June 14, 2007

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Use of Existing Postal Service-Owned Space in the Pacific Area (Report CA-AR-07-005)

This report presents the results of our audit on the use of existing U.S. Postal Service-owned space in the Pacific Area (Project Number 06YG016FA000). This is our second report on the use of existing Postal Service-owned space. We initiated this audit in response to the U.S. Postal Service *Transformation Plan's* strategies to improve management of its real estate assets.

Management has consolidated some Postal Service operations, leaving underutilized and vacant space in Postal Service-owned facilities. The Postal Service could use these and other such spaces to avoid future lease costs. This audit reviewed actions taken by the Pacific Area to optimize underutilized and vacant space.

Background

Facilities is an enabling organization within the Postal Service whose primary mission is to (1) provide quality real estate and facilities products and services to meet present and future needs of Postal Service organizations and (2) realize optimum value from facilities assets and transactions. Facilities has its headquarters in Arlington, Virginia, and has eight Facilities Services Offices (FSOs) throughout the country.

The FSOs accomplish the majority of the Postal Service's facilities program work. This includes planning, leasing, contracting and acquiring, designing, and constructing facilities to house Postal Service operations. Organizational administration, policy and procedure development, and realty asset management (RAM) functions are administered from headquarters.

The RAM organization, located at Facilities Headquarters, provides internal expertise to identify, analyze, and maximize the return on underutilized and excess real property assets the Postal Service controls. This organization generates income from real estate assets by developing Postal Service real property to its highest and best use, outleasing excess Postal Service-owned space or subleasing excess leased space to governmental and public tenants, and selling excess real property. RAM first offers excess leased property to the General Services Administration, then to state and local governments. If there is no government interest in the property, RAM offers it to the public and private sectors, exercising care and good judgment to ensure the activities of the tenants would not adversely affect operations or reflect negatively on the Postal Service.

The Postal Service is to use the criteria contained in *Administrative Support Manual* (ASM) 13, Chapter 5, Sections 13 and 517, to identify underused and vacant space. These criteria stipulate that installation heads review the inventory of Postal Service-owned property at least annually to determine whether there are any properties for which there is no foreseeable need. In fiscal year (FY) 2005, the Postal Service issued a national call regarding vacant and/or excess space and required a formal response, including negative replies. This provided a standard format for annual reporting and a method to submit additional excess space as it becomes available.

Management is to report excess space to headquarters through the Facilities Database (FDB) System program. RAM relies upon installation heads to report excess space through the “My Post Office” application within the Postal Service’s intranet. RAM then contacts installation heads to obtain additional information about the reported space and determine whether it fits the criteria for excess space. RAM downloads the information from the Facilities Management System (FMS) in the form of the *Vacant Space Report* and uses it to determine workload and to prioritize their efforts to market the excess space.

As of June 22, 2006, the Postal Service owned 8,447 facilities. In addition, the Postal Service leased 25,557 facilities totaling over 538 million square feet and spent over $806 million on lease contracts annually.

Objective, Scope, and Methodology

The objective of the audit was to determine whether the Postal Service could realize cost savings by optimizing underutilized and vacant space to avoid future leasing costs. Specifically, we evaluated the procedures and systems the Postal Service uses to identify underutilized and vacant space and whether it uses this information to determine leasing needs. Our audit scope included underutilized, vacant, and leased administrative space in the Pacific Area. We chose to focus our review on administrative space because management can most easily move the administrative departments to new locations. Through discussions with officials we learned that retail units and processing and distribution centers (P&DC) are often problematic to move due to service area concerns and the cost and effort involved in conforming new facilities to Postal Service specifications.

To accomplish our objective, we reviewed documentation and applicable policies and procedures. We also visited facilities and interviewed managers and employees. In addition, we examined any other material deemed necessary to accomplish our audit objectives. We conducted our work in the Pacific Area. We judgmentally selected one district, the San Francisco District, within the Pacific Area to visit. We chose this district because it had the greatest amount of underutilized and vacant administrative space in the area.

We conducted this audit from April 2006 through June 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials on November 17, 2006, and included their comments where appropriate.

A recent U.S. Postal Service Office of Inspector General (OIG) audit has identified weaknesses in the computer systems we rely on for data.[1] The audit team helped alleviate those risks by using the FDB to help verify the data we received from the Facilities Management System – Windows (FMSWIN). We relied on computer-generated data from several Postal Service financial systems (including FMSWIN and the FDB) after performing specific internal control tests on these systems' data, to include locations of specific Postal Service properties. For example, we verified different facilities' data by talking to Postal Service management and comparing the data in the two computer systems.

Prior Audit Coverage

Our review of the OIG's prior audits disclosed information specifically related to the survey objectives, although not necessarily specific to the Pacific Area. Over a period of 5 years, there have been five reports directly related to the use of underutilized real property and lease management.

1. Audit Report – *Use of Existing Postal-Owned Space in the Great Lakes Area* (Report Number CA-AR-07-002, dated May 18, 2007). This report identified that the Great Lakes Area did not have formal procedures in place to track underutilized and vacant space. As a result, it was not possible for the audit team, or management, to identify all underutilized or vacant space and thereby determine whether the Postal Service could realize savings by avoiding future lease costs.

[1] Audit Report - *Review of the Facilities Management System for Windows* (Report Number IS-AR-02-003), dated February 22, 2002.

2. Management Advisory – *Financial Opportunities of Underutilized Land* (Report Number CA-MA-04-004, dated July 1, 2004). This report identified underutilized property and stated that policies and procedures do not exist to require identification of underutilized land at active facilities.

3. Management Advisory – *Realty Asset Management Program* (Report Number CA-MA-04-002, dated January 9, 2004). This report revealed that the process for identifying and reporting excess facilities and vacant space needed improvement.

4. Management Advisory – *Management of Facility Lease Program* (Report Number CA-MA-03-009, dated September 30, 2003). This report stated that FSO personnel did not always identify and document the condition of facilities prior to lease renewal. As a result, the Postal Service did not always have sufficient information available at lease renewal to effectively negotiate leases or resolve outstanding maintenance issues.

5. Audit Report - *Disposal of Excess Real Property* (Report Number CA-AR-02-002, dated January 28, 2002). The audit identified 30 properties the Postal Service purchased for $45 million and did not develop, use, or refer for disposal.

Results

The Pacific Area has several innovative methods for realizing cost savings by using underutilized and vacant space to avoid future leasing costs, but could do more to improve their procedures and communication on these initiatives. Because there is no centralized system for tracking and managing vacant space throughout the Postal Service, it is essential the Postal Service look for best practices and share them with the areas.

Procedures for Optimizing Vacant and Underutilized Space

The Pacific Area employs two practices that can be considered best practices for the U.S. Postal Service. The former Vice President, Pacific Area Operations, mandated that FSO and Pacific Area officials check for available Postal Service-owned space for use in lieu of leasing space in order to save costs. This requirement led the Pacific FSO to search for vacant space at facilities within a specific radius in lieu of renewing a current lease when presented with a renewal request.

As a result, Headquarters Facilities recently changed their Customer Services New Space Procedure to require management in all areas to prepare a Customer Services Facility Project Evaluation Form before each space acquisition. As part of this procedure, the FSO is required to search for post offices or carrier annexes within a specific radius before entering into a lease. The evaluation form includes current project status, justification for replacing the current facility, Decision Analysis Report (DAR) alternatives, and recommended action. The Area Capital Investment Committee (CIC) is to review the form — along with a Start-Up Questionnaire and Space Requirements Model — and the Vice President, Area Operations, is to approve it. These new procedures are to be followed by the FSOs.

In addition, in 2001 the Pacific Area created the *Excess Space Report* to track excess space and vacant land. The report consists of four Excel spreadsheets and is part of the area's initiative to reduce expenses by moving tenants into Postal Service-owned space. Area personnel update this report annually at the close of the fiscal year, share it with the FSO, and forward it to RAM, allowing for increased communication throughout the Pacific Area and with headquarters.

We analyzed 24 administrative spaces in the Pacific Area and found that the Pacific Area's initiatives were generally effective in optimizing space, as 22 of the 24 administrative spaces were housed in Postal Service-owned facilities. The two administrative offices still in leased space were the Oakland P&DC and the Pacific FSO. According to the Pacific FSO, the Oakland P&DC space would prove difficult to replace in that area.[2] Prior to this audit, the Pacific FSO lease for 11,914 square feet of office space was renewed. This was done at the request of the former Vice President of Facilities who recommended keeping the FSO in its current location.

An analysis of available vacant space within the vicinity of the leased Pacific FSO revealed sufficient space within the San Francisco Embarcadero Postal Center to move the FSO and avoid future leasing costs. The Embarcadero Postal Center housed a total of 77,258 square feet of available office/retail space. However, through interviews with the San Francisco District's Finance Manager and the Embarcadero Postal Center Facilities Services Manager, we learned there were insufficient parking spaces for tenants because the parking lot for the Embarcadero Postal Center had been sold to a developer. At the time of this audit, the Postal Service was trying to negotiate for 250 parking spaces as part of the future development. Even with consideration for additional parking spaces, moving the Pacific FSO to the Embarcadero Postal Center and subleasing the FSO to avoid future leasing costs would save $500,821 over the remaining life of the lease. However, management stated they are discussing the sale of the Embarcadero Postal Center. As a result, we will not report $500,821 in funds put to better use in our *Semiannual Report to Congress* at this time. If the future direction for the sale of the Postal Center changes and administrative offices are moved into the vacant space, we may follow-up to determine the actual cost savings associated with that move.

Management generally performed adequate cost/benefit analyses during the lease renewal process and documented them with eBuy printouts, Justification of Expenditure (JOE) documents, DARs, Postal Service Forms 7437, Request for Services, Functional

[2] The P&DC is leased with an option to buy. In addition, the P&DC includes the Bay Valley District Offices.

Review Committee forms, and CIC minutes. The Pacific FSO provided examples of two lease renewals performed in the area. During the lease renewal process, management prepared JOEs, outlining the costs associated with renewal and possible alternatives to renewing the leases.

Although the Pacific Area does encourage the reporting and use of underutilized and vacant space to reduce leasing expenses, we learned management has not formalized these procedures. When policies and procedures such as these are informal and undocumented, underutilized or vacant space may not be consistently reported and put to good use. Further, inconsistency in procedures can undermine Postal Service Headquarters' efforts to collect information from areas and districts regarding underutilized and vacant space.

Recommendation

We recommend the Vice President, Pacific Area Operations, and the Vice President, Facilities:

1. Formalize and document procedures for the Pacific Area to identify, track, and report underutilized and vacant space to Facilities Headquarters and to determine if there is vacant Postal Service-owned space available prior to lease renewal.

Management's Comments

Management agreed with the recommendation in subsequent correspondence and stated they believe there are numerous sources for obtaining information to identify and track underutilized/vacant space. These sources include the FDB, eFMS (FMS Portal), and the RAM-generated *Vacant Space Report*. They also stated areas must comply with the FDB Headquarters coordinator's directive to review data in every FDB maintenance module at least once each year. Management will require this compliance by March of every year. Management stated the FDB is the Postal Service's national database and it includes a real estate module, which specifically requests information on each site's vacant space, excess land, and any additional vacant property. As a result, they believe the FDB is an already established national application and is a better alternative to the *Excess Space Report* for tracking vacant/excess space. Management also stated that, according to the headquarters FDB coordinator, a Management Instruction (MI) for the FDB System is imminent. This MI will provide uniform guidelines for all participants. The area plans to review an FDB report of underutilized/vacant space provided by the FSO and contact appropriate sources if issues are present.

Management also stated they are implementing a Facilities Condition Assessment Program. Beginning in FY 2008, they will be in a position to inspect all facilities every 3 years. They plan to have updated excess space information for all Postal Service-owned facilities by FY 2011. Management's comments, in their entirety, are included in the appendix.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and actions taken and planned should improve the tracking of identified underutilized and vacant space. However, the primary purpose of the Facility Condition Assessments is to identify maintenance and repair issues, and we are uncertain whether these assessments will effectively identify underutilized space. The OIG plans to conduct future work in this area to determine whether these assessments are effective in addressing the identification of underutilized and vacant space.

Recommendation

We recommend the Vice President Operations, Pacific Area Operations, and the Vice President, Facilities:

2. Move the Pacific Facilities Services Office (FSO) to the Embarcadero Postal Center and sublease the FSO to avoid future leasing costs, thus saving $500,821 over the remaining life of the lease.

Management's Comments

Management did not agree with the recommendation and stated the Embarcadero Postal Center developer is currently in discussions with RAM to purchase the facility. Management asserted that moving the FSO to a building whose future is uncertain would be disruptive to the FSO. Management further stated there is an abundance of vacant lease space available in the general vicinity of the FSO, so subleasing may not yield enough funds to cover the current lease. Management stated that the potential liability to buy-out the current lease — which expires in 5 years — is [redacted], and that it would cost the Postal Service approximately [redacted] per year for employee parking. However, management stated that if the direction for the sale of the Embarcadero Postal Center changes, the FSO would relocate after performing appropriate cost-benefit analyses.

Evaluation of Management's Comments

Management disagreed with recommendation 2, however, they base their comments, partially, on their agreement to move the FSO into the Embarcadero Postal Center if the direction for the sale of the property changes. Postal Service management is pursuing the sale of the property while leaving open the option of implementing our recommendation if they do not complete the sale. Additionally, the OIG did not evaluate whether the sale of the Embarcadero Postal Center would be a cost-effective alternative to relocating Postal Service administrative offices into the space. Therefore, we will not pursue this recommendation through the formal audit resolution process.

Procedures for Reporting and Communicating Vacant Space

The Pacific Area's Senior Budget Financial Analyst records underutilized and vacant space in the *Excess Space Report*. Area personnel update the report annually, as mandated by ASM 13, Chapter 5, Sections 513 and 517,[3] share it with the Pacific Area Finance Manager, and make it accessible to the Pacific FSO staff. The report is also forwarded to RAM.

We found discrepancies in reported vacancy status between the information presented in the area's *Excess Space Report* and the vacant space information contained in the FDB. Upon discussion with the Manager, Facility Services for the San Francisco District, we determined that three properties listed on the area's report contained errors with regard to the status of the vacant space. This occurred because personnel in the Pacific Area did not update the *Excess Space Report* on an annual basis. Also, updates in the *Excess Space Report* were incomplete. Specifically, one property listing had only one updated information field and another property listing had not been updated in over 2 years.

While the *Excess Space Report* increases communication of available vacant space between the area, FSO, and RAM, the inaccuracies and incomplete updates lessen the reliability of the information for readers, potentially adversely affecting decisions made based, wholly or in part, upon that information.

Recommendation

We recommend the Vice President, Pacific Area Operations:

3. Establish written procedures to regularly update the *Excess Space Report*.

Management's Comments

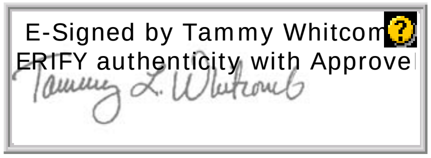
Management agreed with the recommendation in subsequent correspondence and outlined a procedure to update the *Excess Space Report*. The report will be updated with information from building inspections, reviewed with area leadership quarterly and uploaded to the FSO website, which is linked to the area website. Management identified the FSO Real Estate manager as having responsibility for tracking and managing excess real property in the Pacific Area.

[3] ASM 13, Chapter 5, Section 513, page 6, and Section 517, page 10, require installation heads to review the inventory of Postal Service-owned property at least annually to determine whether there are any properties for which they have no foreseeable need and report it through the FDB System.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and actions taken should correct the issues identified in the finding.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea L. Deadwyler, Director, Inspection Service and Facilities, or me at (703) 248-2100.



Tammy Whitcomb
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cc: Katherine S. Banks

APPENDIX. MANAGEMENT'S COMMENTS

UNITED STATES POSTAL SERVICE

April 20, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTS

SUBJECT: Audit Report – Use of Existing Postal-Owned Space in the Pacific Area
(Report CA-AR-07-DRAFT)

This is in response to the subject draft audit report and will address the three recommendations.

1. *Formalize and document procedures for the Pacific Area to identify, track, and report underutilized and vacant space to Facilities Headquarters and to determine if there is vacant postal-owned space available prior to lease renewal.*

   Management Response: We believe there are numerous sources where information may be obtained to identify and track underutilized and vacant space including FDB, eFMS and the Vacant Space Report generated by RAM. The Administrative Support manual Issue 13, Chapter 5, Section 517 requirement states: "Report excess property through the Facilities Database System program." The FDB HQ coordinator sent a directive to Area coordinators stating that "Facilities of all types must review the data in every FDB maintenance module no less than once each year, to be completed and certified no later than March 1 of each year." FDB is the USPS national database and includes a real estate module which specifically requests information on each site's vacant space, excess land and any additional vacant property. In addition, Facilities is undertaking a review/assessment of all facilities nationwide. The process calls for a self-assessment survey of facilities <6500 sq ft by applicable installation heads and building Inspectors will review buildings >6500 sq ft. The expectation is that all facilities > 6500 sq ft will be assessed every three years. A/E firms will be retained to survey Plants. We anticipate this program will enable us to receive current and verifiable information on any underutilized or excess space in a facility.

   It is standard practice for Facilities personnel to review available space in all facilities within a ten-mile radius of a facility whose lease is being considered for renewal. This review is especially critical if the lease is for a carrier annex, because there is a level of flexibility with where carriers can be located. It is a little more complex for retail facilities where the USPS Community Relations process requires notification to and concurrence from the public before retail is relocated.

   The review of available space is also done for administrative space. The EPC was not considered during the FSO lease renewal because of constraints related to parking and uncertainties of the future of the building.

   Based on the above, we believe there are adequate procedures in place to address recommendation #1.

2. *Move the Pacific Facilities Service Office (FSO) to the Embarcadero Postal Center and Sublease the FSO office to avoid future leasing costs, thus saving $500,821 over the remaining life of the lease.*

   Management Response: As indicated in the draft audit report, the parking lot of the EPC was sold to a private developer several years ago. Two residential towers are planned on the property. As part of the revenue-generation process, Facilities is mandated to leverage real estate assets to fund expanding networks. The EPC developer is currently in discussions with Realty Asset Management to purchase the remaining property which includes the EPC. Moving the FSO to a building whose future is uncertain will be disruptive to the FSO.

   It should be noted that there is abundant office space and high vacancy rates in the general vicinity of the FSO, so subleasing may not yield enough funds to cover the current lease. Potential liability to buy-out current lease which expires in 5 years is in excess of [redacted] Relocation to EPC would incur as cost of over [redacted] annually for FSO employees (the precedent of paying for parking has already been set by another HQ-field unit that moved into the EPC).

   The FSO will actively continue reviewing potential opportunities for available space in Postal-owned buildings. If the direction for the sale of EPC changes, the FSO will relocate after analyzing and considering the costs of the lease buy-out and move, and ensuring that they are not cost-prohibitive.

3. *Establish written procedures to regularly update the Excess Space Report.*

   Management Response: The Real Estate manager at the Pacific FSO is responsible for tracking and managing excess real property in the Pacific Area. A listing of excess property is currently maintained on the Pacific FSO shared drive. The spreadsheet has two tabs - one tab shows existing excess property and the second tab reflects excess property identified for disposition. This listing will be updated with information from building inspections, reviewed with Pacific Area leadership quarterly and uploaded to the FSO website which is linked to the Area website. Projects recommended for disposition will be tracked through the Realty Asset Management Program for Disposals (RAMPD) and eFMS.

   The process defined above provides a procedure for updating excess space information and adequately responds to recommendation #3.

We appreciate the efforts of the OIG audit team in the review of the use of existing Postal-owned space in the Pacific Area. The FSO and Pacific Area will identify all lease space utilized by other administrative functions including the OIG and the Inspection Service. We will evaluate the potential to move these entities to postal owned or postal controlled space.

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TOM A. SAMRA
VICE PRESIDENT, FACILITIES

UNITED STATES POSTAL SERVICE

May 16, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTS

SUBJECT: Audit Report – Use of Existing Postal-Owned Space in the Pacific Area
(Report CA-AR-07-DRAFT)

This is an addendum to our previous response.

1. *Formalize and document procedures for the Pacific Area to identify, track, and report underutilized and vacant space to Facilities Headquarters and to determine if there is vacant postal-owned space available prior to lease renewal.*

   Management Response (Addendum): We agree with this recommendation. We have begun the implementation of the Facilities Condition Assessment program and beginning in FY2008 we plan to be positioned to inspect all facilities every three years. By FY2011, we should have updated and verifiable excess space information for all USPS owned facilities.

2. *Move the Pacific Facilities Service Office (FSO) to the Embarcadero Postal Center and Sublease the FSO offices to avoid future leasing costs, thus saving $500,821 over the remaining life of the lease.*

   Management Response (Addendum): We do not agree that the Embarcadero Postal Center is a viable option because of the information contained in our original response. Due to the sensitive nature of the ongoing discussions, we do not feel this information should be made available via a FOIA request.

3. *Establish written procedures to regularly update the Excess Space Report.*

   Management Response (Addendum): We agree with this recommendation and feel we currently have processes and procedures in place to address this.

We appreciate the efforts of the OIG audit team in this review.

for Tom A. Samra

cc: Mr. Donahoe
Mr. Galligan
Mr. Kadara

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