

September 23, 2002

RUDOLPH K. UMSCHIED
VICE PRESIDENT, FACILITIES

SUBJECT Audit Report – Costs Associated with the Hechinger and White Oak
Facilities (Report Number CA-AR-02-003)

This report presents the results of our audit of costs associated with the Hechinger and White Oak Facilities (Project Number 02XR004CA000). This audit was self-initiated to verify the costs associated with the second tier of strategy for processing sanitized mail and deploying irradiation equipment.

Background

In October 2001, a letter containing anthrax was processed at the Trenton, New Jersey, and the Brentwood Processing and Distribution Facilities. In response to this threat, the Postal Service developed a strategy for processing sanitized mail and deploying irradiation equipment that included: (1) the immediate sanitizing of mail at off-site contracted facilities, (2) deploying eight irradiation systems for centralized processing and decontamination of the mail, and (3) identifying detection equipment that could be integrated into existing mail processes. This report addresses costs associated with the second tier of strategy for processing sanitized mail and deploying irradiation equipment. The strategy included acquiring two facilities; one designated to process sanitized mail (Hechinger) and the other for operating the irradiation systems used to sanitize contaminated mail (White Oak).

The use of the Hechinger and White Oak facilities was cancelled because of local government officials' resistance to using the two facilities for processing sanitized mail and for deploying the irradiation equipment. As a result, the Postal Service invested significant resources for building modifications, design fees, and real estate expenses for two facilities that were never used. Additionally, deployment plans for eight irradiation systems were put on hold until an alternate site could be located.

Objectives, Scope, and Methodology

Our objective was to verify costs associated with the second tier of strategy for processing sanitized mail and deploying irradiation equipment. Specifically, we reviewed the costs associated with the Hechinger and White Oak facilities. To validate

these costs, we obtained and reviewed contract files and records from the Postal Service Facilities Management System for Windows. Additionally, we reviewed applicable policies, procedures, and headquarters directives related to the contracting methods used by the Postal Service. Finally, we conducted field visits at headquarters facilities and interviewed facilities contracting officers, project managers, and Engineering personnel. The review was conducted from March 2002 through September 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 observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

Our March 29, 2002 audit report, Postal Service Strategy for Processing At-Risk Mail and Deployment of Irradiation Equipment (Report Number AC-AR-02-003), disclosed that the Postal Service's strategy for processing contaminated mail and deploying irradiation equipment was sufficient to protect the mail, customers, and employees. However, the audit disclosed that three federal government agencies refused to accept both sanitized and non-sanitized mail. In addition, the Postal Service was unable to process sanitized mail and deploy irradiation equipment at the Hechinger and White Oak facilities because it failed to get advance approval from local government officials. We offered two recommendations to Postal Service management designed to eliminate the backlog of sanitized mail and ensure that approvals are obtained from the appropriate government officials prior to acquiring and or modifying facilities for processing sanitized mail and deploying irradiation equipment. Management agreed and the actions planned and taken were responsive to the issues identified in the report.

Results

Actual Costs Expended for Facilities Not Used

Our review disclosed that costs associated with the second tier of strategy for processing sanitized mail and deploying irradiation equipment at the Hechinger and White Oak facilities were \$588,632 and \$56,625 respectively. In addition, \$200,000 was authorized for the design of a prototype facility to irradiate mail.

The actual costs to design, retrofit, and restore the Hechinger and White Oak facilities were as follows:

Hechinger facility:

Licensing agreement	\$116,751 (a)
Site support	16,082 (b)
Architect and engineer design fees	35,864 (c)
Retrofitting	359,855 (d)
Restoration	47,480 (e)
Pylon sign	12,600 (f)
Total expense for Hechinger facility	\$ <u>588,632</u>

White Oak facility:

Architect and engineer design fees	\$ <u>56,625</u> (g)
Total expended for both buildings	\$ <u>645,257</u>

- (a) On November 2, 2001, the Postal Service entered into a 3-month licensing agreement to lease the Hechinger building located in Temple Hills, Maryland. The licensing agreement allowed the Postal Service to begin using and modifying the building prior to purchase. The licensing agreement was \$38,917 per month.
- (b) These costs represent title insurance, legal, survey, and appraisal fees incurred in the attempt to purchase the Hechinger building.
- (c) The Postal Service entered into a contract with an architectural and engineering firm to prepare a statement of work to remodel the Hechinger building and to provide oversight of the construction contractor. This amount represents the total amount invoiced and paid for design work and oversight services for retrofitting and restoration.
- (d) To prepare the building for occupancy, the Postal Service contracted to have the building retrofitted. Authorization for this work was initially granted through issuance of work orders. The final negotiated cost of the construction contract was \$359,855. All retrofitting work was completed prior to the termination of the license and purchase agreements.
- (e) One week after the start of remodeling, local government officials turned off utilities to the building because of concerns about bringing sanitized mail into their county. Consequently, the Postal Service terminated the licensing and purchase agreements and as a result incurred costs to restore the building back to its original condition. The total amount for restoration tasks completed was \$47,480.

- (f) Due to requirements stated in the licensing and purchase agreements, the Postal Service paid \$12,600 to ensure original building signs were replaced.
- (g) The Postal Service hired an architectural and engineering firm to conduct a design concept study of the White Oak facility. However, Postal Service officials cancelled their plans to use the White Oak facility because they expected local government officials would have concerns similar to those associated with the Hechinger building. The Postal Service incurred architectural and engineering fees of \$56,625 prior to cancellation of the plan.

As shown, the Postal Service spent over \$600,000 to prepare two facilities that were never used. These costs could have been avoided through proper coordination. In response to our March 29, 2002, report Postal Service management stated they will ensure that meetings with local government officials occur prior to signing an agreement to acquire or modify a facility for processing contaminated or sanitized mail. Therefore, we are making no recommendations at this time.

Architectural and Engineering Firm Developing Prototype Facility

In addition to the costs discussed previously and as a first step in identifying a location to deploy irradiation systems, the Postal Service is working with an architectural and engineering firm to design a prototype facility to irradiate mail. The contractor submitted an initial proposal of \$491,000 for this service. The Postal Service authorized \$200,000 to start this work and is in the process of negotiating a final statement of work and work order price. Total costs incurred to date for this service are \$28,958.

Recommendation

We recommend the vice president, Facilities:

1. Ensure program managers provide adequate oversight and approval of statements of work and actual work performed for the design and construction of the prototype facility to decrease the potential for unanticipated cost growth.

Management's Comments

Management agreed with the summary of expenditures and our recommendation and stated that they will continue to provide adequate oversight for this and other projects. Management also stated that the report does not consider the circumstances surrounding the expenditures and suggested that it be revised to reflect this. Specifically, they advised that the professional costs of \$56,625 expended at the White Oak facility were a necessary and appropriate part of the due diligence taken on a high priority basis. They also provided detail on actions taken on the Hechinger project and

maintained that it was managed in the best interests of the Postal Service. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

In the Office of Inspector General's opinion, management's planned actions should correct the problem or resolve the issues identified in the report. Therefore, no further actions are required.

We appreciate management's comments regarding the circumstances surrounding the expenditures. However, our objective was only to report an accurate summary of the costs associated with the second tier of strategy for processing sanitized mail and deploying irradiation equipment. Therefore, our report will not be revised to discuss the circumstances surrounding the expenditures.

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

John M. Seeba
Assistant Inspector General
for Financial Management

Attachment

cc: Patrick R. Donahoe
Keith Strange
Susan M. Duchek

APPENDIX. MANAGEMENT'S COMMENTS

P. 10, January 1
7 OF 10 PAGES, PAGE 10



August 29, 2002

JOHN M. SEEBA
ASSISTANT INSPECTOR GENERAL
for FINANCIAL MANAGEMENT

SUBJECT: Draft Audit Report - Costs Associated with the Hechinger and
White Oak Facilities (Report Number CA-AR-02-DRAFT)

This is in response to the subject draft audit report. The summary of expenditures is correct and reflective of the cost of professional services necessary to support the design and construction efforts associated with the above referenced projects. However, the report does not consider the circumstances surrounding the expenditures and must be revised to reflect these circumstances.

Facilities was requested to proceed with the necessary due diligence on the highest priority basis possible to explore the potential of using the White Oak facility as a site for an irradiation plant. This plant was intended to process all incoming federal government mail for agencies located in the District of Columbia. The professional services, costing \$56,625, were entirely necessary and appropriate for us to assess the site, building, and infrastructure implications. This project was to be implemented within the shortest time possible because of the national crisis, and the goal was to activate the irradiation equipment within four to six months. Because we did not have experience, nor does industry, with building and/or converting existing facilities to accommodate the irradiation equipment for mail processing, the scope of work evolved as we became more familiar with the technology and constraints of the site. It is my firm conviction that this project had full and adequate oversight by the entire senior management team within Facilities, including the undersigned, and the funds expended were in the best interest of the Postal Service.

The Hechinger project operated under very similar constraints. However, because there was a critical need by operations to maintain the government mail service, the decision was made to find an alternative site where irradiated mail could be distributed to the various federal entities. The Hechinger site was identified, the decision was made to acquire the site, and an interim license agreement was used to renovate the building for occupancy within seven days. The property was appropriately zoned, the proposed mail operations did not have environmental impacts, and the property could readily be converted for various postal operations as circumstances changed. Unfortunately, the appropriate political decision had to be made to withdraw our operations and to terminate our agreements regarding this building, even though the Postal Service could have exerted its sovereign immunity prerogative to remain on the site. Again, Facilities proceeded with the project in the appropriate manner and managed it in the best interests of the Postal Service.

The audit recommends that the vice president, Facilities, ensure that program managers provide adequate oversight and approval of statements of work and actual work performed for the design and construction of the prototype facility. This will decrease the potential for unanticipated cost growth. We will continue to provide adequate oversight for this and other projects.

cc: Mr. Donahoe
Mr. Strange

4101 WILSON BOULEVARD, S.W., 200
ARLINGTON, VA 22203-1857
703 696 2727
FAX 703 696 2743