March 31, 2009

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – National Leased Facility Maintenance Responsibility (Report Number SA-AR-09-003)

This report presents the results of our national audit of Leased Facility Maintenance Responsibility (Project Number 08YG032SA000). This nationwide audit was conducted to determine if the U.S. Postal Service is incurring costs for maintenance and repairs at leased facilities for which the lessor is responsible. We conducted this self-initiated audit based on operational risks we identified during the Leased Facility Maintenance Responsibility audit in the Great Lakes Area. See Appendix A for additional information about this audit.

Conclusion

We determined the Postal Service is incurring costs for maintenance and repairs at leased facilities for which the lessor is responsible. Specifically, the Postal Service does not have an effective national process for recouping lessor-responsible maintenance and repair costs incurred by the Postal Service. As a result, the Postal Service was not reimbursed for some of the maintenance and repair work they performed at leased facilities. We were unable to determine the actual number and dollar value of lessor-responsible repairs the Postal Service paid for because of the Facilities Single Source Provider (FSSP) system's inability to identify repairs that are the lessor's responsibility.

The Postal Service implemented a new Landlord Maintenance Module (LMM) in the FSSP system in May 2008 to improve the consistency and accuracy of the lessor enforcement process. However, 11 of the 19 lessor-responsible sample items we reviewed in the LMM were not reimbursed.[1]

Reimbursement for Lessor Responsible Repairs

In our sample of 519 maintenance and repair projects, the Postal Service completed 86 projects that were the lessor's responsibility. The Postal Service did not collect reimbursements totaling $106,439 for 64 of the 86 projects.

[1] The LMM was implemented in May 2008, and the audit team tested 127 repair projects in the LMM for the period May through July 2008.

This occurred because Facilities Management did not ensure personnel followed established policies and procedures to adequately identify, track, and recoup costs incurred by the Postal Service for performing maintenance and repairs that are the lessor's responsibility.

Based on the results of this audit, we project that the Postal Service paid at least $916,694 for maintenance and repairs that were the lessor's responsibility. We are reporting this monetary impact as follows.

- $505,379 in questioned costs[2] – lessor-responsible repairs the Postal Service performed but for which it did not receive reimbursement.
- $411,315 in assets at risk[3] – lessor-responsible repairs the Postal Service performed for which it received reimbursement.

In addition, we are reporting $15,559 in questioned costs based on our judgmental sample of maintenance and repairs for fiscal year (FY) 2008.

See Appendix B for our detailed analysis of this topic and Appendix C for our calculation of monetary impact.

We recommend the Vice President, Facilities:

1. Establish and implement controls to ensure Postal Service personnel are aware of and follow existing written policies and procedures for lessor maintenance and repairs.

2. Instruct the Facilities Service Offices to seek reimbursement for questioned costs identified during the audit as follows:
   - Eastern Facilities Service Office – $17,836
   - Northeast Facilities Service Office – $32,202
   - Pacific Facilities Service Office – $56,401

3. Instruct the Facilities Service Offices to review fiscal year 2006 and 2007 data to identify any other uncollected repair expenses and seek reimbursement for any uncollected funds expended by the Postal Service.

Management's Comments

Management did not specifically state whether they agreed or disagreed with the findings. Management agreed with recommendation 1 and stated that corrective actions are currently in place. They stated that the LMM requires Facilities personnel to

[2] Costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.
[3] Assets or accountable items that are at risk of loss because of inadequate internal controls.

address landlord maintenance responsibility before action can be taken on a problem at a leased facility. Management also stated that within the LMM, they track work accomplished by the Postal Service; and the module contains all of the data required to initiate the collection process and track the method and amount of the reimbursement.

Management agreed with recommendation 2 and stated they will pursue reimbursement for questioned costs that are deemed to be recoverable by the end of this FY. The Postal Service has already collected $2,909 and identified $32,428 as unrecoverable due to erroneous lease interpretation and Postal Service responsibility. The remaining amount is currently being pursued.

Management did not state whether they agreed with recommendation 3. Management stated it would be extremely difficult to identify all 2006 and 2007 landlord maintenance projects to determine whether reimbursement should have been pursued. Management stated the expense of this effort would probably offset the landlord maintenance reimbursements. See Appendix D for management's comments, in their entirety.

Evaluation of Management Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendations 1 and 2 and management's corrective actions taken should resolve the issues identified in the report.

While we understand there would be expenses associated with reviewing the FY 2006 and 2007 data, we believe the review could result in monetary benefits to the Postal Service, and they should assess the feasibility of performing this review. However, we will not pursue audit resolution regarding recommendation 3.

In addition, management expressed concern with the projected amounts of $505,379 in questioned costs and the $411,315 in assets at risk, but did agree that there were shortcomings in following proper procedures. Because field offices did not follow proper procedures, we will report the $520,938[4] in questioned costs and $411,315 in assets at risk in our *Semiannual Report to Congress.*

The OIG considers recommendations 1 and 2 significant, and therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed.

[4] $505,379 in questioned costs – lessor-responsible repairs the Postal Service performed but for which it did not receive reimbursement, and $411,315 in assets at risk – lessor-responsible repairs the Postal Service performed for which it received reimbursement.

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.

E-Signed by Darrell E. Benjamin, Jr
VERIFY authenticity with ApproveIt

Darrell E. Benjamin Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: William Galligan
Tom Russell
Henry (Hank) Burmeister
Kayode Kadara
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

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 is headquartered in Arlington, VA, and has eight Facilities Service Offices (FSOs) throughout the country.

Lease management occurs at the FSO level, and duties include monitoring and enforcing lease provisions; acting as liaison for lessors on improvement projects; and providing support to postmasters and installation heads when issues occur concerning the maintenance of leased facilities.

Administrative Support Manual, Chapter 13, Section 5, explains that leases or rental agreements specify the lessor's obligations for maintenance and repairs. Typically, the agreements require the owners to keep the premises and all the equipment they furnish in good tenantable condition, except when a Postal Service agent or employee causes damage.

The maintenance rider in Postal Service leases states that if the lessor does not make the repairs within the timeframe the Postal Service stipulates (provided it is a reasonable timeframe) the Postal Service can perform the work by contract or otherwise and withhold the cost of such work (which may include administrative costs and interest) from payments due.

Maintenance Series-110[5] states that the Real Estate Department of the FSO should be familiar with lease provisions and understand the respective responsibilities of the Postal Service and lessor to ensure that Postal Service money is not spent on work that is the lessor's responsibility. In addition, the Contracting Officer at the FSO makes the final decision on whether the repair costs the Postal Service incurs for repairs the lessor was responsible for will be deducted from future rents due the lessor.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine if the Postal Service incurred costs for maintenance and repairs at leased facilities for which the lessor was responsible. To accomplish our objective, we reviewed documentation and applicable policies and procedures and examined other relevant material. We also visited Postal Service facilities and interviewed managers and employees. The scope of our audit was maintenance and repairs to leased facilities paid for by the Postal Service during

[5] Maintenance Series (MS)-110, *Associate Office Postmasters Facility Maintenance Guidelines.*

FYs 2006 and 2007, and during the period May 5 – July 31, 2008, for which the lessor is responsible.

We conducted this performance audit from September 2008 through March 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on February 11, 2009, and included their comments where appropriate. We used computer-generated data from Postal Service systems such as FSSP and data provided by the OIG Computer Assisted Assessment Techniques staff to obtain our sample items. We verified the items with documentation provided by the FSO and are not aware of any limitations in the reliability of computer-generated data supporting the audit findings.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Leased Facility Maintenance Responsibility in the Great Lakes Area	SA-AR-08-008	July 23, 2008	$117,111	The Postal Service incurred costs for maintaining leased facilities for which the lessor was responsible. Additionally, the Great Lakes FSO did not pursue reimbursement for many maintenance and repair costs that were the lessor's responsibility. The OIG recommended that the Postal Service strengthen its policies and procedures to ensure tracking and reimbursement of expenses it incurred for performing lessor-responsible maintenance and repairs, and that the Great Lakes FSO collect $62,625 in recoverable costs. Postal Service management agreed with the findings and recommendations.
Postal Service Facilities Maintenance and Repair Costs	CA-AR-07-003	May 14, 2007	$22,396	The report identified accounting issues, including two leased facility repair expenses that the Postal Service did not recoup from the lessor through rental deductions. The OIG made three recommendations to improve maintenance, repair, and alteration procedures, and management concurred with the findings and recommendations.

APPENDIX B: DETAILED ANALYSIS

Reimbursement for Lessor Responsible Repairs

The Postal Service did not pursue reimbursement for several maintenance and repair costs that were the lessor's responsibility. In our sample of 519 maintenance and repair projects,[6] the Postal Service completed 86 projects that were the lessor's responsibility. The Postal Service did not collect reimbursements totaling $106,439 for 64 of the 86 projects. Examples include:

- Thirty-six repair projects were not properly identified as the lessor's responsibility.
- The Postal Service performed two repairs that were the lessor's responsibility for health and safety reasons; however, they did not pursue reimbursement from the lessor.
- Reimbursement is currently in process for seven projects.
- The Postal Service did not seek reimbursement for nine repair projects when the value exceeded the maximum dollar value set in the maintenance rider of the lease as a minor repair.[7]
- The project managers did not forward the paid invoice to the parties responsible for collection on two repair projects.
- After due diligence by the FSO, two repair projects were determined to be the lessor's responsibility, but the lessor did not receive reimbursement notification from the FSO.
- The FSO correctly identified two lessor-responsible repairs but did not follow-through with collection actions.

Facilities management did not ensure personnel followed established policies and procedures to adequately identify, track, and recoup costs incurred by the Postal Service for performing maintenance and repairs that are the lessor's responsibility.[8]

Based on the results of this audit, we project that the Postal Service paid at least $916,694 for maintenance and repairs that were the lesssor's responsibility. We are reporting this monetary impact as follows.

- $505,379 in questioned costs – lessor-responsible maintenance and repairs the Postal Service performed but for which it did not receive reimbursement.

[6] In defining our universe, we incorporated repair projects for sampling based exclusively on repair description and maintenance responsibility. However, after review of the information provided by the FSO, it was apparent that the majority of our 519 sample repairs were the Postal Service's responsibility. The Postal Service does not have a mechanism in place to accurately identify only those repairs for which the lessor is responsible.
[7] The maintenance rider of the lease states that minor repairs are the Postal Service's responsibility, with the threshold typically set at $250 or $500.
[8] We documented the procedures described by each FSO regarding their lessor enforcement process.

- $411,315 in assets at risk – lessor-responsible maintenance and repairs the Postal Service performed for which it received reimbursement. These funds should not have been expended because controls are not in place to ensure the Postal Service will be reimbursed. We acknowledge that there may be situations when the Postal Service must perform lessor-responsible maintenance and repairs to address problems that impact the safety and security of employees, customers or assets, or due to the lessor's inaction. However, because personnel are not consistently following policies and procedures, when the Postal Service expends funds on lessor-responsible maintenance and repairs, there is a risk that the funds will not be recouped. As a result, we consider these funds to be at risk.

- We are also reporting $15,559 in questioned costs based on the judgmental sample of maintenance and repairs we reviewed for FY 2008.

APPENDIX C: QUESTIONED COSTS AND ASSETS AT RISK

Based on projection of the sample results, we are 95 percent confident that the Postal Service paid at least $916,694[9] for maintenance and repairs that were the responsibility of the lessor; actual uncollected costs were at least $505,379, and assets at risk were at least $411,315.

Statistical Projection Data	
Total Universe Value – value of all FSSP projects completed during FYs 2006 and 2007 used to project the monetary benefits.	$8,927,445
MONETARY BENEFITS	
Questioned Costs – projected repair costs that were not recouped from the lessor during FYs 2006 and 2007.	$505,379
Recoverable Questioned Costs – repair costs that were not recouped from the lessor during FY 2008, identified in our sample.	15,559
TOTAL MONETARY BENEFITS	$520,938
NON-MONETARY BENEFITS	
Assets at Risk – projected maintenance and repair costs that the Postal Service performed and received reimbursement for during FYs 2006 and 2007. However, the Postal Service should not have expended funds for those repairs, since they do not have controls in place to ensure they will be recouped. Personnel do not consistently follow policies and procedures for recouping these funds, therefore, reimbursement is not guaranteed and we consider those funds to be at risk.	$411,315

[9] This amount does not include the $15,559 because FY 2008 (May 5 through July 31) was not included in the statistical sample and was not used for projection purposes.

APPENDIX D: MANAGEMENT'S COMMENTS

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

UNITED STATES POSTAL SERVICE

March 18, 2009

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: National Leased Facility Maintenance Responsibility
Report Number SA-AR-09-DRAFT

We have reviewed the subject report. It does not appear that the $505,379 in questioned costs nor the $411,315 in assets at risk are based on actual audit findings, but are a projection resulting from auditing three offices. While we agree there were apparent shortcomings in following proper procedures, the amounts cited are questionable. We especially feel that the $411,315 should not be included as assets at risk, since compensation was received for these lessor responsible repairs.

Recommendation 1:
Establish and implement controls to ensure Postal Service personnel are aware of and follow existing written policies and procedures for lessor maintenance and repairs.

Response
Management agrees with this recommendation and corrections are currently in place. In May 2008, a new Landlord Maintenance module within Facility Single Source Provider (FSSP) was implemented. The major change in this release was that no action could be taken on a new call for a leased facility until landlord maintenance responsibility was addressed. Prior to this release, tracking of landlord maintenance actions using the Landlord Maintenance module was optional. With this change, use of the module became mandatory.

If Facilities Service Office (FSO) personnel determine that any problems on a leased facility call are not the landlord's responsibility, they now are required to specifically exclude such problem(s), and provide the reason for the exclusion. This information is recorded in the problem and Landlord Maintenance notes. If all problems on a call are excluded, a Landlord Maintenance record is still created. Excluded problems may be reinstated to Landlord Maintenance if it is later determined that it was excluded in error. Unless a problem has been excluded there is no longer access to the problem, except through Landlord Maintenance.

Within a Landlord Maintenance action, as long as the landlord is responsible for the work, there is no access to FSSP financial transactions. Once it is determined that the landlord has not accomplished the repairs within the agreed timeframe, the problem must be marked as an enforcement within the Landlord Maintenance module to make it available for Design and Construction assignment and USPS accomplishment of the work. Completion of the enforcement work by USPS will be tracked in Landlord Maintenance, as will the amount expended by USPS to complete the work. The Landlord Maintenance module contains all of the data required to initiate the collection process and to track the method and amount of the reimbursement.

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Leased facility calls that were in FSSP prior to the May 2008 release were not automatically migrated into the new Landlord Maintenance module. The FSOs were encouraged to update these existing actions and bring them within the new structure.

A Facilities Headquarters' team visited each FSO prior to the implementation of this new module to provide Real Estate personnel with training on the revised process and instruction on how to update existing calls to bring them within the new environment.

We feel these enhancements that include available fields for tracking action dates, all correspondence with the landlord, and collections, provide the tools necessary for a comprehensive record of each Landlord Maintenance action. This data on Landlord Maintenance actions allows for much improved management and oversight and also provides the data necessary to more effectively report on these actions.

In October 2008, formal Standard Operating Procedures (SOP) were implemented for Landlord Maintenance. Net Meeting training was provided to all Facilities' employees involved in this activity. Feedback for procedural improvement was received from the FSO teams in January 2009 and the final version of the SOP is now posted on the Facilities' website.

Recommendation 2:
Instruct the Facilities Service Offices to seek reimbursement for questioned costs identified during the audit as follows:

- Eastern Facilities Service Office - $17,836
- Northeast Facilities Service Office - $32,202
- Pacific Facilities Service Office - $56,401

Response:
Management agrees to pursue reimbursement for questioned costs that are deemed to be recoverable by the end of this fiscal year. Specifically:

Eastern Facilities Service Office
Out of the $17,836 in questioned costs, $2,908.64 has been recovered, $3,151.20 is still being pursued and $11,776.28 is unrecoverable due to reasons such as erroneous interpretations of lease responsibility and USPS Contracting Officer final decisions.

Northeast Facilities Service Office
The NEFSO has been instructed to pursue reimbursement of the questioned $32,202.

Pacific Facilities Service Office
The spreadsheet provided by the OIG at the PFSO exit conference identified $49,581.24 in questioned costs, not the $56,401 shown in this report. The PFSO has further determined that one project in the amount of $6,696.80 is actually USPS responsibility. That leaves $42,884.44 in questioned costs that is currently being pursued.

Recommendation 3:
Instruct the Facilities Service Offices to review fiscal year 2006 and 2007 data to identify any other uncollected repair expenses and seek reimbursement for any uncollected funds expended by the Postal Service.

Response:
It would be extremely difficult at this point to identify all 2006 and 2007 landlord maintenance projects to determine whether reimbursement should have been pursued. The expense of the effort necessary by postal staff to identify appropriate projects would probably offset the landlord maintenance reimbursements.

As noted in the response to Recommendation #1, prior to May 2008, use of the Landlord Maintenance module was optional and each office implemented its own procedures on how to handle Landlord Maintenance actions. In many cases, the details of actions taken were often obscured by the methods employed. The lack of any direct linkage between the Landlord Maintenance process and problem management, also served to blur any distinction between regular problems and enforcements. In some offices, manual tracking methods were employed rather than the FSSP system. Bottom line is that prior to the module change in May 2008, there was no nationally consistent source that could be utilized to retrieve meaningful data regarding the management of Landlord Maintenance actions by the FSOs.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.

Tom A. Samra

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