

January 11, 2002

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SUBJECT: Audit Report – Follow-up Audit of Salt Lake City District 2002 Winter Olympics Plan (Report Number CA-AR-02-001)

This report presents the results of our follow-up review of the Salt Lake City District 2002 Winter Olympics Plan (Project Number 01NU002FA000). This audit responds to a request from headquarters Facilities management to determine whether recommendations from our June 30, 2000, report, Audit of the Salt Lake City District 2002 Winter Olympic Plan (Report Number FA-AR-00-002) were implemented and to determine the potential for completion of projects as scheduled for the Olympic Games beginning February 8, 2002.

The audit revealed that prior audit recommendations were implemented and the Salt Lake City District should complete the 23 Olympic projects before games begin on February 8, 2002. We found some concerns with three projects (South Salt Lake City, Pleasant Grove, and Foothill) where renovations have not begun or where completion dates may be close to February 2002.

We recommended Postal Service management monitor and take appropriate action where feasible to ensure that the Olympic projects in question are completed prior to February 8, 2002. We also recommended that Postal Service management review the Decision Analysis Report modification approval process to determine if the approval timeframes can be reduced. Management agreed with the recommendation for monitoring but stated that the timeframes for reviewing and approving this project had already been assessed, and the process is appropriate and should not be changed. Management's comments are responsive to our findings and recommendations.

Management's comments and our evaluation of these comments are included in this report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact Lorie Siewert, director, Contract and Facilities, at (651) 855-5856 or me at (703) 248-2300.

John M. Seeba
Assistant Inspector General
for Financial Management

Attachment

cc: John A. Rapp
Richard J. Strasser, Jr.
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

This audit report presents the results of our follow-up review of the Salt Lake City District 2002 Winter Olympics Plan (Project Number 01NU002FA000). Headquarters Facilities management requested this review. The objectives of the audit were to (1) determine whether recommendations from our June 30, 2000, report, Audit of the Salt Lake City District 2002 Winter Olympic Plan (Report Number FA-AR-00-002), were implemented, and (2) determine the potential for completion of projects as scheduled for the Olympic Games beginning February 8, 2002.

Results in Brief

Our audit determined prior audit recommendations were implemented. We found management had developed written criteria for site selections, prepared accurate scopes of work, developed cost estimates, and obtained proper approvals on Decision Analysis Report modifications.

Our audit also determined the Salt Lake City District should complete the 23 Olympic projects before the Olympics begin on February 8, 2002. As of August 2001, we found eight projects were completed, nine were under construction, and six were not under construction. We have some concerns with three projects (South Salt Lake City, Pleasant Grove, and Foothill) for which contracts have yet to be awarded or completion dates are close to February 2002.

Summary of Recommendations

We recommended the managers, Salt Lake City District, and the Denver Facilities Service Office, monitor and take appropriate action where feasible to ensure that the Olympic projects in question are completed prior to February 8, 2002. We also recommended the vice president, Facilities, and vice president, Finance, controller, review the Decision Analysis Report modification approval process to determine if the approval timeframe can be reduced.

Summary of Management's Comments

Management agreed with the recommendation for monitoring but stated that the timeframes for reviewing and approving this project had been assessed, and that the Decision Analysis Report modification approval process is appropriate and should not be changed. However, management commented that the number of modifications could have been reduced with additional planning.

Management's comments, in their entirety, are included in the appendix of this report.

**Overall Evaluation
of Management's
Comments**

Management's actions, planned or taken, are responsive and address the issues identified in this report; therefore, no further action is required.

INTRODUCTION

Background

On June 16, 1995, Salt Lake City was awarded the 2002 Winter Olympic Games. The Olympic Games will begin on February 8, 2002. The Postal Service decided to renovate selected post offices before visitors arrived in Salt Lake City for the Olympic Games.

To begin the facilities improvement process, the Salt Lake City District began developing a Decision Analysis Report in the spring of 1997.¹ This Decision Analysis Report included plans to expand one facility and upgrade 23 other facilities at an estimated cost of \$4.9 million. The Western Area approved the Decision Analysis Report for \$4.9 million on May 7, 1999. On August 29, 2000, the chief operating officer and executive vice president approved a Decision Analysis Report modification that eliminated one facility and provided \$1,033,031 in additional funding to five facilities. This increased the total project cost to \$5,968,117.

Objectives, Scope, and Methodology

The objectives of the audit were to (1) determine whether recommendations from our prior audit were implemented, and (2) determine the potential for completion of projects as scheduled for the February 2002 Olympics.

To determine if prior recommendations were implemented, we reviewed funding, contracting, and project management documents for 23 Salt Lake City projects included within the Olympic Decision Analysis Report. To determine the potential for completion of projects as scheduled, we visited 14 of 23 Olympic project facilities, reviewed contractor payment documents, reviewed pending contract modifications interviewed contracting officers' representatives, and contract personnel. In all instances, we reviewed applicable Postal Service guidance.

We conducted the audit from June 2001 through January 2002 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and

¹ A Decision Analysis Report is prepared by the requesting organization to justify a project investment and to assist approval authorities in making decisions concerning the use of Postal Service funds.

observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

Our March 31, 1999, report, Review of the Atlanta Olympic Facility Improvement Plan (Report Number FA-AR-99-001), disclosed that Postal Service management needed to improve the development and execution of the Atlanta Olympic Plan. Specifically, Postal Service management needed to ensure appropriate levels of construction approval and oversight, adherence to construction policies, and better use of indefinite quantity contracts. Management agreed and took action in response to all significant recommendations.

Based on the results of the review of the Atlanta Olympics facilities plan, Postal Service management requested we review the Western Area district facilities portion of the 2002 Winter Olympics Plan. Our June 30, 2000, report, Audit of the Salt Lake City District 2002 Winter Olympic Plan (Report Number FA-AR-00-002), disclosed the costs for work to be performed at 24 facilities were not accurately represented in the project funding document. Postal Service management agreed with our recommendations to accurately report the facilities work needed and related costs.

AUDIT RESULTS

Prior Recommendations Implemented

The Salt Lake City District adequately implemented recommendations from our June 30, 2000, report. Prior recommendations to district management with actions taken are as follows:

1. Document the criteria used to select Olympic facilities.

Written criteria for the selection of Olympic site renovations was prepared and included within the first modification of the Decision Analysis Report. We also noted that the selection criteria were appropriately applied. Headquarters approved the first modification on August 29, 2000.

2. Prepare accurate scopes of work for each Olympic facility.

Accurate scopes of work for each Olympic facility were prepared. The scopes of work described the work as precisely as practicable and in enough detail to allow a best value decision.

3. Recalculate the estimated cost for each facility and the Olympic facilities project as a whole based on detailed scopes of work.

The Denver Facilities Service Office revised certain cost estimates as a result of changing five facilities into postal retail stores. On August 29, 2000, it obtained Decision Analysis Report modification, one that increased the total Olympic project cost from \$4.9 to \$5.9 million. In December 2000, the Denver Facilities Service Office completed a revised cost estimate for each facility in the Olympics project for a total of \$6.3 million. However, management did not use this \$6.3 million estimate because they believed additional funding would not be needed. Based on our analysis of the expenditures to date, we believe the \$5.9 million estimate is sufficient.

4. Prepare a Decision Analysis Report modification based upon revised scopes of work and cost estimates for submission to appropriate levels of Postal Service management.

The Western Area vice president appropriately approved the original Decision Analysis Report for \$4,945,086 on May 7, 1999. The chief operating officer then appropriately approved the first Decision Analysis Report modification that increased funding to \$5,968,117. The chief operating officer also approved the second through the seventh modifications. These modifications moved funds between projects and expense items and did not change the total approved amount for the Olympics projects of \$5,968,117.

The appropriate level (chief operating officer) of Postal Service management approved Decision Analysis Report modifications. Headquarters decided each project must stand on its own merit and would become part of one unitary plan that includes all 23 projects. Therefore, modifications were needed when projects were individually over or under approved amounts even though the total approved amount remained the same because it represented a change in the scope of investment.

5. Prepare a formal purchase plan.

A formal purchase plan was developed. In addition, individual purchase plans for 20 of 23 projects were prepared which documented the purchasing method, type of contract, cost estimate, and schedule to complete. The three projects without plans were completed during the timeframe of our previous audit and, therefore, preparation of a purchase plan would have been after the fact.

6. Reconcile entries in the Facilities Management System for Windows with the Olympic project related costs as recorded in the Postal Service financial report.

Because Facilities Management System for Windows data automatically feeds the Postal Service financial report, district Finance personnel appropriately felt the recommendation was to verify the accuracy of data with the Facilities

Management System. On July 18, 2001, district personnel completed the first reconciliation between the Facilities Management System and source documents within the project files using a sampling method. The reconciliation revealed no significant difference. District personnel now plan to complete this reconciliation each accounting period. We also completed a sample reconciliation of data within the Facilities Management System with source documents maintained in project files and found no differences.

Projects on Track for Completion

The Salt Lake City District should complete the 23 Olympic projects before games begin on February 8, 2002. While conducting site visits during August 2001, we found eight projects are complete, nine are under construction, and six are not under construction. Eight of nine projects under construction are more than 50 percent complete and should be completed prior to December 31, 2001. Overall, we are concerned with three projects (South Salt Lake City, Pleasant Grove, and Foothill) for which renovations have not begun or completion dates are close to February 2002.

Renovations have not begun at South Salt Lake City and Pleasant Grove as of November 1, 2001. These two projects needed Decision Analysis Report modifications requiring headquarters approval. Headquarters required over a month to approve these modifications, which delayed the district's ability to begin work on these projects. The district has awarded the South Salt Lake City contract but only recently authorized the contractor to begin work. The district has not awarded a contract for Pleasant Grove. If these two projects are not monitored closely, renovations may not be completed prior to the Olympics beginning on February 8, 2002.

The Foothill project is an estimated \$1.9 million expansion and renovation project. As of August 2001, the project was only 51 percent complete. It has experienced many delays since construction started. The contractor has received contract relief for 127-days since the project began in September 2000 due in part to asbestos removal and modification approval. In addition, the contractor replaced its project manager in August 2001. The project was scheduled for completion on October 28, 2001, but as of November 1, 2001, the project was not complete. The Salt Lake City administrative services manager believes construction will not be completed until January 2002. If the contractor finds new unforeseen site conditions or incurs delays because of new on-site project management, the project may not be complete by February 8, 2002.

Recommendation	We recommend the manager, Salt Lake City District, and the manager, Denver Facilities Service Office: 1. Monitor and take appropriate action where feasible to ensure that the Olympic projects in question are completed prior to February 8, 2002.
Management's Comments	Management agreed with the recommendation for monitoring and stated they would assist the area and district, as appropriate, to ensure the remaining projects are completed prior to the start of the 2002 Winter Olympics.
Recommendation	We recommend the vice president, Facilities, in conjunction with the vice president, Finance, controller: 2. Review the Decision Analysis Report modification approval process to determine if the approval timeframes can be reduced.
Management's Comments	Management stated that they had already reviewed the timeframes for reviewing and approving the modifications for this project, and concluded the Decision Analysis Report modification approval process is appropriate and should not be changed. Management acknowledged that the project sponsor should have included sufficient time in the project schedule for the modifications' review and approval. Also, in retrospect, the number of modifications could have been reduced had the contingency for all the projects been increased or if the project sponsor anticipated the need for additional funding and submitted the modifications prior to a critical point in the project schedules.
Evaluation of Management's Comments	Management's comments are responsive to our concerns.

General Observations

We found the district awarded two contracts at higher than headquarters approved amounts within the Decision Analysis Report. Postal Service regulations require contracting officers to ensure sufficient funding is available before taking a contractual action. Specifically, the district awarded the Cottonwood contract on September 22, 2000, for \$125,500, while the approved amount was only \$114,969. They also awarded the Provo contract on September 21, 2000, for \$72,708, while the approved amount was only \$64,264. Western Area officials approved additional funds for Provo on August 24, 2000. Therefore, the district had Western Area but not headquarters approval for additional funds. District personnel were unaware that transfers of funds between projects required headquarters approval. Postal Service management took appropriate corrective action prior to our audit. We found no additional instances of this occurring.

We also found 11 instances totaling \$45,379 where project managers ordered contractors to perform work without proper authorization. Although the cost of this work was within approved Decision Analysis Report amounts, project managers are not authorized to commit funds. Upon finding out project managers were giving verbal change orders to avoid construction delays, a district contracting officer sent memorandums to contractors and to district project managers on June 21, 2001, reminding them that verbal approval must come from contracting officers.

We observed that the Salt Lake City District successfully used a solicitation and competitive bidding process from a prequalified list of contractors on 22 of 23 projects. In addition, the district used consistent lobby designs for each facility to allow increased efficiency in design and construction. This is in keeping with the Postal Service goal of maintaining an image in retail facilities.

APPENDIX. MANAGEMENT'S COMMENTS



December 31, 2001

JOHN SEEBA

SUBJECT: Response to Draft Audit Report—Follow-up Audit of Salt Lake City
District 2002 Winter Olympics Plan (Report Number CA-AR-02-DRAFT)

We have completed our review of the subject draft audit report.

Below are the responses to the recommendations.

1. Monitor and take appropriate action where feasible to ensure that the Olympic projects in question are completed prior to February 8, 2002.

We will continue to assist the area and district, as appropriate, to ensure that the remaining projects are completed prior to the start of the 2002 Winter Olympics.

2. Review the decision analysis report modification approval process to determine if the approval timeframes can be reduced.

The timeframes for reviewing and approving the modifications for this project were reviewed. We have concluded that the process is appropriate and should not be changed. The project sponsor should have included sufficient time in the project schedule for the modifications' review and approval. In retrospect, the number of modifications could have been reduced had the contingency for all the projects been increased or if the project sponsor anticipated the need for additional funding and submitted the modifications prior to a critical point in the project schedules.

Thank you for giving us the opportunity to respond to this draft audit.

Handwritten signature of Donna M. Peak in black ink.

Donna M. Peak
Vice President, Finance
Controller

Handwritten signature of Rudy K. Umscheid in black ink.

Rudy K. Umscheid
Vice President, Facilities

cc: Mr. Strasser
Mr. Johnson
Mr. LaShier
Mr. Gunnels

DISTRICT MANAGER
SALT LAKE CITY DISTRICT



DATE: December 13, 2001

SUBJECT: Transmittal of Draft Audit Report – Follow-up Audit of Salt Lake City
District 2002 Winter Olympics Plan
(Report Number CA-AR-02-DRAFT)

TO: John Seeba
Assistant Inspector General for Financial Management
Office of Inspector General
1735 N Lynn St
Arlington WA 22209-2020

This is in reference to your memorandum of December 6, 2001, subject above. We agree with the findings. We know of no reason why any portion of this draft report should be exempt from disclosure under FOIA.


Stephen L. Johnson