit Report – *Review of the Facilities Management System for Windows* (Report Number IS-AR-02-003, dated February 22, 2002).

the FDB to support the data we received from the Facilities Management System – Windows (FMSWIN). We relied on computer-generated data from several Postal Service financial systems (including FMSWIN⁵ and the FDB) after performing specific internal control tests on these systems' data including verifying locations of specific Postal Service properties. For example, we verified different facilities' data by talking to management and comparing the data in the two computer systems. In addition, management stated the Building section within the FDB Real Estate module lists five data fields the FMS directly populated, and these fields should be the same in electronic FMS and the FDB system.

PRIOR AUDIT COVERAGE

Our review of prior OIG audits did not identify audits or reviews conducted within the past 3 years specifically related to the objective of this series of audits. However, we did identify a Government Accountability Office (GAO) study directly related to use of a national database for managing Postal Service facilities.

GAO's report titled, *Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services* (Report Number GAO-08-41, dated December 2007), revealed the FDB did not conform to the Postal Service's goals or to leading federal practices. In addition, major Postal Service components did not use the database as a consolidated data source for managing their facilities. In response to the GAO report recommendations, the Postal Service chose to establish internal controls but not to track performance or trends. The Postal Service also agreed in principle to prioritize maintenance but not to initiate a criteria-based approach to identify and close unneeded retail facilities.

⁵ During the course of the audit series, FMSWIN data was transitioned to the next generation facilities system, electronic FMS (eFMS), on December 4, 2006.

APPENDIX B: DETAILED ANALYSIS

Procedures for Tracking and Reporting Underutilized and Vacant Space

The Pacific, Great Lakes, New York Metro, and Southeast Areas did not monitor or actively track and report underutilized and vacant space. Further, neither the audit team nor area management could identify all underutilized and vacant space in those areas. As a result, there was no way to ensure the areas optimized the use of such space to avoid future leasing costs. ASM 13⁶ 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 the areas and FSO management to identify and utilize postal-owned vacant space, we determined they did not formalize, communicate, or enforce policies and procedures outlined in the ASM to ensure consistent tracking and reporting of such space. We believe the Postal Service would benefit from using a consistent method — such as the FDB — to identify, track, and report 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. The table below provides a summary of the findings, recommendations, and management's comments by area.

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

AUDIT FINDINGS AND RECOMMENDATIONS BY AREA

Postal Service Area(s)	Findings and Recommendations	Management's Comments
Pacific & Great Lakes	<p><u>Finding:</u> The areas do not have formal procedures in place to identify, track, and report vacant and underutilized space.</p> <p><u>Recommendation:</u> We recommended the Vice President, Pacific Area Operations, and the Vice President, Great Lakes Area Operations, in coordination with the Vice President, Facilities, formalize and document procedures for the areas to identify, track, and report underutilized and vacant space to Facilities headquarters and to determine if there is vacant postal-owned space available prior to lease renewal.</p>	<p>Management agreed with the recommendation and stated they plan to comply with the FDB headquarters coordinator's directive that they review the data in every FDB maintenance module no less than once each year. Management also plans to begin Facility Condition Assessments during fiscal year (FY) 2007, per a headquarters Facilities directive, and anticipates this process will enable them to receive independent information on any underutilized or excess space in a facility.</p>
Pacific	<p><u>Finding:</u> An analysis of available vacant space within the vicinity of the leased Pacific FSO revealed sufficient space within the San Francisco Embarcadero Postal Center (EPC) to move the FSO and avoid future leasing costs. <u>Recommendation:</u> We recommended the Vice President, Pacific Area Operations, and the Vice President, Facilities, move the Pacific FSO to the EPC and sublease the FSO to avoid future leasing costs, thus saving \$500,821 over the remaining life of the lease.</p>	<p>Management agreed with the recommendation and stated the EPC developer is currently in discussions with RAM to purchase the EPC. If the EPC sale proved unsuccessful, the FSO would relocate after appropriate cost-benefit analysis.</p>
Pacific	<p><u>Finding:</u> We found discrepancies in reported vacancy status between the information presented in the area's Excess Space Report and the vacant space information contained in the FDB. <u>Recommendation:</u> We recommended the Vice President,</p>	<p>Management agreed with the recommendation and outlined a procedure to update the Excess Space Report. Management will update the report with information from building inspections, reviewed with area leadership quarterly and</p>

Postal Service Area(s)	Findings and Recommendations	Management's Comments
	Pacific Area Operations, and the Vice President, Facilities, establish written procedures to regularly update the Excess Space Report.	uploaded to the FSO website, which is linked to the area website.
Great Lakes	<p><u>Finding:</u> Area management did not communicate and enforce existing annual requirements, per ASM 13, to review and identify any excess postal-owned property with appropriate area and facilities personnel.</p> <p><u>Recommendation:</u> We recommended the Vice President, Great Lakes Area Operations, in coordination with the Vice President, Facilities, develop formal procedures to communicate underutilized and vacant space information with appropriate area personnel and designate an individual within the area to be responsible for communicating with the District Managers and FSO regarding the availability of underutilized and vacant space in the districts.</p>	<p>Management agreed with the recommendation and stated that Area Budget and the FSO were in the process of obtaining extracts and reports from FDB and eFMS for vacant space and excess land. The information will be used to produce a report that will be shared with Great Lakes district offices, an area workgroup, and the FSO periodically, at a predetermined timeframe, by the end of FY 2007. Management also stated the Area Finance Manager is the Area Vice President's liaison with the district managers and FSO. The Area Finance Manager will ensure that an annual report is forwarded to the Area Vice President for her review and will advise her of any necessary action.</p>
Southeast & New York Metro	<p><u>Finding:</u> The areas did not formalize, communicate, or enforce policies and procedures outlined in the ASM to ensure consistent tracking and reporting of vacant and underutilized space. <u>Recommendation:</u> We recommended the Vice President, Southeast Area Operations, and Vice President, New York Metro Area Operations, in coordination with the Vice President, Facilities, develop consistent procedures for communication between installation heads, district managers, and FSOs to identify and track underutilized and vacant space.</p>	<p>Management agreed with the recommendation and stated that installation heads will be reminded semiannually of their responsibility to report excess space, building, and land utilization using the FDB program.</p>

APPENDIX C: VACANT AND LEASED ADMINISTRATIVE SPACE PER AREA

Vacant Space per Area*

Area	Square Feet
Pacific	77,258
Great Lakes	51,410
Southeast	53,771
New York Metro	3,958

* Per the *Vacant Space Report* obtained from the FMS portal. Excludes storage space, restroom vacancies, and space marked unrentable.

Leased Administrative Space per Area

Area	Interior Square Feet	Annual Rent
Pacific	776,030	\$1,754,200
Great Lakes	125,138	\$1,737,124
Southeast	536,172	\$5,059,432
New York Metro	353,645	\$3,596,188

APPENDIX D: MANAGEMENT'S COMMENTS

KATHY AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS



March 12, 2008

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SUBJECT: Draft Audit Report – Use of Existing Postal-Owned Space – Capping
(Report Number CA-AR-08-DRAFT)

We have read the Review of Use of Existing Postal-Owned Space – (Report Number CA-AR-08-DRAFT) and we agree with the report's findings.

Recommendation 1:

We recommend the Vice President, Facilities:

1. In coordination with the Area Vice Presidents they require the areas to utilize the real estate module of the Facilities Database (FDB) system to review and report vacant and excess space information annually to ensure consistency in tracking and controlling vacant and excess space throughout the Postal Service.

Response:

Management agrees with the recommendation. Specific information from FDB annual certification automatically provides data to assist the recommended requirement for review by facilities. In addition, annual correspondence is sent from Vice President, Retail Operations to Area Vice Presidents emphasizing the importance of FDB certification.

The 2008 FDB Certification ended February 22. There is an automatic email for instances of land or vacant leasable space as identified by the installation head through FDB to the FSO. 2008 FDB Certification indicates 1038 positive responses to real estate questions within 965 locations nationwide. Listed is a breakdown of the responses by category; Aware of Land Not Utilized (169), Vacant Leasable Space (516), and Excess Leasable Land (353).

Target Completion Date: Facilities Realty Asset Management will complete the initial review of these by May 31.

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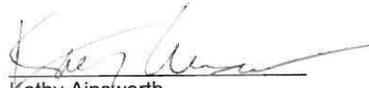
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In addition, Facilities has initiated an analysis of eight metro areas to examine the impacts that Flat Sequencing System (FSS) implementation will have on our facilities. Data collection for this project has begun. The purpose of analyzing these study areas is to better identify excess space, to develop strategies to capture excess space, and capitalize on potential facility efficiencies that result from the implementation of FSS. It is anticipated that our analysis will result in methods and procedures that may be applied throughout the country to make better use of our facilities going forward.

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act.



Tom A. Samra
Vice President, Facilities



Kathy Ainsworth
Vice President, Retail Operations

cc: Kathy Banks, Mgr. CARM