

September 28, 2000

RUDOLPH K. UMSCHIED
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report - Audit of New Construction Owned
(Report Number FA-AR-00-003)

This report presents the results of our review of new construction owned (Project Number 00RA006FA000). We conducted this audit to assess the program results of Postal Service procedures for site selection and acquisition. This report addresses the four Facilities Services offices responsible for the largest number of projects. The audit was included in our fiscal year 2000 audit workload plan.

Our review highlighted opportunities to improve internal controls over the site selection and acquisition process. Specifically, 58 of the 124 site acquisition files reviewed did not provide documentation to support the reason a specific site was acquired. Additionally, the Mid-Atlantic Facilities Service office site acquisition files do not contain documentary evidence of legal review. Management agreed with our recommendations and the actions taken should correct the issues discussed in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, or need additional information please contact Mr. Anthony Cannarella, director, Facilities, at (703) 248-2270, or me at (703) 248-2182.

Billy Sauls
Assistant Inspector General
for Business Protection

Attachment

cc: William J. Brown
A. Keith Strange
George L. Lopez
Henry A. Pankey
Craig G. Wade
William H. Hanson
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction	<p>We completed an audit to assess the program results of Postal Service procedures for site selection and acquisition. This report addresses the four Facilities Service offices responsible for the largest number of projects.</p>
Results in Brief	<p>The audit revealed that the Facilities Service offices could improve their internal controls over the site selection process. Specifically, 58 of the 124 files did not clearly document the reason that a specific site was chosen. This occurred because the site selection committee did not specify the reason for their selection and the Contending Sites Summary Report did not clearly favor the site selected. In addition, the Mid-Atlantic Facilities Service office did not clearly document that required reviews by the field counsel's office were accomplished. This condition occurred because the manager of real estate at the Mid-Atlantic Facilities Service office conducted business by telephone and neither prepared memoranda of the discussions nor required confirming memoranda from the field counsel office.</p> <p>Any time Postal Service funds are expended in support of a project, the reason that the expenditure was necessary should be clearly documented.</p>
Summary of Recommendations	<p>We recommend that the vice president, Facilities, require that each Site Selection Committee document the reason for its selection. We also recommend that the vice president, Facilities, require the manager of the Mid-Atlantic Facilities Service office obtain a memo from the field counsel office acknowledging legal sufficiency of each real estate transaction under their purview.</p>
Summary of Management's Comments	<p>Management indicated agreement with our recommendations and issue guidance requiring the reason for site selection to be documented, and reaffirming the requirement to document the legal sufficiency of each real estate transaction. We have included the full text of management's comments in the Appendix.</p>
Overall Evaluation of Management's Comments	<p>Management's comments are responsive and address the issues identified in the report.</p>

INTRODUCTION

Background

Facilities is an enabling organization whose primary mission is to provide quality real estate and facilities products and services to meet the present and future needs of postal operations. Organizationally, Facilities is comprised of headquarters Facilities, 11 Facilities Service offices, and 3 satellite offices. Facilities accomplishes projects at the request of the areas and districts. The owned facilities program is divided into two segments: customer service facilities and mail processing facilities. The owned facilities program includes such phases as: requirements, planning and approval, site acquisition, design, and construction.

Objective, Scope, and Methodology

The audit objective was to assess the program results of Postal Service procedures for site selection and acquisition.

We determined that the Postal Service managed 394 site selection and acquisition projects between FY 1998 and March 2000. We focused this review on the Atlanta, Dallas, Denver, and the Mid-Atlantic Facilities Service offices. These four Facilities Service offices accounted for 199 of the 394 projects identified. We selected 124 of the 199 projects for review based on a statistical sample. This is the first phase of an overall sample to project to the universe. We are not making an interim projection. We are presenting the sample results of the first phase.

We identified 24 potential actions associated with the site selection and acquisition process. We reviewed the offers to sell, site selection documents, due diligence documents, and acquisition documents. Also, we reviewed the files for documentary evidence of legal review. We interviewed contracting personnel as needed.

This audit was conducted from February through September 2000 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

We reviewed reports by the U.S. General Accounting Office (GAO), and found three reports that apply to this review, which are listed below.

Report number GGD-96-59, "Conditions Leading to Problems in Some Major Purchases," dated January 18, 1996. The GAO reported that problems encountered on seven purchases, which they reviewed, were due to postal officials' poor judgment, circumvention of existing internal controls, and failure to resolve conflicts of interest. Problems with real estate transactions were due to shortcutting important integrity safeguards through a mistaken sense of urgency. Responding to the report, the postmaster general said that the purchasing process had been compromised, not because of fundamental defects in Postal Service's purchasing policies, but because officials chose to deviate from those policies.

Report number OCG-99-21, "Major Management Challenges and Program Risks: U. S. Postal Service," dated January 1, 1999. The GAO reported that in 1996, the Postal Service expended about \$89 million on penalties to compensate injured parties and to pay for unusable and marginally usable property because of poor judgment and a decision to circumvent existing internal controls to meet perceived operational exigencies. The Postal Service said that, to avoid a recurrence of these problems, it has improved its management of major acquisitions and strengthened internal controls.

Report number GGD-99-147, "Deficiencies Continue While Antelope Valley Project Status Remains Uncertain," dated August 31, 1999. The GAO noted that the Postal Service followed most of its key requirements for acquiring a site except that the review and approval of the proposed project justification and alternatives by the headquarters Capital Investment Committee did not take place prior to the advance site acquisition. As a result, the Postal Service has invested \$6.5 million in land that has been unused for nearly eight years. The GAO noted that it could not determine from the available documentation, why the expansion of the existing facility was not considered a viable alternative before the site was acquired.

AUDIT RESULTS

Based on a review of 124 files for projects valued at \$129 million, we observed these four Facilities Service offices were complying with required actions for site selection and acquisition. However, the audit revealed these offices could improve their internal controls over the site selection process. We determined that the site acquisition files do not always document the reason that a specific site was selected. Further, at one Facilities Service office, we could not always determine whether the offer to sell was reviewed by the responsible field counsel.

Site Selection Process

Internal controls over the site selection process should be improved. Specifically, the site acquisition files for 58 of the 124 projects did not document the rationale of the site selection committee. As a result, the reason that a specific site was acquired was unclear.

Standards for Internal Controls in the Federal Government requires that all transactions and other significant events are to be clearly documented and the documentation is to be readily available for examination. In addition, the Postal Services' Realty Acquisition and Management Handbook (RE-1) requires all acquisition projects to have a Contending Sites Summary Report describing all contending sites and ensuring that all such sites are thoroughly evaluated. This report is used by all members of the site review committee.

At each Facilities Service office, we reviewed the site acquisition files to ensure that the Site Selection Committee met, that they formally approved a site, and that the reason the specific site was chosen was clearly documented in the file. The files routinely documented that the Site Selection Committee met and formally approved a specific site for acquisition. However, the files did not document or did not clearly document the rationale of the Site Selection Committee decision for 58 of the 124 site acquisitions.

We did not find any documented reason for site selection in 12 of the files. The documentation was insufficient to justify the site selected in 27 of the files. The remaining 19 files contained a real estate planning report prepared by a

contractor that was dated subsequent to the site selection meeting. Therefore, we do not know what information the committee had available when they voted.

Recommendation	1. We recommend that the vice president of Facilities require the Site Selection Committee to document the reason for its selection.
Management's Comments	Management indicated agreement with our recommendation and the vice president, Facilities, sent a memorandum to the real estate managers at the Field Service Offices requiring that each site selection recommendation include a written narrative explaining the factors used to rank each site.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation and the actions, taken or planned, address the issue.

Legal Review	<p>Nineteen of the forty-four site acquisition files reviewed at the Mid-Atlantic Facilities Service office did not contain evidence that the offer to sell was reviewed by the responsible field counsel office. Postal Service Counsel for the Mid-Atlantic Facilities Service office advised us that legal reviews had been conducted.</p> <p>The <u>Realty Acquisition and Management Handbook</u> requires the contracting officer to obtain a review of the acquisition package and supporting data by field counsel and resolve any identified problems before accepting the offer to sell.</p> <p>For the 19 site acquisition files that did not contain evidence of legal review, we asked the manager of Real Estate at the Mid-Atlantic Facilities Service office about the lack of legal documentation. He explained that most of their interaction is done by telephone and the field counsel does not provide documentation confirming the review. The manager of the Mid-Atlantic Facilities Service office explained that any prior problems were solved because an attorney from the Atlanta field office now visits the Mid-Atlantic Facilities Service office and reviews the files.</p>
Recommendation	<p>2. We recommend that the vice president, Facilities, require the manager of the Mid-Atlantic Facilities Service office obtain a memo from the responsible field counsel office for each real estate transaction that documents legal sufficiency.</p>
Management's Comments	<p>Management indicated agreement with our recommendation and the acting manager for real estate at the Mid-Atlantic Field Service Office issued a memorandum to the real estate staff reaffirming the requirement to obtain a memorandum from the Office of Field Legal Services attesting to the sufficiency of all legal documents appearing as a part of the proposed fee acquisition.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to our recommendation and the actions, taken or planned, address the issue.</p>

APPENDIX. MANAGEMENT'S COMMENTS

RUDY UMSCHIED
VICE PRESIDENT, FACILITIES



September 6, 2000

BILLY J. SAULS

SUBJECT: Audit of New Construction Owned

This is in response to your recently completed audit of new construction owned facility projects. The audit confirms that our program is large; involves many individual process steps; and requires coordination among facilities, operations and the local community. We are pleased the audit confirmed that the four Facilities Service Offices involved in the audit were complying with required actions for site selection and acquisition.

In response to your specific recommendations, we have taken the following actions:

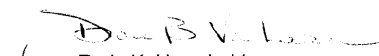
Recommendation 1. We recommend the vice president of Facilities require the Site Selection Committee to document the reason for its selection.

Action. The current instructions, in RE-1, require the committee to reconvene after an on site review of the contending sites. Discussions are held emphasizing any new information developed during the site visits; the results are verbalized; and a vote is taken to establish the ranking. The current draft of the RE-2, scheduled for release in 2001, requires a written narrative that explains the factors used in achieving the rank given to each site. As a result of the audit finding, we have issued the attached memorandum implementing this requirement immediately.

Recommendation 2. We recommend the vice president of Facilities require the manager of the Mid-Atlantic Facilities Service Office obtain a memo from the responsible field counsel office for each real estate transaction that documents legal sufficiency.

Action. It is clear that legal sufficiency approval was obtained for all of the site acquisitions in the Mid-Atlantic Facilities Service Office. However, since some of the files did not contain the memorandum from legal, the office has reaffirmed this requirement as reflected in the attached memorandum.

We appreciate the efforts to strengthen our program.


Rudy K. Umscheid
Attachments

4301 WILSON BOULEVARD, SUITE 300
ARLINGTON, VA 22203-1861
703-526-2727
FAX: 703-526-2740

FACILITIES - HEADQUARTERS



August 30, 2000

FACILITIES SERVICE OFFICE MANAGERS
REAL ESTATE MANAGERS

SUBJECT: Site Review Recommendations

On August 24, members of the headquarters management team and I met with the Office of Inspector General Audit team to receive a verbal presentation of the recently completed field audit of site acquisitions. The audit covered a random sampling of sites acquired during fiscal years 1998, 1999, and ending March of this year. The four offices audited were Atlanta, Dallas, Denver and Mid-Atlantic.

Overall, the results of the audit findings indicated we were in compliance with policy. They were complimentary regarding the support they received during the audit; and even though each acquisition file was set up differently, they were able to find with one exception the required documentation.

The only recommendation presented was in regard to the ranking of sites as a result of the Site Review Committee meeting. RE-1 provides a format for ranking the sites and requires the signature of the voting committee members at the conclusion of the site review meeting. The instructions for the completion of this document suggest that following the site visits, a discussion take place emphasizing any new information developed during the visits, solicit comments on observations from the group, verbalize the results and conduct the vote and ranking of the sites. What the Auditors found was compliance with those instructions. What they did not find was a written explanation as to why each site was ranked in the order presented on the site review sheet. Although some files did provide an explanation, it is not a specific requirement of the current RE-1. The new RE-2 Handbook will contain this requirement, based on a similar finding included in a GAO audit last year. However, we have decided to implement this change prior to the issuance of the new RE-2.

Therefore, effective immediately the instructions for site review proceedings are modified as follows. "The signed site selection recommendation must include information as to why site(s) are ranked in a particular order." This information does not have to be a comparative analysis, but should be a written narrative that explains the factors used in achieving the rank given to each site.

Those offices that participated in this audit should be very pleased with the findings and the headquarters management team is very appreciative of the hard work and effort that all of you have put in making this a successful program. Upon completion of the written report, a copy will be provided to each office.

A handwritten signature in dark ink, appearing to read "L. Norris".

Louis J. Norris, Manager
Real Estate

4301 WILSON BOULEVARD SUITE 300
ARLINGTON VA 22203-1861

ACTING MANAGER, REAL ESTATE
FACILITIES SERVICE OFFICE



UNITED STATES
POSTAL SERVICE

August 31, 2000

To: MAFSO RE Staff

Re: Fee Acquisitions
Memorandum of Legal Sufficiency
SRC Meeting Notes

You may recall that recently the MAFSO underwent an Inspector General (IG) audit of our acquisition files. Nineteen of the files were absent a memorandum from the Office of Field Legal Services attesting to the legal sufficiency of the proposed real transaction. RE-1 requires a legal review of each real estate acquisition prior to the execution by the Contracting Officer of the contractual document between the Postal Service and the offeror.

Another action the I.G. felt our office could take to improve our acquisition procedure is to document, in writing, the decision process of the Site Review Committee (SRC). Currently we are obtaining signatures of voting members of the SRC on the SRC Sign-Off Sheet, but there is no written record to justify why the SRC selected one site over another.

Accordingly, it becomes necessary that we implement the following policy at the MAFSO:

1. Memorandum of Legal Sufficiency. The real estate project manager is to obtain a written Memorandum of Legal Sufficiency from the requisite Office of Field Legal Services attesting to the sufficiency of all legal documents appearing as a part of the proposed fee acquisition. This memorandum must be reviewed by the Contracting Officer prior to the exercising of any purchase rights and subsequently becomes part of the official project file.
2. SRC Meeting Notes. The real estate project manager, upon the adjournment of the SRC meeting, is to have each voting member of the SRC sign-off on a brief narrative summary of why the SRC recommends one (or several, if alternate sites are identified) site(s) over the others.

We will discuss these issues at the next regularly scheduled real estate staff meeting and identify some possible means for achieving compliance with these two requirements.

A handwritten signature in cursive script, appearing to read "W. Hunter Roop".

W. Hunter Roop
Acting Manager, Real Estate

c: Lou Norris
Al Zwettler