



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Management of Vacant Properties

Audit Report

Report Number
SM-AR-16-002

November 6, 2015



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The U.S. Postal Service owns over 8,000 properties and leases over 23,000 properties with annual rents of more than \$800 million.

Background

The U.S. Postal Service owns over 8,000 properties and leases over 23,000 properties with annual rents of more than \$800 million. The Postal Service Facilities organization oversees these properties, including balancing the real estate portfolio, maximizing revenue, and managing vacant properties.

Area and district personnel vacate Postal Service properties due to events such as network optimization efforts, emergency suspensions (environmental or accidental issues), and staffing shortages. As of April 2015, the Postal Service identified 62 vacant leased properties with annual lease amounts of \$2.1 million and 79 vacant owned properties valued at about \$48 million. This was a snapshot in time. We did not evaluate all properties identified as vacant over the past 2 fiscal years and the actions taken by the Postal Service during that timeframe.

The electronic Facilities Management System is the official Postal Service record for real property. It should be used to manage all property-related projects.

Our objective was to assess the management of vacant properties and identify opportunities for the Postal Service to reduce associated costs.

What The OIG Found

The Postal Service could better manage its vacant properties and increase its opportunities to reduce associated costs. The

Postal Service did not know how many vacant properties it owned or leased. Specifically, Facilities was not aware of some of its vacant properties and did not effectively manage the vacant properties it knew about.

We identified 25 leased or owned properties that Facilities did not know were vacant. This occurred because there was no policy requiring area and district personnel to notify Facilities when properties became vacant in the field.

Also, Facilities personnel did not effectively manage 57 of 141 (40 percent) properties they knew were vacant. Specifically, they did not document use of available options such as subleasing, lease termination, lease buyout, or property disposal to reduce costs for vacant leased or owned properties. Facilities is required to track its building information in the electronic Facilities Management System database.

This occurred because Facilities either did not actively monitor when the properties became vacant or stated there was minimal, if any, potential return on investment from disposing of properties that were fully depreciated or were not in a usable condition. Regardless of a property's accounting value or condition, the Postal Service could still generate revenue by selling it.

Because the Postal Service was not aware of some of its vacant properties or did not effectively manage them, it missed



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opportunities to increase revenue by selling its vacant owned properties and to reduce lease costs.

Further, Facilities did not track in its electronic Facilities Management System building information for the 166 vacant properties we reviewed. Specifically, although copies of lease agreements or other documents may have been scanned into the system, data fields were not always populated for Postal Service personnel to use to better manage its vacant property portfolio.

This included data fields containing information such as vacancy status, emergency suspension notifications, lease termination clauses, and disposal efforts. For example, there were Postal Service properties that were sold prior to this review that were designated in the electronic data system as active and vacant. Facilities' practice was to document this information on multiple spreadsheets; however, these documents were not shared between area and headquarters personnel and limits the ability to create management reports to monitor vacant properties.

As a result, there is an increased risk that management will not have access to accurate and timely information necessary for decision making. We identified vacant property data valued at \$51 million that was not available in the electronic Facilities Management System, as required.

What The OIG Recommended

We recommended that management modify policy to require personnel to notify Facilities when any Postal Service property becomes vacant. We also recommended that management actively monitor vacant properties; document actions taken or not taken, with explanation; and pursue options, when appropriate, to generate revenue and reduce costs.

We further recommended that management use the electronic Facilities Management System by populating relevant data fields to manage all vacant properties.



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U.S. Postal Service Vacant Properties

April 2015

Leased or Owned Properties the Postal Service was not Aware Were Vacant

Vacant Properties Where the Vacant Property Building Information Was Not Tracked Using eFMS

Value of Vacant Properties Where the Vacant Property Building Information Was Not Tracked Using eFMS

Vacant Properties reviewed in this report

Properties the Postal Service was Aware were vacant

Vacant Owned

Vacant Leased

Total Value

Annual Cost

Known Properties That Were Mismanaged

Transmittal Letter

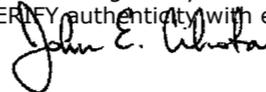


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

November 6, 2015

MEMORANDUM FOR: TOM A. SAMRA
VICE PRESIDENT, FACILITIES

DAVID E. WILLIAMS JR.
CHIEF OPERATING OFFICER AND EXECUTIVE
VICE PRESIDENT

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Audit Report – Management of Vacant Properties
(Report Number SM-AR-16-002)

This report presents the results of our audit of the Management of Vacant Properties (Project Number 15BG006SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Keshia L. Trafton, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Table of Contents

| | |
|---|----|
| Cover | |
| Highlights..... | 1 |
| Background..... | 1 |
| What The OIG Found..... | 1 |
| What The OIG Recommended | 2 |
| Transmittal Letter..... | 4 |
| Findings..... | 6 |
| Introduction | 6 |
| Summary..... | 7 |
| Vacant Properties Not Identified | 7 |
| Management of Vacant Property | 8 |
| Use of the Electronic Facilities Management System..... | 9 |
| Recommendations..... | 11 |
| Management’s Comments | 11 |
| Evaluation of Management’s Comments | 12 |
| Appendices..... | 14 |
| Appendix A: Additional Information | 15 |
| Background | 15 |
| Objective, Scope, and Methodology..... | 16 |
| Prior Audit Coverage | 17 |
| Appendix B: Managment’s Comments..... | 18 |
| Contact Information | 26 |

Findings

To meet changing market conditions and customer demands, the Postal Service is adjusting the size of its infrastructure.

Introduction

This report presents the results of our self-initiated audit of the Management of Vacant Properties (Project Number 15BG006SM000). Our objective was to assess the management of vacant properties and identify opportunities for the U.S. Postal Service to reduce associated costs. See [Appendix A](#) for additional information about this audit.

The Postal Service Facilities organization's primary mission is to provide quality real estate, facilities products, and services to meet the present and future needs of Postal Service operations. The goal of the Facilities organization is to ensure proper stewardship of those building assets and related resources, such as managing portfolio energy, maximizing real property investments, continually balancing the real estate portfolio, and maximizing revenue from properties. Customer relationship managers (CRM) serve as communication liaisons between area and district leadership teams and Facilities. CRMs ensure the coordination and cooperation of organization wide projects.

To meet changing market conditions and customer demands, the Postal Service is adjusting the size of its infrastructure. Due to network optimization¹ efforts such as area mail processing (AMP) reviews and node studies,² owned and leased facilities may become vacant and declared excess. As of April 2015, the Postal Service identified 62 vacant leased properties with annual lease amounts of \$2.1 million and 79 owned properties valued at about \$48 million.³ This was a snapshot in time. We did not evaluate all vacant properties over the past 2 fiscal years and the actions taken by the Postal Service during that timeframe.

If a leased facility becomes vacant, and the lease contains a termination clause, the Postal Service can terminate the lease before the end of the lease term. However, if a lease does not contain this clause, Postal Service Facilities should take other steps to reduce lease costs such as subleasing⁴ the property or offering the property owner a lease buyout.⁵ Options to be considered would depend on the terms and conditions of the lease.

The electronic Facilities Management System (eFMS) is the official Postal Service record for real property inventory and is used to manage all property-related projects, including acquisition, disposal, and repairs. In addition, the eFMS is used to manage the Postal Service's property leasing program, including preparing leases, making tax payments, and outleasing/subleasing excess space. The Postal Service's Facilities and Information Technology departments administers the eFMS database site.

1 In April 2008, the vice president, 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.

2 Studies of consolidation for sites in a geographic radius.

3 This does not include the 25 properties the U.S. Postal Service Office of Inspector General (OIG) identified as vacant.

4 The leasing of Postal Service-leased space that is excess to its operational needs to non-Postal Service entities.

5 Under a lease buy-out, the Postal Service pays the landlord a sum of money to end a lease before it expires.

Facilities was not aware of some of its vacant properties and did not effectively manage the properties it knew about.

Summary

The Postal Service could better manage its vacant properties and increase its opportunities to reduce associated costs. The Postal Service did not know how many vacant properties it owned or leased. Specifically, Facilities was not aware of some of its vacant properties and did not effectively manage the properties it knew about. We identified 25 leased or owned properties Facilities did not know were vacant. This occurred because there was no policy requiring area and district personnel to notify Facilities when properties became vacant in the field.

Also, Facilities personnel did not effectively manage 57 of 141 properties they knew were vacant. Specifically, they did not document use of available options such as subleasing, lease termination, lease buyout, or property disposal to reduce costs for vacant owned or leased properties. This occurred because Facilities either did not actively monitor when the properties became vacant or stated that there was minimal, if any, potential return on investment from disposing of properties that were fully depreciated or were not usable. Regardless of a property's accounting value or condition, the Postal Service missed opportunities to reduce lease costs and to increase revenue by disposing of its vacant owned properties. Facilities is required to track its building information in the eFMS database.

Further, Facilities did not track all building information in the eFMS for the 166 vacant properties we reviewed. Specifically, although copies of lease agreements and other documents may have been scanned into the system, data fields were not always populated for Postal Service personnel to use to better manage its vacant property portfolio. This included data fields containing information, such as vacancy status, emergency suspensions, lease termination clauses, and disposal efforts. Facilities' practice was to document this information on multiple spreadsheets; however, these documents were not shared between area and headquarters personnel and limits the ability to create management reports to monitor vacant properties. This practice increased the risk that management will not have access to accurate and timely information necessary for decision making. We identified vacant property data valued at \$51 million that was not available in the eFMS, as required.

Vacant Properties Not Identified

The Postal Service did not know how many vacant properties it owned or leased. We identified 22 leased properties with annual lease amounts of \$227,000 and three owned properties valued at about \$693,000 that Facilities did not know were vacant.

This occurred because there is no policy requiring area and district personnel to notify CRMs or Facilities when properties become vacant. Facilities become vacant when situations in the field, such as emergencies (environmental or accidental issues) or staffing shortages, lead district personnel to move retail operations to alternate quarters.⁶ The Facilities group in headquarters is not involved in these projects and is generally unaware the property has been vacated. Although the *Administrative Support Manual* (ASM) states that Facilities Planning will identify and track all excess space in Postal Service owned and leased buildings,⁷ the policy is not specific to vacant properties and does not require area or district personnel to notify Facilities headquarters of the newly vacated property.

When the Facilities organization does not know a facility is being vacated, it is not able to pursue options such as sub-leasing, lease termination, or disposal to reduce or eliminate costs associated with these properties.

⁶ A work site where personnel are moved to continue operations when usual space is unavailable due to nature, accidents, or emergencies.

⁷ ASM 13, Section 517.11, January 22, 2015.

Management of Vacant Property

The Postal Service missed opportunities to reduce costs for 57 of 141 (40 percent) vacant properties.⁸ Specifically, it did not document use of available options such as subleasing, lease termination, lease buyout, or property disposal to reduce costs for 45 vacant owned properties valued at about \$6 million and 12 vacant leased properties with annual lease payments of about \$688,000. For the 12 vacant leased properties, the Postal Service did not:

- Timely enter eight of the vacant properties into the discontinuance process. This would include determining whether to:
1) replace a Postal Service-operated retail facility with a contractor-operated retail facility; 2) combine one or more Postal Service-operated retail facilities; or 3) close a Postal Service-operated retail facility without providing a replacement facility.
- Timely exercise eligible lease terminations for three properties. If a leased facility becomes vacant, and the lease contains a termination clause, the Postal Service can terminate the lease before the end of the lease term. If a lease does not contain this clause, the Postal Service should pursue subleasing or other alternatives to reduce costs. The options it should consider would depend on the terms and conditions of the lease.
- Review lease renewals for one property that was already vacant. Some leases are automatically renewed unless the Postal Service sends notification that it wants to terminate them.

In addition, Facilities did not advertise 9 vacant owned buildings or land for sale or outlease, as required.⁹ For 35 owned modular units,¹⁰ Facilities was either unaware of units' locations or relocated them to other Postal Service locations and kept them vacant. Postal Service personnel did not provide us information on plans to use these units. One unit was used for temporary storage, which policy does not authorize.¹¹ Table 1 illustrates the exceptions we identified in the Postal Service's management of vacant owned and leased properties.

⁸ We excluded 42 vacant properties with leases that expire before 2017 because there would not be enough time to implement cost saving efforts for them. We also excluded 16 vacant leased properties with annual rent amounts less than \$5,000, considering them insignificant.

⁹ Handbook RE-1, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*, August 2014, Section 51, requires the Postal Service to dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service.

¹⁰ Modular units are moveable buildings used as an alternative to permanent structures. Modular buildings are fabricated in a highly controlled factory environment, according to Postal Service specifications.

¹¹ Handbook AS-701, *Asset Management*, January 2015, Section 3-8.5, does not contain provisions that allow modular units to serve as acceptable use for storage.

Table 1. Exceptions Identified in the Postal Service’s Management of Vacant Owned and Leased Properties

| Vacant Properties | Number of Properties | Percent of Vacant Properties Not Managed Effectively |
|---|-----------------------------|---|
| Vacant leased properties | | |
| Untimely discontinuance process | 8 | 5.7% |
| Termination notice not exercised | 3 | 2.1% |
| Lease renewed while property was vacant | 1 | 0.7% |
| Subtotal for vacant leased properties | 12 | 8.5% |
| Vacant owned properties | | |
| Buildings not listed for sale | 6 | 4.3% |
| Land not listed for sale | 3 | 2.1% |
| Buildings used for temporary storage | 1 | 0.7% |
| No action taken for modular units | 35 | 24.8% |
| Subtotal for vacant owned properties | 45 | 31.9% |
| Total of vacant properties not managed effectively | 57 | 40.4% |

Source: OIG analysis of documentation supporting vacant properties.

This occurred because Facilities either did not actively monitor when the properties became vacant or stated that there was minimal, if any, potential return on investment from disposing of properties that were fully depreciated or were not usable. Facilities is required to track its building information in the electronic facilities management system database.

The Postal Service Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiative to optimize the facility footprint¹² emphasizes generating revenue and reducing costs through the sale and leasing of property. The Facilities organization can manage excess properties by sale, outlease, sublease, or other means that serve the Postal Service’s best interest.

When the Postal Service does not attempt to take actions such as disposing of unneeded property and terminating unneeded leases, it misses opportunities to reduce costs associated with vacant properties.

Use of the Electronic Facilities Management System

The Postal Service did not track all building information associated with vacant properties in its eFMS system, as required.¹³ Specifically, although copies of lease agreements and other documents may have been scanned into the system, data fields were not always populated for Postal Service personnel to use to better manage its vacant property portfolio. This included data fields containing information such as vacancy status, lease expiration dates, emergency suspensions, lease termination clauses, ownership type, and disposal efforts for the 166 vacant properties we reviewed. For example, there were Postal Service properties

¹² DRIVE initiative number 4, Facilities Management and Disposal, strives to reduce real estate holdings and generate revenue and reduce expenses by selling owned buildings, terminating leases, and eliminating facility operating costs.

¹³ ASM 13 Section 517.11.

that were sold prior to this review that were designated in the electronic data system as active and vacant. Facilities' practice was to document this information on multiple spreadsheets; however, these documents were not shared between area and headquarters staff and limits the ability to create management reports to monitor vacant properties.

According to the ASM, the Facilities organization tracks building information in the Facilities eFMS database.¹⁴ As a result, there is an increased risk that management will not have access to accurate and timely information necessary for decision making. We identified vacant property data valued at \$50,853,753¹⁵ that was not available in the eFMS, as required.

Postal Service management began corrective actions as a result of our audit. Facilities distributed newly developed standard operating procedures to all CRMs regarding the identification of all vacant Postal Service properties. The procedures included a flowchart outlining the process for district personnel to notify Facilities once a Postal Service property becomes vacant. Facilities has also made progress to update information on vacant properties in the eFMS database.

¹⁴ ASM 13 Section 517.11.

¹⁵ We originally valued the 166 properties at \$77,332,776 based on the OIG Facilities Risk Model or the actual sales price (less closing costs) if the property was sold. Subsequent to our property value analysis conducted in April 2015, management began entering property appraisals completed on its owned properties into the eFMS system. Based on this additional information, we adjusted the values for 25 properties to reflect either the sale price or the appraised value, if the property was not sold and the appraisal was completed within the last 3 years. In addition, we included an incorrect amount for one property that was appraised at \$0.

Recommendations

We recommend management modify the Administrative Support Manual to require personnel to notify Facilities when any Postal Service property becomes vacant; actively monitor all vacant properties; document action taken or not taken, with explanation; pursue options, when appropriate, to generate revenue and reduce costs; and use the electronic Facilities Management System to manage all vacant properties.

We recommend the vice president, Facilities, in coordination with the chief operating officer and executive vice president:

1. Modify the *Administrative Support Manual*, to include policy and procedures that direct area and district managers, product line managers, and the customer relationship managers to notify the Facilities organization when all Postal Service property becomes vacant.

We recommend the vice president, Facilities:

2. Actively monitor all vacant properties; document actions taken or not taken, with explanation; and pursue options, when appropriate, to generate revenue and reduce costs for these properties.
3. Use the electronic Facilities Management System by populating relevant data fields to manage all vacant properties.

Management's Comments

Management disagreed with the findings and conclusions; however, they agreed with all three recommendations. Management disagreed with the other impact of \$50,853,753, which reflected the value of properties where the vacant property building information was not always tracked in the eFMS, as required.

Management stated they have already initiated actions to address two of the three recommendations, reflecting their continued focus on eliminating vacant space from the Facilities portfolio. They further stated that they initiated a study to, among other things, eliminate vacant space and create opportunities for efficiency and cost savings. Through their real estate portfolio optimization efforts, management stated it has already terminated 2,640 leases, disposed of 146 properties and generated over \$1.3 billion of revenue over the last 6 years.

Management stated that eFMS contains hundreds of fields of data for property records for over 31,000 facilities. They further admitted that, with a system this large and hundreds of daily transactions, there inevitably will be some backlog of data entry. Management believed several OIG findings did not account for this backlog. However, they are currently assessing whether other data besides that currently available to Facilities might be valuable to create timely reporting of vacant space.

Management disagreed that the OIG identified 25 vacant properties Facilities did not know about and provided statements in their response to refute that they were unaware these properties were vacant. Additionally, management believes the OIG's statement that "the Postal Service did not know how many vacant properties it owned or leased" is not reflective of the work they have completed with respect to leased properties. Management also stated that a lack of eFMS documentation does not support a conclusion that they missed opportunities to reduce costs and contend they had valid business reasons for not listing 10 vacant owned buildings for sale.

Management further stated that there were only 19 modular units owned, not 36, at the time of this audit and that the Postal Service had previously disposed of 17 but had not yet updated eFMS. Management believes that due to the age and condition of the modular units, selling them does not often result in substantial proceeds and that focusing solely on revenue without accounting for the cost of the sale would be imprudent. Instead, the Postal Service pursues a sale when the estimated revenue from the sale will exceed the cost of the sale.

Management believes they have sufficient data fields in eFMS to track vacant property and do not need additional ones. They further stated that Facilities is now using a category entitled “vacant building” in the system to track all vacant properties and will also direct staff to add information pertaining to emergency suspensions. Management also pointed out that the third column title in Table 1 of the audit report did not reflect the data in that column because it referenced vacant properties the Postal Service was not aware of rather than properties not properly documented in eFMS.

Management stated the other impact dollar amount is based on data errors and does not represent lost revenue. They further stated the \$48,422,783 value of the 82 owned properties listed by the OIG is erroneous because it includes properties that have been sold, includes some values derived by the OIG Facilities Model, which management has consistently indicated is not accurate, and includes values for properties that cannot be sold.

Regarding recommendation 1, management agreed to modify the ASM to direct appropriate staff to notify Facilities when all Postal Service properties become vacant and available for disposal. The target implementation date is June 30, 2016.

Regarding recommendation 2, management agreed to actively monitor all vacant properties, document actions, and pursue options to generate revenue and reduce costs for these properties. Management stated this recommendation is already being implemented as they currently monitor vacant properties for such options. As previously noted, the Postal Service has terminated 2,640 leases and disposed of 146 properties since implementing node studies. This has equated to eliminating millions of square feet from the real property portfolio and generating over \$1.3 billion of revenue over the last 6 years.

Regarding recommendation 3, management agreed to use eFMS to populate relevant data fields to manage all vacant properties and took corrective action during the audit to identify all known vacant properties as ‘vacant’ in eFMS. Management agreed to continue such updating when Facilities is notified of additional properties that become vacant. Management will update eFMS regarding actions to be taken with respect to currently identified vacant properties by November 30, 2015.

See [Appendix B](#) for management’s comments, in their entirety.

Evaluation of Management’s Comments

The OIG considers management’s comments responsive to the recommendations and planned corrective actions should resolve the issues identified in the report.

Management stated the OIG only found two vacant properties Facilities did not know about and not the 25 identified in the report. At the onset of this audit, we requested Facilities provide a complete list of vacant properties. Such a list was not readily available and management had to work with Facilities personnel to compile the list. We then compared this initial list to a list of vacant properties we developed based on our Facilities Risk Model and determined there were 25 vacant properties not accounted for. We informed management and they agreed that they might not have accounted for all vacant properties. Because Facilities did not identify the properties as vacant, we concluded they did not know about them.

As noted in the report, and management affirmed, the eFMS is the Postal Service’s official record for real property. As such, we relied on this system to determine the status of each vacant property. Although management may have taken action on properties, such decisions were not captured in the system. For example, properties the Postal Service now state were sold were still listed as ‘active’ and ‘vacant’ in eFMS. Additionally, the information regarding these properties was not communicated to the OIG until

after the exit conference. The report was updated prior to issuance of the draft to recognize the information provided after the exit conference and actions taken as a result of the audit.

In addition, regarding Facilities' management of vacant properties, we reached out to personnel multiple times for information about the disposal process and value of vacant modular units, for example, but did not receive responses. Further, we provided our preliminary findings to Facilities and they did not provide information during the audit to dispute our conclusions. As a result, we relied on the eFMS to determine whether they had effectively managed vacant properties by using available options such as subleasing, lease termination, lease buyout, or property disposal. As previously noted, management provided information after the exit conference stating the actions they have taken to manage vacant properties. We evaluated these actions and updated the report as appropriate; however, management did not provide evidence to support all of their stated actions. In addition, eFMS, which is their official record of property, did not reflect these actions.

Management believes it has sufficient data fields in eFMS and does not need to add new ones in order to track vacant properties. We did not request the Postal Service create additional fields. Rather, we recommended Facilities personnel populate the eFMS fields they already have to better manage its vacant property portfolio and make informed decisions. System data for all vacant properties was not accurate and complete, which we consider a data integrity issue. We agree with management's decision to add a new category entitled "vacant building" and information regarding emergency suspensions to the eFMS. We also agree that the third column title in [Table 1](#) was misleading and have renamed the column to accurately reflect the data displayed.

Regarding the other impact, we determined the value of vacant owned properties by relying on the purchase price for sold properties, property appraisals that had been completed within 3 years, and management's assessed values for the modular units. Based on the information management provided after the exit conference, we reduced our initial other impact amount by about \$20 million; however, because best practices dictate that a reasonable time period for appraisals is once every 1 to 3 years, depending on market conditions, we excluded the values of properties that had appraisals more than 3 years old. For these properties, we relied on property values assigned by our Facilities Risk Model, which uses real estate market data in its computations. As management noted, this other impact amount is based on data errors and does not represent lost revenue.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Management began taking action to address recommendation 2 by updating information in eFMS; however, we will close recommendation 2 concurrently with the closure of recommendation 3 since it also pertains to updating eFMS with accurate information. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

*Click on the appendix title
to the right to navigate to
the section content.*

| | |
|--|----|
| Appendices..... | 14 |
| Appendix A: Additional Information | 15 |
| Background | 15 |
| Objective, Scope, and Methodology..... | 16 |
| Prior Audit Coverage | 17 |
| Appendix B: Management's Comments..... | 18 |

Appendix A: Additional Information

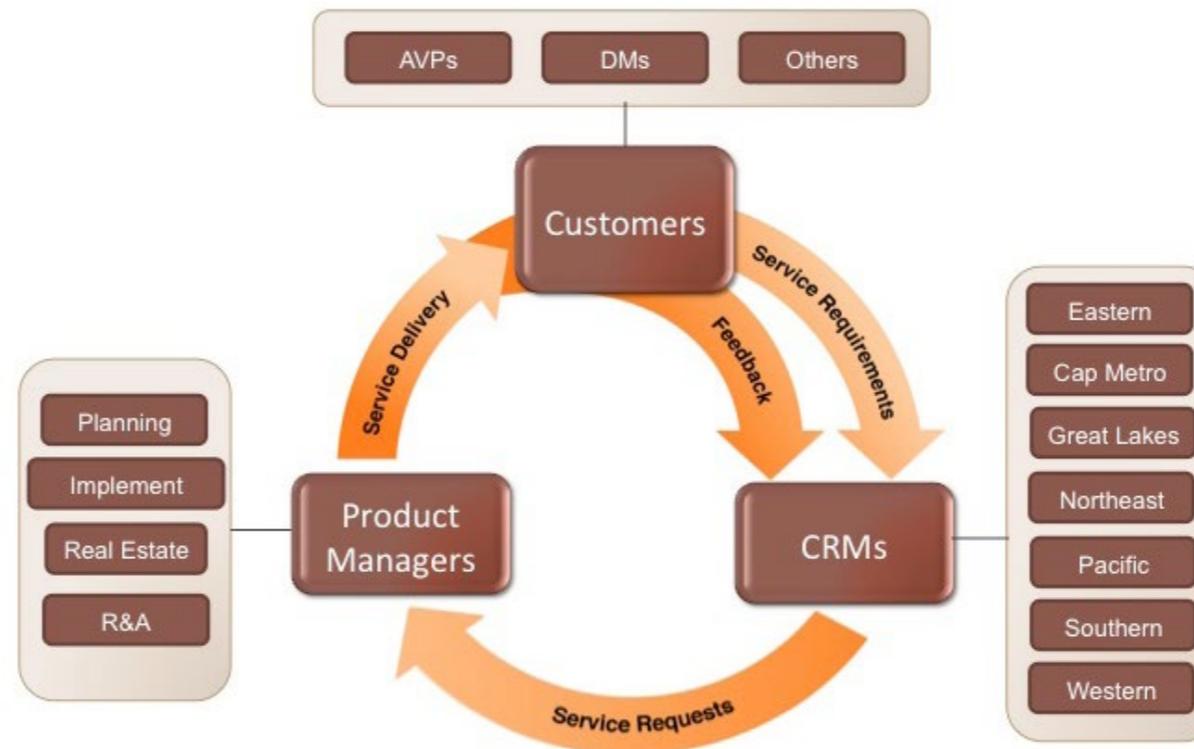
Background

The Postal Service leases over 23,000 properties, totaling almost 80 million square feet of interior space on more than 11,000 acres. These properties have annual rents of over \$800 million. It also owns over 8,000 properties with 197 million square feet of interior space. This inventory makes the Postal Service one of the largest real estate owners in the U.S. The vice president, Facilities, has the authority to dispose of excess properties by sale, exchange, or other means determined to be in the best interest of the Postal Service. Facilities can also terminate a lease for a vacant property before the end of the lease term, if the lease contains a termination clause; if there is no termination clause, the Postal Service should pursue subleasing or other alternatives to reduce lease costs.

In October 2012, the Facilities organization was realigned to centralize operations based on four product lines: planning, implementation, repair and alterations, and real estate. With this realignment, a new position, the CRM, was created to serve as a communication liaison between area and district leadership teams and the four Facility product lines. CRMs are responsible for maintaining a bridge between the customers and Facility product managers for all client requirements. CRMs ensure coordination of organization wide projects. Figure 1 illustrates the role designated to the CRMs.

Figure 1. Customer Relationship Managers Role

New Organizational Concept



Source: Postal Service Facilities Service Office.

Optimization opportunities are studies that consolidate Postal Service operations into fewer or smaller facilities. These studies may reveal “rightsizing” possibilities at existing facilities and opportunities to sell a vacated existing owned building or terminate an existing leased facility. When optimization studies are complete and approved, Facilities administers the resulting projects.

Since Facilities implements node studies, AMP reviews, and discontinuance procedures, it should be aware of Postal Service property that becomes vacant by these methods. In other situations, such as emergency suspensions (environmental or accidental) or personnel staffing issues, district and area personnel would need to inform Facilities of resulting vacancies.

Objective, Scope, and Methodology

Our objective was to assess the management of vacant properties and identify opportunities for the Postal Service to reduce associated costs. To accomplish our objective, we:

- Obtained and analyzed a current portfolio of vacant Postal Service properties from the Postal Service Facilities organization. We did not evaluate all properties identified as vacant over the past 2 fiscal years and the actions taken by the Postal Service during that timeframe.
- Compared the Postal Service lists of vacant properties to an OIG developed list based on our Facilities Risk Model¹⁶ to identify potential vacant properties of which the Postal Service was not aware.
- Interviewed the Facilities planning manager and the leasing manager.
- Interviewed CRMs to determine their roles and responsibilities and the process to identify and communicate vacant Postal Service properties to the Facilities organization.
- Accessed the eFMS to review and analyze vacant properties identified by the Postal Service Facilities organization and compared that information to data in our Facilities Risk Model.
- Determined the status of each of the known vacant Postal Service properties from the Facilities organization, including any efforts made to reduce costs or increase revenue associated with each of these properties.

We conducted this performance audit from November 2014 through November 2015 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 on September 10, 2015 and included their comments where appropriate.

We assessed the reliability of computer generated data by verifying information stored in the eFMS with inquiries to the sources associated with the information and by evaluating supporting documentation. We determined that the data were sufficiently reliable for the purposes of this report.

¹⁶ The Facilities Risk Model detects emerging risk that could affect Facilities' ability to provide quality real estate and facilities products and services.

Prior Audit Coverage

| Report Title | Report Number | Final Report Date | Monetary Impact (in millions) |
|--|------------------------------|-------------------|----------------------------------|
| <i>Vacant Land Parcels</i> | SM-13-AR-005 | 9/30/2013 | \$2.6 |
| <p>Report Results: The Postal Service had the opportunity to generate about \$16.9 million in additional revenue by selling 11 vacant land parcels, including three parcels in Hawaii. Specifically, the Postal Service could generate \$2.6 million in revenue by selling three vacant land parcels in the current real estate market and an additional \$14.3 million by selling eight vacant land parcels once the market conditions improved. Management did not agree with our recommendation to declare the four land parcels as excess, but agreed with our recommendation to: list four land parcels for sale; evaluate the eight land parcels and develop a strategy to sell them when market conditions improve; evaluate 10 additional land parcels to determine whether they are suitable for sale.</p> | | | |
| <i>Lease Purchase Options for Postal Service Facilities</i> | DA-AR-12-002 | 9/18/2012 | \$4.2 |
| <p>Report Results: Postal Service officials had opportunities to generate revenue from assigning purchase options for leases which were subject to terminations. The Postal Service did not use its ability to assign purchase options to third parties in the real estate market to its economic advantage because standard operating procedures did not require Facilities personnel to consider the assignment of leases or purchase options. Management generally agreed with all the recommendations but disagreed with the associated monetary impact.</p> | | | |

Appendix B: Management's Comments



October 21, 2015

Lori Lau Dillard
Director , OIG Audit Operations

SUBJECT: Management of Vacant Properties - Audit Report Number SM-AR-15-Draft
(September 11, 2015)

Thank you for the opportunity to review and comment on the above referenced Draft Audit Report. As the OIG has recognized in the audit report, Facilities has already initiated actions to address two of the three recommendations, reflecting Management's continued focus on eliminating vacant space from the Facilities' portfolio. The Node study program was initiated, among other reasons, to eliminate vacant space and to create opportunities for efficiency and cost savings. Through our real estate portfolio optimization efforts, the Postal Service already has terminated 2,640 leases and disposed of 146 properties, eliminating millions of square feet of excess space and generating over \$1.3 billion of revenue over the last six years.

Management has always recognized the importance of timely reporting of vacancies in Postal Service property and of keeping track of pertinent information in our eFMS system. "The U.S. Postal Service owns over 8,000 properties and leases over 23,000 properties with annual rents of more than \$800 million" (See, **Background** on **Highlights** page in Draft Audit Report). Given the vast number of properties, management is investigating the possibility of using available Postal Service operational data other than that currently available to the Facilities Department, to create timely reporting of vacant space.

As the OIG acknowledges, "The electronic Facilities Management System (eFMS) is the official Postal Service record for real property." This system includes hundreds of fields of data for each property record multiplied by over 31,000 facilities. Unfortunately, with a system this large, and hundreds of daily transactions, there inevitably will be some backlog of data entry. Management believes several OIG findings concerning management practices did not account for this backlog.

Although management agrees with the three recommendations, management disagrees with the findings and conclusions as noted below.

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FINDINGS

Finding #1: The Postal Service did not know how many vacant properties it owned or leased.

Management disagrees with this finding. In April 2015 management provided the OIG with a list of 141 facilities that were currently vacant. Thereafter, the OIG looked into the accounting records and found an additional 300+ properties for which there were no recent financial transactions. Management was told that the OIG then contacted each of these 300+ facilities to determine if they were vacant, and of the 300+ examined, the OIG found 3 owned and 22 leased facilities the OIG asserts were vacant but not included in the 141 identified by the Postal Service.

The addition of those three owned properties to the list of vacant properties by OIG is an error. Two of the three properties were sold, and revenue was received and these properties were not marked "disposed" in the eFMS system at the time OIG conducted its review. Thus, these two properties should not have been added to the OIG list of vacant properties. The third property had a modular facility that was destroyed by a vehicle accident. Although the property was vacant, Facilities could not sell or otherwise dispose of this asset until the insurance claim was settled. The OIG concluded that 22 leased facilities were vacant, but that management did not know these were vacant properties. That is an erroneous statement for two reasons. First, one of the 22 was not vacant. Second, since the Postal Service had stopped paying rent on thirteen of the remaining 21, it is evident that management knew these properties were becoming vacant and took action by stopping rent payment. The eFMS did show that rent had stopped, but the status was not changed to "terminated" in the system. Nonetheless, management had implemented appropriate lease action and captured cost savings. All of the remaining eight leases were active leases in the eFMS system at the time of the audit, but management has terminated four of the leases and is in the process of completing applicable regulatory requirements in order to terminate two more leases. Management is addressing the remaining two leases as a result of the OIG bringing these two leases to Management's attention.

Because the OIG found only two leased properties that management had not yet addressed as vacant (from a total leased inventory of over 23,000 leased properties), Management believes OIG's statement "the Postal Service did not know how many vacant properties it owned or leased" is not reflective of the work Management had completed with respect to leased properties.

Finding #2: Facilities personnel did not effectively manage 57 of 141 (40 percent) properties they knew were vacant. Specifically they did not document use of available options such as subleasing, lease termination, lease buyout, or property disposal to reduce costs for vacant leased or owned properties. Regardless of a property's accounting value or condition, the Postal Service missed opportunities to reduce costs and increase revenue by disposing of its vacant owned properties. Facilities is required to track its building information in the electronic facilities management system database.

Management disagrees with this finding and with the sub findings listed by the OIG thereunder for the reasons stated below.

Sub finding: The Postal service missed opportunities to reduce cost for 57 of the 141 vacant properties. Specifically, it did not document use of available options such as subleasing, lease termination, lease buyout, or property disposal to reduce costs for vacant leased or owned properties

Management disagrees with this statement as lack of eFMS documentation does not support a conclusion that Management missed opportunities to reduce costs. In fact, as stated above, Management cancelled lease payments on properties that were vacant, even though eFMS did not yet reflect their vacant status. Further, Management disagrees with the value assigned by the OIG to the owned properties which the OIG believes were not managed effectively (See "Other Impact")

Sub finding: Facilities did not advertise 10 vacant owned buildings or land for sale or out lease as required.

The OIG reached this conclusion by reviewing the website, www.uspspropertiesforsale.com. However, the Postal Service had valid business reasons for not listing these 10 properties for sale: (A) Six of the properties cannot be sold, (B) Two of the properties are going through the required due diligence steps before being marketed, and (C) Two properties are being held for future use based upon valid business reasons.

Sub findings: For the 12 vacant leased properties, the Postal Service did not:

1) *Timely enter eight of the vacant properties in the discontinuance process.*

The Postal Service must comply with its regulations in connection with the discontinuance process. The Postal Service cannot, and should not, undertake a discontinuance process without carefully reflecting on the effect upon its mission. The Postal Service can adjust its process for notification of suspensions so that Facilities becomes aware of the suspension promptly, but the Postal Service cannot rush to terminate a lease without proper evaluation and execution of the discontinuance process. Until this process is fully completed, a lease cannot be terminated.

2) *Timely exercise lease terminations on three properties.*

For the reasons stated above, the Postal Service must complete the discontinuance process prior to lease termination, and therefore the timely exercise of lease terminations is dependent upon the timing of the discontinuance process.

3) *Review lease renewals for one property that was already vacant*

The Postal Service had business reasons to renew this lease as demonstrated by the signed eBuy from the district.

Sub finding: For 36 owned modular units, Facilities was either unaware of units' locations or relocated them to other Postal Service locations and kept them vacant.

There are only 19 modular units owned, not 36, as of the time of this audit, the Postal Service had previously disposed of 17 and captured the savings, but had not yet updated eFMS. Seven of the 19 units are retained in storage for emergency use, two of the 19 units have been moved to new locations, and 10 are vacant. When the Postal Service no longer requires a modular unit, the Postal Service determines whether selling the unit will yield a net benefit. Due to the age and condition of these units, the sale of a unit often does not result in substantial proceeds. A purchase price of \$500 per unit is typical. The OIG suggests the Postal Service can always generate revenue by selling vacant property regardless of its condition, but focusing solely on revenue without accounting for the cost of the sale would be imprudent. Instead, the Postal Service pursues a sale when it estimates revenue from the sale will exceed the cost of the sale. Here the cost of a sale of these 10 units is likely to exceed the anticipated \$500/unit value.

Finding # 3: The Postal Service did not track all building information associated with vacant properties in the eFMS system as required (with footnote reference to ASM 13 Section 517.11). Specifically, although copies of lease agreements and other documents may have been scanned into the system, data fields were not always populated for Postal Service personnel to use to better manage its vacant property portfolio. This included data such as vacancy status, lease expiration dates, emergency suspensions, lease termination clauses, ownership type and disposal efforts for the 166 vacant properties reviewed.

Management disagrees with this finding. As the OIG has acknowledged, documentation for the following is in eFMS:

- Building ownership;
- Building size;
- Building lease term;
- Lease expiration dates;
- Rental payment schedules;
- Disposal records; and
- Facility Projects.

It is not clear to Management what data fields OIG believes Management failed to populate. Management has populated all fields necessary to track vacant properties. Management believes it has sufficient data fields currently in eFMS and does not need to add fields in order to track vacant properties. Facilities is now utilizing a category entitled "vacant building" under the field "type of quarters" in eFMS to track all vacant properties. Emergency suspensions are not tracked in eFMS, nor does the ASM 13 5117.11 require such suspensions to be tracked. Rather, they are tracked under the Change Suspension Discontinuance Center site. Going forward, Facilities will direct its staff to add information in the notes field when Facilities is notified by Operations of an emergency suspension.

In addition to Management's disagreement with the above findings, Management is concerned that there are data inconsistencies in the Audit. Table 1 in the Audit Report appears to be misleading. For example, the label of the third column, "Percent of Vacant Property Postal was Not Aware Of" does not reflect the data in that column – the data is the percentage of vacant properties that OIG asserts were not properly documented in eFMS. For the reasons explained above, the Postal Service was aware of the vacant properties and in nearly all cases took appropriate action.

OTHER IMPACT

Management disagrees with the monetary impact stated on the Other Impact page. The dollar amount is based on data errors and does not represent lost revenue. In addition, management disagrees that the value of the 82 owned properties listed by the OIG is \$ 48,422,783¹. This value is in error because: (1) it includes properties that have already been sold, (2) it includes some values derived by the OIG utilizing their Facilities Modeling tool, which Management has consistently indicated is not accurate, and 3) it includes values for properties that cannot be sold.

Moreover, the value of the vacant owned properties listed in Table 1 is only \$16,834 (excluding modular units which both Management and the OIG agree have a value of \$0) as explained below. Of the 11 buildings and land listed in column 2 of Table 1 the following facts support the \$16,834 valuation by Management:

Dubuque Carrier Annex- Building is not vacant.

Detroit River Rouge – appraised value by independent third party appraiser is \$20,000

Columbus VMF – building is part of P&DC site and is currently in use for fueling, thus the building is not vacant.

Dayton AMF – owned building on leased land. This means that the sale of the building is impractical without a transfer of the lease and the remaining lease term does not provide sufficient number of years to make a disposal of the building economically viable.

Phoenix DDC – while vacant, property cannot be sold for business reasons—property is being held for future AMP operations.

RECOMMENDATIONS

Recommendation #1:

Modify the *Administrative Support Manual*, to include policy and procedures that direct area and district managers, product line managers, and the customer relationship managers to notify the Facilities organization when all Postal Service property becomes vacant.

¹ Note that the backup data provided by the OIG to Management indicates a value of \$48,172,783.

Management Response:

Management agrees with this recommendation. Management will modify the ASM as needed to direct some or all of the groups listed above to notify the Facilities organization when all Postal Service property becomes vacant and available for disposal.

Responsible Official: Tom Russell

Target Implementation Date: June 30, 2016

Recommendation #2:

Actively monitor all vacant properties; document actions taken or not taken, with explanation; and pursue options when appropriate, to generate revenue and reduce costs for these properties.

Management Response:

Management agrees with this recommendation. Management currently monitors those properties which are vacant and for which there are options to generate revenue and reduce costs. As stated above, the Postal Service has been able to terminate 2,640 leases and dispose of 146 properties since implementing node studies which equated to eliminating millions of square feet from the real property portfolio and generating over \$1.3 billion of revenue over the last six years.

Responsible Official: Tom Russell

Target Implementation Date:

This recommendation is already being implemented.

Recommendation #3:

Use the electronic Facilities Management System by populating relevant data fields to manage all vacant properties.

Management Response:

Management agrees with this recommendation. All known vacant properties have been identified as "Vacant" in eFMS. Such updating will continue when Facilities is notified of additional properties becoming vacant and information will be added to the notes section in eFMS indicating the action to be taken with respect to such property. All other tracking will remain as it is currently tracked within eFMS:

- Disposals will continue to be updated in eFMS;
- Outleasing and subleasing will continue to be updated in eFMS; and
- Lease terminations will continue to be tracked in eFMS.

Responsible Official: Tom Russell

Target Implementation Date:

The addition of the information into the system with respect to actions to be taken with respect to currently identified vacant properties will be completed by November 30, 2015.

In conclusion, Management appreciates the OIG's efforts in auditing the Postal Service's Management of Vacant Properties and preparing this Draft Audit Report. The Draft Audit Report and Management's responses do not contain information that management believes may be exempt from disclosure under the FOIA.



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