



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**W.F. Bolger Center for Leadership
Development**

Audit Report

September 24, 2013

Report Number HR-AR-13-007



HIGHLIGHTS

BACKGROUND:

The W.F. Bolger Center for Leadership Development (Bolger Center) is a U.S. Postal Service-owned hotel and conference center located in Potomac, MD. The facility was purchased in 1980 for use as an employee training center. During fiscal year (FY) 2004, the Postal Service contracted a hospitality management company to operate, maintain, and market the facility to external customers to offset operating costs. Today, the Bolger Center accommodates meetings and conferences for private and government organizations and social events for the general public. From FYs 2010 through 2012, external business accounted for 85 percent of the contractor-reported total revenue of about \$51.1 million and 77 percent of the occupied rooms.

Our objective was to evaluate the Postal Service's business case to operate the Bolger Center.

WHAT THE OIG FOUND:

The Postal Service has a valid business case to operate the Bolger Center. Management uses the facility as a low-cost alternative to accommodate Postal Service events, and the facility is home to the U.S. Postal Inspection Service Career Development Division. Although the Postal Service reported a loss for the facility of about \$3.5 million in FY 2012, it saved about \$4.5 million in hotel and meal costs by conducting

Postal Service events at the Bolger Center, instead of using an outside hotel and conference center. In addition, the contractor leases the excess capacity to external customers with the intent to offset the costs of operating the facility. The contractor implemented marketing strategies to solicit external business, including government agencies, corporations, and private parties.

However, management did not allocate all operating costs between internal and external customers, making financial planning decisions difficult. Also, management has not conducted a formal audit of the contractor's financial records as required since the contract was initiated. Finally, management received contractor payments by paper check rather than electronically. As a result, we identified about \$6.7 million as revenue at risk. As a result of our audit, management implemented an electronic payment process; therefore, we did not make a recommendation on that issue.

WHAT THE OIG RECOMMENDED:

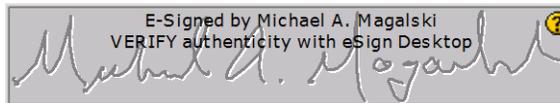
We recommended management establish a method to allocate all Bolger Center operating costs between internal and external customers, and conduct a formal audit of the contractor's financial records annually.

[Link to review the entire report](#)



September 24, 2013

MEMORANDUM FOR: JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER AND EXECUTIVE
VICE PRESIDENT

An e-signature block for Michael A. Magalski. It contains a handwritten signature in grey, the text "E-Signed by Michael A. Magalski" and "VERIFY authenticity with eSign Desktop", and a small yellow question mark icon in the top right corner.

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – W.F. Bolger Center for Leadership
Development (Report Number HR-AR-13-007)

This report presents the results of our audit of the W.F. Bolger Center for Leadership Development (Project Number 13YG014HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's W.F. Bolger Center for Leadership Development (Project Number 13YG014HR000). Our objective was to evaluate the Postal Service's business case to operate the Bolger Center. See [Appendix A](#) for additional information about this audit.

The Postal Service purchased the W.F. Bolger Center for Leadership Development (Bolger Center) in 1980 for use as a national executive management and leadership training center, see Figure 1. Since the center's inception, Postal Service employees have used the Bolger Center to attend courses, meetings, and conferences. During fiscal year (FY) 2004, Postal Service management changed the Bolger Center's business model to operate as a hotel and conference center. Management's objectives were to increase the usage of the facility, increase profitability to a level of self-sufficiency, improve operations through cost controls, and maintain high levels of customer satisfaction. The Postal Service contracted a hospitality management company (contractor) to operate, maintain, and market the facility to external customers to offset operating costs. Today, the Bolger Center accommodates meetings and conferences for Postal Service employees and private and government organizations. In addition, the contractor markets the facility to the general public for social events.

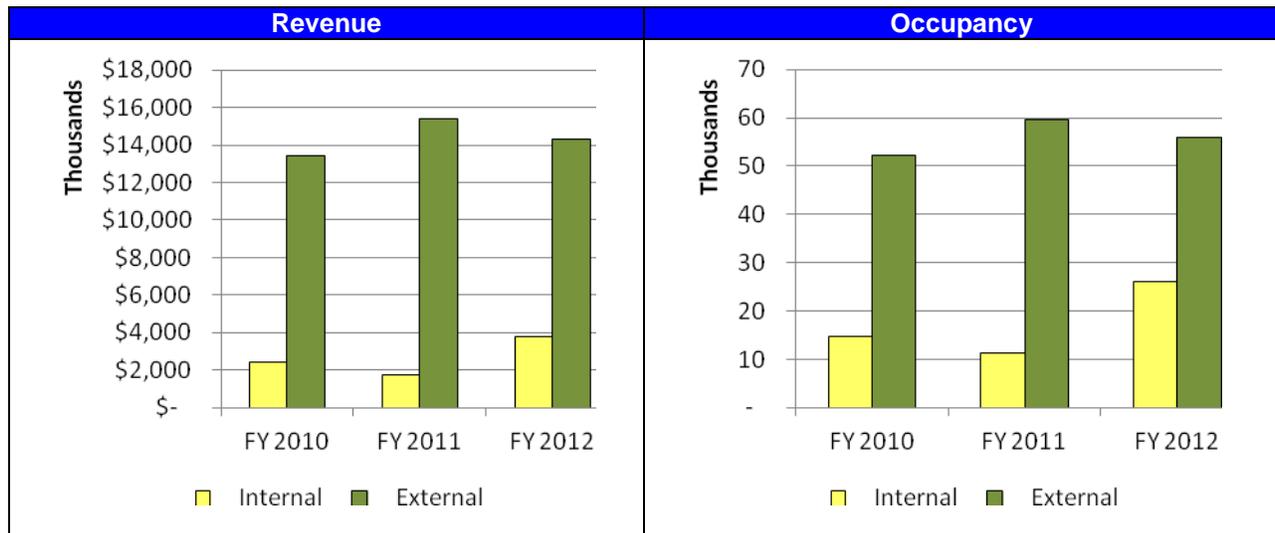
Figure 1: W.F. Bolger Center for Leadership Development



Source: Postal Service.

During FY 2012, the contractor reported that revenue from internal business totaled about \$3.8 million and that revenue from external business totaled \$14.3 million (79 percent). In addition, it reported that hotel occupancy from internal business totaled 26,094 customers and that occupancy from external business totaled 55,990 (68 percent). Overall, from FYs 2010 through 2012, the contractor reported that external business accounted for 85 percent of the total revenue of about \$51.1 million and 77 percent of the occupied rooms. See Table 1 for contractor-reported internal and external customer revenue and occupancy for FYs 2010 through 2012.

Table 1: Internal and External Customer Revenue and Occupancy



Source: Contractor.

Conclusion

The Postal Service has a valid business case to operate the Bolger Center. Management uses the facility as a low-cost alternative to accommodate Postal Service and U.S. Postal Inspection Service events. In addition, the contractor leases the excess capacity to external customers with the intent to offset costs of operating the facility. The contractor consistently develops and implements marketing strategies to solicit business from external entities, including government agencies, corporations, and private parties. However, we identified opportunities to improve financial controls and increase the security and transparency of select business processes. Specifically, management did not allocate all operating costs between internal and external customers. Additionally, management had not conducted formal annual audits of the contractor’s financial information, as required. Further, the Postal Service received payments from the contractor for hotel and conference activities by paper check. Consequently, we identified about \$6.7 million as revenue at risk.

Business Case

The Postal Service has a valid business case to operate the Bolger Center. In FY 2012, 32,854 Postal Service employees used the Bolger Center, which represented 26,094 hotel rooms and 6,760 1-day guests. The Postal Service’s total cost to operate the Bolger Center for that same period was just over \$5.5 million. Net revenue from meetings and conferences for private and government organizations, which offset the center’s operating costs, was about \$2 million.¹ If the Bolger Center did not exist and the Postal Service had to conduct conference activities at an outside facility, it would have

¹ The contractor subtracts its cost from the revenue and forwards the net profit to the Postal Service monthly.

incurred about \$8.2 million in hotel and meal costs. As a result, although the Postal Service reported a loss for the facility of about \$3.5 million in FY 2012, it saved about \$4.5 million in hotel and meal costs by conducting Postal Service events at the Bolger Center, instead of using an outside hotel and conference center. Further, by having direct access to the Bolger Center, the Postal Service is guaranteed flexibility and a dedicated facility to host and accommodate future events in a cost-effective manner. Also, it can enhance the training environment by controlling negative factors that could impede learning.

In addition, the facility is home to the Postal Inspection Service's Career Development Division and includes the Postal Service's largest functioning media studio. Both these items require specific and unique space requirements.

Allocation of Operating Costs

Management did not allocate all operating costs² between internal and external customers³ who use the Bolger Center; therefore, we could not determine whether the revenue generated for services provided to external customers covered all their associated costs. Specifically, the Postal Service does not allocate to external customers their portion of the operating costs that cannot be directly associated with the product or service being offered to customers; instead, these costs are directly attributed to the Postal Service.

The Postal Accountability and Enhancement Act (PAEA) of 2006, requires the Postal Regulatory Commission (PRC) to submit a report to the President and Congress at least every 5 years, to include how well the Bolger Center is operating in accordance with PAEA requirements, and to recommend measures to improve the effectiveness and efficiency of postal laws. The PRC report⁴ mentioned that the training facilities and related services,⁵ as a competitive nonpostal service product,⁶ could be offered to the public under the condition the facilities cover their attributable costs⁷ for external customers. However, the Postal Service or other federal agency employees' activities at the facilities cannot be included in this requirement.

Management stated it is difficult to separate and allocate operating costs, such as utilities, engineering, and grounds maintenance between internal and external customers because these items are used by everyone. In addition, they stated it would be costly to implement a new accounting system to separate and track the expenses.

² Includes costs, such as utilities, maintenance, and repairs.

³ External customers are individuals other than Postal Service or other federal agencies employees.

⁴ Section 701 Report, *Analysis of the Postal Service Accountability and Enhancement Act of 2006*, dated September 22, 2011.

⁵ Training facilities and related services includes the rental of excess space in or on the grounds of the Postal Service's training facilities to outside parties.

⁶ Competitive products are a category of Postal Service products and services for which similar products and services are offered by private sector carriers. A nonpostal service is a service not directly related to the delivery of mail.

⁷ "Direct and indirect postal costs attributable to such product through reliably identified causal relationships."

However, we noted generally accepted accounting practices exist, such as the direct method⁸ or activity based costing,⁹ which could be used to allocate those costs.

By not allocating all operating costs, the Postal Service is unable to determine whether the revenue generated from external customers offsets the cost of the services provided by the Bolger Center, as required.

Annual Financial Audit Requirement

Management had not conducted an annual audit of the contractor's financial records, as required,¹⁰ since the contract was initiated in December 2003. While management performed a monthly review of the financial information provided by the contractor to detect unusual transactions, we found no evidence of a formal audit.

According to the contract, "the Postal Service conducts a minimum of one formal audit annually" and makes recommendations to address any identified deficiencies. It also states the contractor's financial records must be retained for 3 years after the final payment and may be audited by the Postal Service at any time during regular workhours; however, the contract does not specify the type of audit required. Management stated they were unaware of any formal annual financial audits being performed.

From FYs 2010 through 2012, the contractor reported a steadily increasing net income totaling about \$2.2 million. However, without a formal audit of the contractor's financial records, the Postal Service cannot effectively address discrepancies in a timely manner and assess the accuracy of the reported financial information. This control weakness increases the risk of fraud and revenue loss.

Payments Received By Paper Check

The Postal Service received payments from the contractor for hotel and conference activities at the Bolger Center by paper check rather than electronically. With varying amounts each month, the contractor hand delivers a check directly to Postal Service management who forwards it via Express Mail^{®11} to the Postal Service's Accounting Services in Eagan, MN, for deposit. The Postal Service incurs a cost of about \$19 per transaction using this process.

According to a leading accounts payable automation company on payments,¹² paper checks were the most susceptible to fraud, and electronic funds transfer (EFT) credits were the most secure and cost effective method of payment. Also, the Financial

⁸ The direct method uses a single cost driver to determine overhead costs. A cost driver is any activity in a business used to determine cost. Examples of cost drivers are labor hours or machine hours.

⁹ Activity based costing is a cost accounting approach concerned with matching costs with activities (called cost drivers) that cause those costs.

¹⁰ Contract No. 2DPSCM-04-P-1337, Attachment 1 - Performance Work Statement, Section 4 – Financial Information.

¹¹ Effective July 28, 2013, Express Mail[®] will be called Priority Mail Express.

¹² Facta Vera LTD is a North American leader in accounts payable automation enabling technologies.

Management Service Bureau,¹³ points out "EFT is safe, efficient, and less expensive than paper check payments." See Table 2 for the hierarchy of payment methods subject to fraud.

Table 2: Payment Methods Subject to Fraud

Payment Method	Percentage of Fraud
Checks	94%
Automated Clearing House (ACH) ¹⁴ Debits	34%
Consumer Credit or Debit Cards	13%
Corporate Purchasing Cards	10%
ACH Credits	1%
Wire Transfers	1%

Source: Facta Vera LTD.

Management stated when the contract was initiated in December 2003, EFT was not a common practice. If management implemented an EFT process to replace their current practice of accepting the monthly paper payment from the contractor, they would incur a cost of about 11 cents, which represents a savings of about \$18.89 monthly per transaction. Although this is not significant and only affects 12 transactions annually, this would decrease costs, increase efficiency and transparency, and significantly reduce the risk of fraud. During the audit, management implemented an EFT process between the Postal Service and the contractor's financial accounts; therefore, we are not making a recommendation.

We estimated about \$6.7 million over a 4-year period as revenue at risk¹⁵ associated with the checks that are manually mailed to the Eagan Accounting Services for deposit. See [Appendix B](#) for our calculation.

Recommendations

We recommend the chief human resources officer and executive vice president direct the manager, Leadership Development and Talent Management to:

1. Establish an accounting methodology to allocate all W.F. Bolger Center for Leadership Development operating costs between internal and external customers.
2. Conduct at least one formal audit of the contractor's financial records annually.

¹³ The Financial Management Service is a bureau of the U.S. Department of the Treasury.

¹⁴ ACH payments are electronic payments made through the ACH.

¹⁵ Revenue the Postal Service is at risk of losing.

Management's Comments

Management agreed with the findings and recommendations to establish an accounting methodology to allocate all W.F. Bolger Center for Leadership Development operating costs between internal and external customers and to conduct at least one formal audit of the contractor's financial records annually. They plan to complete these actions by December 31, 2013. However, management did not agree with the other impact¹⁶ stated in the report. They stated the check is hand carried from the supplier to Postal Service management, and they have the ability to closely track and trace the Express Mail[®] package when the check is forwarded to the Accounting Services Center in Eagan, MN. Further, they mentioned a 10 year history of this process without loss. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Management clarified the contractor is located in the same facility as the Postal Service and the check is hand carried by the contractor to Postal Service management. We revised verbiage in that section of the report to reflect that clarification. Regarding other impact, we acknowledge the controls already in place and the long history of no loss. However, we maintain that manual processes are more susceptible to loss. A leading accounts payable automation company and the Financial Management Service Bureau both point out that checks are highly susceptible to fraud, and EFT are safer and less expensive than paper checks.

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

¹⁶ Management referred to this as monetary impacts.

Appendix A: Additional Information

Background

The Bolger Center is a Postal Service-owned hotel and conference center located in Potomac, MD. The Postal Service purchased the facility in 1980 with the intent to use the property as an employee training center. The facility is on 83 acres and features 430 guest rooms and suites, 75 meeting rooms, which can accommodate groups of five to 500 people, 70,000 square feet of high-technology meeting space and the Postal Service's largest functioning media studio. In addition, the Bolger Center is home to the Postal Inspection Service Career Development Division, which provides training to both new and mid-career inspectors and postal police officers. Furthermore, the Postal Inspection Service leases its training facility to external law enforcement agencies.

During FY 2004, management changed the business model of the Bolger Center. Management's objectives were to increase the use of the facility, increase profitability to a level of self-sufficiency, improve operations through cost controls, and maintain high levels of customer satisfaction. To accomplish these objectives, the Postal Service engaged a contractor to operate, maintain, and market the facility to external customers, such as private companies and government agencies. In addition, the contractor began marketing the facility to the general public to provide hotel and conference services for social events, such as weddings. For example, the general public can find the Bolger Center on popular online travel and social networking sites, such as Hotels.com and Facebook. The Bolger Center is primarily staffed by the contractor's personnel while the Postal Service maintains some employees onsite for administrative purposes.

On December 20, 2006, President George W. Bush signed the PAEA. The PAEA was the first broad revision of the 1970 statute that replaced the U.S. Post Office with the U.S. Postal Service, a self-supporting, independent agency of the executive branch. One of the major changes of the PAEA was to restrict the Postal Service's authority to provide nonpostal services. The PRC was assigned as the oversight entity to ensure compliance. In a report published in 2011, the PRC ruled the training facilities and related services, which fall under the competitive nonpostal service category, could continue to be offered under the condition they cover their attributable costs for external customers.

Recently, management completed an overall review of the Bolger Center and noted over the past 10 years they have increased usage and profitability, and improved the bottom line of operations while maintaining a high level of satisfaction.¹⁷ According to management, external business contributes about 80 percent of the facility's annual occupancy. Management believes the growth of external business has allowed them to support and protect one of the organization's key learning environments. Management concluded they should continue operations at the Bolger Center based on the facility's

¹⁷ Each month, the contractor provides customer satisfaction survey results. The April 2013 results showed a year-to-date satisfaction percentage totaling 89.6 percent.

self-sufficiency, profitability, and ability to accommodate the training needs of Postal Service, Postal Inspection Service, and postal police employees.

Objective, Scope, and Methodology

The objective of our audit was to evaluate the Postal Service's business case for operating the Bolger Center. To accomplish this objective, we:

- Interviewed Postal Service personnel at the Bolger Center and Postal Service Headquarters.
- Obtained and reviewed the Bolger Center's financial information from FYs 2010 through 2012 to evaluate the center's profitability.
- Obtained and reviewed monthly operations reports provided by the contractor.
- Reviewed the Postal Service's current process for receiving payments from the contractor for hotel and conference activities and researched the benefits of implementing an EFT process.
- Reviewed PRC rulings relating to competitive nonpostal services.
- Researched the feasibility of allocating expenses between Postal Service and external customers.

We conducted this performance audit from January through September 2013 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 August 22, 2013, and included their comments where appropriate.

We assessed the reliability of Bolger Center financial data by validating select data to financial information provided by the contractor and interviewing Postal Service management knowledgeable of the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Other Impact

Recommendation	Impact Category	Amount
Finding	Revenue at Risk ¹⁸	\$6,728,345

We estimated revenue at risk as follows:

- We obtained the contractor's actual reported net income for FYs 2011 and 2012 of \$1,922,465.
- We input that information into a forecasting tool to estimate net income for FYs 2013 and 2014.
- We combined the actual and forecasted net income to calculate the total estimated revenue at risk of loss due to the Postal Service's current process of receiving payments from the contractor for hotel and conference activities at the Bolger Center by paper check rather than electronically.

¹⁸ Revenue that the Postal Service is at risk of losing.

Appendix C: Management's Comments

JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER
AND EXECUTIVE VICE PRESIDENT



September 18, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: W.F. Bolger Center for Leadership Development
(Report Number HR-AR-13-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Recommendation 1:

Establish an accounting methodology to allocate all W.F. Bolger Center for Leadership Development operating costs between internal and external customers.

Management Response/Action Plan:

Management agrees to establish an accounting methodology to allocate all W.F. Bolger Center for Leadership Development operating costs between internal and external customers. The accounting methodology will be implemented no later than December 31, 2013.

Recommendation 2:

Conduct at least one formal audit of the contractor's financial records annually.

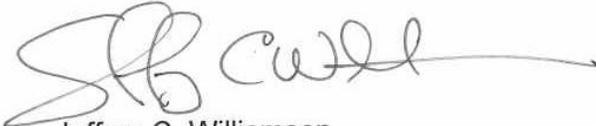
Management Response/Action Plan:

Management agrees to conduct at least one internal formal audit as outlined in the current supplier contract terms. The internal formal audit process has been developed with the assistance of our Headquarters Accounting Office and will be completed no later than December 2013.

Management does not concur with the monetary impacts stated in this audit. The audit states "the contractor sends a check directly to Postal Service management who forwards it via Express Mail® to the Postal Service's Accounting Service

Center in Eagan, MN, for deposit". The Postal Service management referred to in this statement is located in the same facility and the check is hand carried by the supplier to Postal Service management. The additional risk associated with mailing the check to our Accounting Service Center in Eagan, MN does not take into consideration the risk being significantly reduced based on our ability to closely track and trace the Express Mail® package. Furthermore, there was no consideration given for our 10 year history of this process without a single loss.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA. If you have any questions or comments regarding this response, please contact Susan McKeen at (202) 268-2468.

A handwritten signature in black ink, appearing to read "J.C. Williamson", with a long horizontal flourish extending to the right.

Jeffrey C. Williamson

cc: Rosemarie Fernandez
Susan T. McKeen
Sally K. Haring