



January 9, 2004

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SENIOR VICE PRESIDENT, OPERATIONS

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VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Management Advisory – Realty Asset Management Program  
(Report Number CA-MA-04-002)

This report presents an interim issue concerning the Postal Service's process for identifying and reporting excess facilities and vacant space (Project Number 03XG015CA000). This issue was identified during our self-initiated survey of the Realty Asset Management Program.

### **Background**

The Postal Service is one of America's largest owners, developers, and managers of real estate. Its inventory includes over 37,500 buildings with more than 318 million square feet of owned and leased space.

The Realty Asset Management organization, administered from Facilities headquarters, provides internal expertise to identify, analyze, and maximize the return on underutilized and excess real property assets controlled by the Postal Service. It generates income from real estate assets by developing Postal Service real property to its highest and best use, outleasing or subleasing excess Postal Service space to government and public tenants, and selling excess real property. During our review, Realty Asset Management was analyzing over 1,600 properties for potential sale, lease, or other disposition.

### **Objective, Scope, and Methodology**

The objective of this portion of the survey was to determine whether excess facilities and vacant space were properly identified and reported. To accomplish the objective,

we interviewed Postal Service Facilities headquarters officials and Realty Asset Management personnel at the Denver Facilities Service Office, and reviewed Postal Service policies, procedures, and related internal controls. We also contacted 13 district administrative service offices and 5 area Finance managers.

This review was conducted from March 2003 through January 2004 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

### **Prior Audit Coverage**

Disposal of Excess Real Property (Report Number CA-AR-02-002, dated January 28, 2002), identified 30 properties purchased for \$45 million that had not been developed and utilized—one for almost 18 years. The Postal Service did not use these properties, in part, because operational requirements changed and budget constraints prevented development of the property. The audit concluded that efficient and economical disposal of unused property could provide additional financial resources to the Postal Service. Accordingly, Postal Service management agreed to have area offices review all undeveloped and unused real properties and advise Realty Asset Management of those properties that should be disposed.

### **Results**

#### **Identifying and Reporting Excess Facilities and Vacant Space Needed Improvement**

We found the process for identifying and reporting excess facilities and vacant space needed improvement. Postal Service area officials advised us they did not annually review their inventory of owned property because they were unaware of the requirement. In addition, a requirement did not exist for area officials to identify vacant leased space, although one existed to report it. As a result, the Postal Service may not have been maximizing its return on these assets.

Area officials and applicable facilities personnel were required to review the inventory of Postal Service owned property, at least annually, to identify any excess vacant properties.<sup>1</sup> In addition, area officials or others with authority to approve property as excess were responsible for reporting identified vacant properties to Realty Asset Management, as well as, providing funding support for disposal.<sup>2</sup> Furthermore, although there was no specific requirement in place to identify excess vacant space, there was a requirement that area and district officials and postmasters report all excess space in Postal Service owned or leased buildings.<sup>3</sup>

<sup>1</sup>Administrative Support Manual, ASM 13, Section 517.11.

<sup>2</sup>Administrative Support Manual, ASM 13, Section 517.121 and Section 517.122.

<sup>3</sup>Administrative Support Manual, ASM 13, Section 517.34.

Realty Asset Management personnel told us they did not believe all excess vacant properties and space were always identified and reported, even though Postal Service requirements were in place. Interviews with Realty Asset Management personnel and contacts with 18 area and district officials revealed that an annual review of Postal Service owned property was not performed. In fact, the Postal Service area and district officials we contacted were unaware of any formal requirement to annually identify excess owned property. Although Realty Asset Management personnel knew of the reporting requirement, they did not initiate proactive measures to help identify excess properties. Furthermore, there was no requirement for area officials to report the results of annual reviews when no excess property had been identified.

Discussions with Realty Asset Management personnel and a review of correspondence from two districts found the areas and districts were sometimes hesitant to identify excess facilities and vacant space in order to hedge against potential future requirements. Realty Asset Management personnel also stated area and district officials were not encouraged to report excess property and were sometimes reluctant to report properties because the area would be responsible for associated disposal costs. According to Realty Asset Management personnel, the average cost to dispose of a property was approximately \$10,000, not including potential environmental costs.

Improving the identification and subsequent reporting of excess facilities and vacant space to Realty Asset Management will provide the Postal Service with opportunities to maximize the return of these assets.

### **Recommendations**

We recommend the senior vice president, Operations, in coordination with the vice president, Facilities:

1. Communicate and enforce existing annual requirements to review and identify any excess Postal Service owned property with appropriate area and facilities personnel.
2. Enhance reporting requirements of annual reviews to include negative replies.
3. Develop a process to identify excess space on a regular basis.

### **Management's Comments**

Management agreed with recommendations 1, 2, and 3. Management stated the new national prioritization process and the outcome of the network realignment effort will help clarify where excess space exists and where new space is needed. Also, beginning in fiscal year 2005, the Postal Service will issue an annual call regarding vacant and/or excess space and will require a formal response, including negative replies. This will provide a standard format for annual reporting and a method to submit

additional excess space as it occurs. In the interim, they will continue to emphasize the importance of identifying excess space. Management's comments, in their entirety, are included in the appendix of this report.

### **Evaluation of Management's Comments**

Management's comments are responsive to recommendations 1, 2, and 3. Management's actions taken or planned should correct the issues identified in the report.

### **Recommendation**

We recommend the vice president, Finance, controller, in coordination with the vice president, Facilities:

4. Establish and implement a process to encourage identification and reporting of excess property and space. For example, consider establishing separate funding for disposal costs.

### **Management's Comments**

Management disagreed with recommendation 4. Management stated a strengthened process for identifying and reporting excess space is addressed in the first three recommendations and the Administrative Support Manual provides policies and procedures to accomplish planning and budgeting of real property disposals.

### **Evaluation of Management's Comments**

The purpose of recommendation 4 was to encourage area and district officials to report excess property since they were sometimes reluctant to report properties because they would be responsible for associated disposal costs. Although management believes recommendations 1 through 3 are sufficient, we still believe recommendation 4 can further improve the identification and reporting of excess facilities and vacant space, thus, increasing opportunities to maximize the return of these assets. However, we do not plan to take further action on this disagreement.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Lorie Siewert,

director, Supply Management and Facilities, at (651) 855-5856 or me at (303) 925-7429.

/s/ Colleen A. McAntee

Colleen A. McAntee  
Deputy Assistant Inspector General  
for Financial Management

Attachment

cc: Patrick R. Donahoe  
Richard J. Strasser, Jr.  
Susan M. Duchek

## APPENDIX. MANAGEMENT'S COMMENTS



December 11, 2003

COLLEEN A. MCANTEE  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR FINANCIAL MANAGEMENT

SUBJECT: Draft Management Advisory – Realty Asset Management Program  
(Report Number CA-MA-04-Draft)

This is in response to the subject draft management advisory.

Your prior audit coverage (Disposal of Excess Real Property, Report Number CA-AR-02-002, dated January 28, 2002) was a prelude to this present report. The focus of the previous report was the status of vacant land held in our inventory. As a result of the audit, we issued the attached memorandum asking that the areas review the properties in the audit, identify additional vacant properties, and determine whether each property should be made available for disposal or held for future use. The areas' response indicated that there were few additional properties available for disposal—most were being held for future development. Due to the funding constraints which have impacted the facility program since 2001 and network realignments proposed in the Transformation Plan, the timing of such future development was not clear. Therefore, we agreed that the sites should be held until more information was known about future facility funding and facility requirements.

The following is our response to the specific recommendations:

We recommend the Senior Vice President, Operations, in coordination with the Vice President, Facilities:

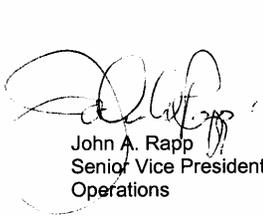
1. Communicate and enforce existing annual requirements to review and identify any excess Postal Service owned property with appropriate area and facilities personnel.
2. Enhance reporting requirements of annual reviews to include negative replies.
3. Develop a process to identify excess space on a regular basis.

**Management Response:** We agree with these recommendations. The Administrative Support Manual has procedures in place to report surplus or excess real property. However, we agree that these reporting procedures for excess property—both owned and leased—could be strengthened. As noted above, there are pending issues which complicate the identification of excess space. We believe the new national prioritization process for customer service facilities and the outcome of the network realignment effort will help clarify where excess space exists and where new space is needed. As a result, effective with the beginning of Fiscal Year 2005, we will issue an annual call to the areas requiring a formal response (negative replies will be required) regarding vacant and/or excess space. This will provide a standard format for reporting on an annual basis and a method to submit additional excess space as it occurs. In the interim, we will continue to emphasize to the areas the need to identify opportunities to generate revenue through the identification of excess space.

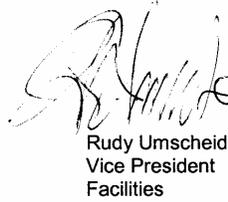
We recommend the Vice President, Finance, Controller, in coordination with the Vice President, Facilities:

4. Establish and implement a process to encourage identification and reporting of excess property and space. For example, consider establishing a separate funding for disposal costs.

**Management Response:** We disagree with this recommendation. First, a strengthened process for identifying and reporting excess space is addressed in the first three recommendations. Second, we do not feel additional incentives are needed. The Administrative Support Manual, section 517 provides the policies and procedures to accomplish planning and budgeting of real property disposals. There is no need to establish another policy and procedure.



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Senior Vice President  
Operations



Rudy Umscheid  
Vice President  
Facilities



Donna M. Peak  
Vice President  
Finance, Controller

- cc: Mr. Donahoe  
Mr. Strasser  
Mr. Batterton  
Ms. Duchek  
Mr. Eales  
Mr. Pak