



August 31, 2006

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VICE PRESIDENT, FACILITIES

SUBJECT: Management Advisory – Postal Service New Construction  
Lifecycle (Report Number CA-MA-06-003)

This report presents the results of our self-initiated review of the planning and approval of the Southern Maine Processing and Distribution Center (P&DC) (Project Number 06YG003FA000). Our objectives were to determine whether: (1) the project was forecasted as required by U.S. Postal Service major project planning requirements; (2) the project was properly documented, reviewed, and approved; and (3) organizational objectives were achieved. This review was conducted in cooperation with Postal Service Facilities headquarters.

### **Background**

The U.S. Postal Service Office of Inspector General (OIG) fiscal year (FY) 2006 Annual Audit Plan includes a review of the Southern Maine P&DC, a major new construction project costing over \$10 million, from inception through completion to determine the effectiveness and efficiency of the construction lifecycle. This report covers the planning and approval stage of the project.

The Southern Maine P&DC project entailed building a new P&DC and renovating the existing P&DC for a main post office and district office space. The goals of this project are to improve delivery efficiency, increase retail and customer service productivity, and efficiently manage realty assets. At the beginning of our review, the Southern Maine P&DC was in the early phase of construction with authorized funding not to exceed \$82,052,000. The Board of Governors (BOG) approved this project on January 11, 2005.

The Postal Service Facilities organization's primary mission is to provide quality real estate and facilities products and services to meet the present and future needs of Postal Service operations and to realize optimum value from facilities assets and transactions. Facilities divides its responsibilities into five groups: Design and Construction, Real Estate, Asset Management, Planning and Approval, and Program Support.

The Planning and Approval group serves as the designated interface in the review and approval process of facility projects and secures necessary funding approvals. This group also prepares Decision Analysis Reports (DAR) for review by top management. The Facilities headquarters group, including the Planning and Approval group, is located in Arlington, Virginia.

A major new facility project planning effort requires three documents — a facility planning concept document, a space requirements document, and a DAR. The facility planning concept document contains the first narrative of the functions to be performed at the new facility and how they will affect other facilities. The sponsoring plant manager must consider service performance in the area and illustrate whether the project would affect service, revenue, and operations. Without consideration of these factors, the Postal Service cannot determine the full space and cost impact of the project.

The automated space requirements document, Postal Service (PS) Form 929, Major Facility Planning Data, details the size of buildings and sites necessary to meet the operational needs presented in the facility planning concept document. The space requirements formulas within this document account for the functions, automation, and equipment proposed as part of the new facility.

The project sponsor must also present a DAR when requesting funding for a project. The DAR process is used to ensure major facility investments support the strategic objectives of the Postal Service, make the best use of available resources, and establish management accountability for investment decisions.

A DAR contains both a narrative section and exhibits to support the recommended alternative (project presented). The narrative section includes problem identification, analysis of alternatives, a financial summary, and a recommendation for the preferred alternative. DAR exhibits include a facility investment cost sheet for the recommended alternative, a cash flow analysis over a 10-year period, population and mail volume projections, productivity and service impact information, a space summary, a summary of operations, and a project schedule.

After this information is compiled for the recommended alternative, the Planning and Approval group reviews the DAR package and it is approved at various levels according to cost. When the Southern Maine P&DC DAR was prepared, projects over \$10 million required a functional review by applicable functional organizations, concurrences by headquarters vice presidents, a Finance validation, a Capital Investment Committee<sup>1</sup>

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<sup>1</sup> The headquarters Capital Investment Committee must review and make recommendations concerning all investments that require review and approval by the Postmaster General and chief executive officer or the BOG.

review, a Postmaster General review, a Capital Projects Committee<sup>2</sup> review, and, finally, approval by the BOG.

### **Objectives, Scope, and Methodology**

The overall objectives of this review were to evaluate the planning and approval of the Southern Maine P&DC to determine whether: (1) the project was forecasted as required by Postal Service major project planning requirements; and (2) the project was properly documented, reviewed, and approved.

To accomplish our objectives, we conducted fieldwork at Postal Service Facilities headquarters. We interviewed Postal Service Facilities Planning and Approval officials to gain an understanding of the planning process for the Southern Maine P&DC project. We also analyzed planning and approval documents provided for the Southern Maine P&DC and compared these documents to applicable policies and procedures.

We conducted this review from January to August 2006, in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials and included their comments where appropriate.

### **Prior Audit Coverage**

The OIG issued a report titled *Post Occupancy Review of the Greensboro, North Carolina, and Columbus, Ohio, Processing and Distribution Centers* (Report Number CA-MA-05-001, February 8, 2005). This report responded to a request from the executive vice president, chief operating officer, to review certain operating variance elements in the Greensboro, North Carolina, and Columbus, Ohio, DARs. We found the methodology used to estimate start-up costs did not result in reasonable projections of actual expenses incurred and adequate documentation did not exist to enable validation of estimated start-up costs for the Greensboro P&DC.

We recommended Postal Service management review and revise, as appropriate, the process for projecting start-up costs. We also recommended Postal Service management enforce compliance with the document retention requirement for new construction projects and ensure that all new construction projects include a process to segregate start-up costs from operating costs. Management agreed with the recommendations and stated that they will determine the appropriate course of action regarding the process for calculating start-up costs once they review additional facilities of varying sizes.

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<sup>2</sup> The Capital Projects Committee is a committee of the BOG that meets regularly prior to full Board meetings. It reviews all capital investment projects requiring Board approval, presents its findings, and makes a recommendation to the Board.

## Results

Our review found the Postal Service properly documented, reviewed, and approved the Southern Maine P&DC project. The Postal Service also reasonably forecasted the Southern Maine P&DC project per major project planning requirements.

The Northeast Area and Postal Service Headquarters Facilities worked together to create the documents required to initiate the Southern Maine P&DC project – the facility planning concept document, the space requirements document, and the DAR. The facility planning concept document, which Northeast Area officials prepared on November 7, 2003, contained information on preliminary alternative options analyzed during the planning process. It also contained a detailed justification for recommended alternatives including proposed functions for the new plant, a distribution concept, a delivery concept, a retail concept, a vehicle maintenance concept, a list of facilities affected by the creation of a new plant, site information, alternatives to the recommended project, information on service improvement, and supplemental data required by policy.<sup>3</sup> We found the Postal Service prepared the Southern Maine P&DC project facility planning concept document in compliance with the Postal Service's major project planning requirements.

The Postal Service initially completed the space requirements document, using PS Form 929, on February 17, 2004. Subsequent revisions to space requirements were not significant. Facilities then prepared the Southern Maine P&DC DAR on September 8, 2004. This document included information supporting the recommended project – building a new P&DC and renovating the existing P&DC for a main post office and district office space. Another alternative management considered was building a mail processing annex and converting the existing P&DC to a letter processing facility. However, this alternative had higher operating costs compared to the recommended project. In addition, management considered moving operations to an expanded Portland P&DC, but found it was not feasible.

After the DAR was validated, the Capital Investment Committee approved the project on October 21, 2004, and the Capital Projects Committee approved it on December 6, 2004. The BOG reviewed and approved the project on January 11, 2005.

Overall, the Postal Service followed the required planning and approval process. This process was developed to ensure that the level of investment requested supports the needs of the Postal Service, makes the best use of available resources, and establishes management accountability for investment decisions.

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<sup>3</sup> Management Instruction AS-520-96-9, *Facility Planning Concept*, November 26, 1996.

### Areas for Improvement

While the required planning process was materially adhered to, we identified several areas where the Postal Service could improve supporting documentation processes in future project planning. These areas include providing and updating cost information, and updating building requirements, throughout the planning process. Specifically:


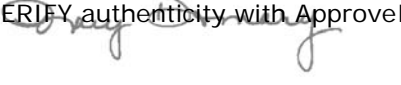
- Furniture costs in the DAR facility investment cost sheet did not agree with the supporting documentation. We found a small reduction in the final costs reported when compared to the supporting documentation. Furniture costs reported in the DAR totaled \$252,000, while the supporting documentation showed costs of \$260,336. Handbook F-66A<sup>4</sup> requires supporting documentation to show how all numbers were derived to provide support for all financial information and provide a basis for validating the DAR.
- The DAR space requirements did not agree with the space requirements in the supporting documentation. The final architectural estimates were 4 percent greater than the final version of PS Form 929. Management based the DAR space requirements on the final architectural estimates. While the difference was not material, Handbook F-66A requires space requirements data to tie directly to the space summary exhibit included in the DAR. Including the final architectural estimates in the supporting documentation would meet this requirement.

While the supporting documentation did not fully comply with the applicable criteria, we did not deem these deficiencies significant enough to impact the DAR approval process. However, these requirements are necessary to assure that management thoroughly documents and supports construction investment costs. In addition, as this project progresses, we encourage the Postal Service to revisit project specifications as the Evolutionary Network Development concept is further developed. We brought this information to the attention of Facilities management for their consideration. Therefore, we are making no recommendation on this matter. Management verbally agreed with our finding but did not provide written comments.

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<sup>4</sup> Handbook F-66A, *Investment Policies and Procedures – Major Facilities*, March 1999.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Judy Leonhardt, director, Supply Management and Facilities, or me at (703) 248-2300.

E-Signed by Mary Demory   
VERIFY authenticity with Approve!  


Mary W. Demory  
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