September 17, 2001

DONNA M. PEAK
VICE PRESIDENT, FINANCE, CONTROLLER

RUDOLPH K. UMSCHEID
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Authorization of Funds for Construction Projects (Audit Report Number FA-AR-01-001)

This report presents the results of our audit of the authorization of funds for construction projects at four Facilities Service offices (Project Number 00HA051FA000). This was a self-initiated audit.

The audit found Facilities Service office personnel did not always prepare required Decision Analysis Report modifications when transferring new construction owned project funds between site and building investment categories. We view management's comments as responsive to our finding and recommendation. Based on the comments, we revised the wording within the report to more clearly state that all 33 transfers without Decision Analysis Report modifications were for transfers between site and building investment categories. 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 audit. If you have any questions or need additional information, please contact Russ Barbee, director, Facilities, at (703) 248-2107 or me at (703) 248-2300.

Billy Sauls
Assistant Inspector General
for Business Protection

Attachment

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

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of Postal Service authorization and commitment procedures for new construction owned projects managed by four Facilities Service offices. The objective of the audit was to review compliance with authorization procedures to determine any benefit to deauthorizing funds before the end of a project.

Results in Brief

Our audit determined the four Facilities Service offices we reviewed generally adhered to current regulations governing authorization and deauthorization procedures. We did not find any benefit to deauthorizing funds during a project.

However, Facilities Service office personnel did not always prepare required Decision Analysis Report modifications when transferring new construction owned project funds between site and building investment categories. During the review of 88 projects, with total authorizations of $356 million, we noted that 33 of the 40 investment category transfers between site and building did not have the required Decision Analysis Report modifications. These 33 transfers totaled over $6.3 million. Individually, the 33 transfers ranged between $3,500 and $769,000.

Facilities Service office personnel were aware of the requirement to prepare a Decision Analysis Report modification when transferring funds between site and building investment categories. However, they circumvented this regulation and approved the transfer through a revised project authorization form. In addition to not completing the Decision Analysis Report modification, 24 of the 33 transfers, totaling over $4.1 million, did not have a revised project authorization form approved by either the area or headquarters as required. Therefore, we could not determine that the area or headquarters knew of, or would have approved, the transfer of funds into a different investment category.

Summary of Recommendation

We recommend the vice president, Facilities, in conjunction with the vice president, Finance, controller, enforce the requirement to prepare a Decision Analysis Report modification when transferring funds between site and building investment categories.

Summary of Management's Comments	Management agreed with our finding and recommendation. They described their actions already taken and planned, to direct Facilities Service offices to comply with preparing Decision Analysis Report modifications.
Overall Evaluation of Management's Comments	Management's comments and actions were responsive to our finding and recommendation.

INTRODUCTION

Background

An authorization must be issued at the beginning of a new construction owned project before the contracting officer can expend funds for the project. PS Form 4209, Project Authorization, lists authorized amounts for five major investment categories: site acquisition, site support, building design, building construction, and building support. At project completion, an administrative and fiscal transaction is executed to deauthorize any remaining project funds.

Prior to March 1999 Postal Service regulations required the preparation of a revised project authorization form to allow a percentage contingency for construction and construction support after contract award. Any unused authorization over the contingency required a deauthorization of funds to reduce the total authorization for the project. Currently, the new regulation, Postal Service Handbook F-66, General Investment Policies and Procedures, allows the Postal Service to authorize funds at the beginning of the project and hold them throughout the project.

Postal Service policy requires a Decision Analysis Report modification when transferring funds between site and building investment categories (Handbook F-66C, Field Investment Policies and Procedures, Section 8-6). A Decision Analysis Report modification request is subject to the same review and approval as the original report. For example, for projects under $5 million, the Decision Analysis Report modification request is approved by the respective area vice president.

Objective, Scope, and Methodology

The objective of the audit was to review compliance with authorization procedures to determine any benefit to deauthorizing funds before the end of a project.

The scope included a judgmental sample of 88 new construction owned contracts awarded between September 13, 1997, and March 31, 2000, and with a first authorization prior to October 24, 1997. To accomplish our objective, we reviewed new construction owned projects with total authorizations of $356 million at four Facilities Service offices in Atlanta, Georgia; Columbia, Maryland; Dallas, Texas; and Greensboro, North Carolina.

In completing our audit, we reviewed Postal Service Handbook F-66, General Investment Policies and Procedures, Postal Service Handbook F-20A, Accounting Center Service Guidelines, and Publication 191, Investment Policies and Procedures, which was effective through February 1999. We interviewed Postal Service officials at headquarters, national area offices, Finance, and Facilities Service offices.

The audit was conducted from October 2000 through September 2001 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

During February 1999 the Postal Inspection Service's audit report, New Construction Owned – Largo Branch Facility, (Case No. 198-1235428-FPA(2)), reported a finding related to compliance with policies and procedures for project authorizations and commitments. The review determined that no deauthorization of funds had been requested to reduce the total authorized funds for the project, even though Postal Service Investment Policies and Procedures required a revised project authorization form after contract award to allow a contingency percentage for construction and construction support.

The audit recommended the Facilities Service office manager issue instructions to have deauthorizations and decommitments processed in accordance with Postal Service policy. In response to the recommendation, Facilities management reviewed Publication 191 with all their employees instructing them to reduce project authorizations after award of the contract. However, in March 1999 new regulations came into effect, which removed the requirement to allow a percentage contingency amount. The regulation now allows the Postal Service to authorize funds at the beginning of a project and hold them until the project is completed.

AUDIT RESULTS

Facilities Generally Complied with Authorization Regulations

The Facilities Service offices generally acted in accordance with current regulations for authorizing and deauthorizing funds for new construction owned projects. These offices reduce available funding levels to zero by deauthorizing at the completion of a project in compliance with Postal Service regulations.

Further, within the Postal Service, authorized funds cannot be expended until they are budgeted. Each area is allocated a budget, but they do not receive the full amount of their authorization in the budget. Because reducing the level of authorized funds during a project does not make those funds available to be spent elsewhere, we found no benefit from deauthorizing funds before the end of a project.

Investment Category Transfers Not Properly Approved

Although authorization procedures were generally followed, we found that 33 of 40 transfers between site and building investment categories, totaling approximately $6.3 million were made without a Decision Analysis Report modification. Further, 24 of the 33 transfers, totaling approximately $4.2 million had the revised project authorization forms approved by Facilities Service office personnel instead of the required area or headquarters. The 33 transfers individually ranged between $3,500 and $769,000.

Postal Service regulations require a Decision Analysis Report modification request be prepared and approved for line item transfers of project funds between site and building investment categories, even when no additional funding is required. The requirement serves to control the flow of funds for the project as set forth in the approved Decision Analysis Report, and ensure that changes to investment and operating plans are properly documented and approved.

Facilities Service office personnel were aware of the requirement to prepare a Decision Analysis Report modification for the transfer of funds between site and building investment categories, even with no additional funding. However, we found in 33 of 40 transfers personnel did not prepare Decision Analysis Report modifications when required due to the pressure of performing other tasks, other competing priorities, and contradictory instructions.

One of the four Facilities Service offices did not prepare modification requests in 5 of 13 instances because the requirement was overlooked in the pressure of performing other tasks. Seven of the revised project authorization forms were not approved by the area. A second Facilities Service office did not prepare Decision Analysis Report modifications in 12 of 13 transfers between site and building investment categories, based on verbal instructions from Facilities headquarters in 1993 that contradicted program requirements. A third Facilities Service office did not prepare Decision Analysis Report modifications for 13 of 14 transfers reviewed because they had not treated the requirement as a priority. The fourth Facilities Service office made no transfers of funds between site and building investment categories.

The 33 fund transfers, totaling $6.3 million represent less than 2 percent of the total authorizations of $356 million for the 88 new construction owned projects we reviewed. In addition, over $3.1 million of the amount transferred was never budgeted and spent during the project. Although the amounts transferred were small, and not all transferred funds were spent, without proper approval of a Decision Analysis Report modification, a potential exists that authorized funds could be budgeted for unnecessary project upgrades. In addition, proper documentation of transfers ensures that funds are project-related and not transferred to other projects.

Recommendation

We recommend the vice president, Facilities, in conjunction with the vice president, Finance, controller:

1. Enforce the requirement to prepare a Decision Analysis Report modification when transferring funds between site and building investment categories to ensure proper notification and approval of individual transfers.

Management's Comments

Management agreed with the recommendation of the report and described their actions to date in directing Facilities Service offices to comply with preparing Decision Analysis Report modifications. To further reinforce compliance, a joint memorandum from the vice president, Finance, controller, and the vice president, Facilities, will be reissued describing the requirement for Decision Analysis Report modifications when transferring funds between site and building investment categories.

Management's comments noted that the draft report was not clear in stating whether all transfers cited in the report were for transfers between investment categories, which required a Decision Analysis Report modification.

Evaluation of Management's Comments

Management's comments and actions were responsive to our finding and recommendation. Based on management's comments, the OIG revised the report to more clearly state that the 33 transfers cited in the audit were for transfers between site and building investment categories. Site and building investment category transfers require a Decision Analysis Report modification. Management is correct in pointing out that transfers between individual site investment categories or transfers between individual building investment categories would not require a Decision Analysis Report modification.

During our exit conferences at the Facilities Service offices, we provided management with a list of all the transfers we identified between site and building investment categories that did not have the required Decision Analysis Report modification. We will also forward a consolidated list of these 33 transfers to Facilities headquarters management.

APPENDIX. MANAGEMENT'S COMMENTS

UNITED STATES
POSTAL SERVICE

August 8, 2001

BILLY SAULS
ASSISTANT INSPECTOR GENERAL FOR BUSINESS PROTECTION

SUBJECT: Draft Audit Report–Authorization of Funds for Construction Projects
(Report Number FA-AR-01-DRAFT)

Although we are in agreement with the recommendation of this report, we are unable to glean from the draft audit if all the instances cited in the findings require decision analysis report (DAR) modifications. Certain circumstances allow the transfer of funds from one line item or investment category to another without approval of a DAR modification request. A list from your audit of the funds transfers, including the budget identification codes, would be helpful for management to determine the number of modifications involved.

Actions taken to date include management reviews, conducted in the fall of 2000, of the Facilities Service Offices (FSO) and the area offices' project files, and direction from senior management to comply with DAR modification requirements.

The review teams consisted of representatives from Facilities, Finance, and Operations. Our work included a review of the Form 4209s, *Project Authorization*, for each project. Instances where line-item transfers occurred which dictated the need for a DAR modification were examined to see if the modification was prepared and approved in accordance with Handbook F-66, *General Investment Policies and Procedures*. Although there were very few discrepancies in this area, anomalies discovered were outlined in the exit conference and the requirement to prepare DAR modifications was discussed. These reviews are conducted on a periodic basis with the goal of not only determining non-compliance issues but also to determine training needs and potential policy revisions.

To reinforce compliance in the area of modification request requirements, a joint memorandum from the vice president, Finance, Controller and the vice president, Facilities will be reissued in August to area Finance and FSO managers. This memorandum will describe the requirement to review and approve DAR modification requests in order to transfer funds between investment categories.

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