



September 27, 2007

TERRY J. WILSON  
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

TOM A. SAMRA  
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Use of Existing Postal-Owned Space in the Southeast Area  
(Report SA-AR-07-006)

This report presents the results of our audit of the use of existing postal-owned space in the Southeast Area (Project Number 07YG004CA000). This is our third report in a series on the use of existing postal-owned space. This audit was initiated in response to the U.S. Postal Service's *Transformation Plan* strategies to improve management of its real estate assets. Management has consolidated some postal operations, leaving underutilized and vacant space in postal-owned facilities. The Postal Service could use these and other such spaces to avoid future lease costs. This series of audits is reviewing what each area does to optimize underutilized and vacant space. At the conclusion of our area audits, we will issue a global report addressing common issues and best practices noted.

## **Background**

Facilities is an enabling organization within the U.S. 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 organizations and (2) realize optimum value from facilities assets and transactions. Facilities has its headquarters in Arlington, Virginia, and there are eight Facilities Services Offices (FSO) throughout the country.

The FSOs accomplish the majority of the Postal Service's facilities program work. This includes planning, leasing, contracting, acquiring, designing, and constructing facilities to house postal operations. Organizational administration, policy and procedure development, and Realty Asset Management (RAM) functions are administered from their 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-owned space or subleasing excess leased postal space to governmental and public tenants, and selling excess real property.



The Postal Service is to use the criteria contained in *Administrative Support Manual* (ASM) 13, Chapter 5, Sections 13 and 517, to identify underutilized and vacant space. These criteria stipulate that installation heads review the inventory of postal-owned property at least annually to determine whether there are any properties for which the Postal Service has no foreseeable need. According to Postal Service management, headquarters has requested the field to input information regarding vacant and excess space to a national database (Facilities Database [FDB] system). This provides a standard format for annual reporting and a method to submit additional excess space as it becomes available.

As of June 15, 2007, the Postal Service owned 8,479 facilities. In addition, the Postal Service leased 25,431 facilities totaling over 550 million square feet, and spent over \$829 million on lease contracts annually. The Southeast Area owned 993 facilities and leased 2,541 facilities, totaling over 108 million square feet, at an annual rent of over \$103 million.

### **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 Southeast Area. We chose to focus our review on administrative space because management can most easily move the administrative departments to new locations.<sup>2</sup> Through discussions with Postal Service officials we learned that retail units and processing and distribution centers are often problematic to

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<sup>1</sup> See Appendix A, Vacant Space in the Southeast Area by district.

<sup>2</sup> See Appendix B, Southeast Area Lease Administrative Space by district.

move due to service area concerns, and the cost and effort to conform new facilities to Postal Service specifications.

To accomplish our objective, we reviewed documentation and applicable policies and procedures. We also visited postal facilities, interviewed managers and employees, and examined any other material deemed necessary to accomplish our audit objectives. We judgmentally selected two districts, the Tennessee and Atlanta Districts, within the Southeast Area to visit. We chose the Tennessee District because it had the greatest amount of leased administrative space in the area. We chose the Atlanta District because of its proximity to the Southeast FSO, which could make it a potential model for communication of underutilized and/or vacant space in the districts to FSO management.

We conducted this performance audit from November 2006 through September 2007 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 July 12, 2007, and included their comments where appropriate.

A recent U.S. Postal Service Office of Inspector General (OIG) audit identified weaknesses in the computer systems we relied on for data.<sup>3</sup> The audit team mitigated this risk by using the FDB to provide support for the data we received from 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 management and comparing the data in the two computer systems. In addition, management stated the Building section of the FDB Real Estate module lists five data fields that were directly populated from the FMS<sup>4</sup> and these fields should be the same in electronic Facility Management System (eFMS) and the FDB system.

### **Prior Audit Coverage**

In the last 3 years, the OIG issued four reports specifically related to the audit objectives, although not necessarily specific to the Southeast Area.

- *Use of Existing Postal-Owned Space in the Pacific Area* (Report Number CA-AR-07-005, dated June 14, 2007); and *Use of Existing Postal-Owned Space in the*

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<sup>3</sup> *Review of the Facilities Management System for Windows* (Report Number IS-AR-02-003, dated February 22, 2002).

<sup>4</sup> FMSWIN data was transitioned to the next generation facilities system, electronic FMS on December 4, 2006.

*Great Lakes Area* (Report Number CA-AR-07-002, dated May 18, 2007). These were the first two reports in a series that revealed that the Pacific and Great Lakes Areas 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. We recommended that the Pacific and Great Lakes Areas formalize and document procedures to identify, track and report underutilized and vacant space, as well as regularly update the Excess Space Report. Management agreed with these recommendations and implemented corrective actions. We also recommended that the Pacific Area move the Pacific FSO to vacant space at the Embarcadero Postal Center, to avoid future leasing costs. Management disagreed with this recommendation because they were considering selling the Embarcadero Postal Center. They agreed to consider relocating the FSO into the vacant space if plans to sell the property change.

- *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. We recommended that Realty Asset Management continue its efforts for the disposal of underutilized land, and revise the policy requiring districts to identify underutilized land in their reviews of excess property. Management agreed with the recommendations and implemented corrective actions.
- *Realty Asset Management Program* (Report Number CA-MA-04-002, dated January 9, 2004). This report revealed the process for identifying and reporting excess facilities and vacant space needed improvement. Postal Service area officials did not annually review their inventory of postal-owned property, nor did they identify vacant leased space. Management agreed with our recommendations to communicate and enforce existing annual requirements to review and identify any excess postal-owned property with appropriate area and Facilities personnel; enhance reporting requirements of annual reviews; and develop a process to identify excess space on a regular basis.

## **Results**

### **Procedures for Tracking and Reporting Underutilized and Vacant Space in the Southeast Area**

The Southeast Area did not monitor or actively track and report underutilized and vacant space. Further, neither the audit team nor Southeast Area management could identify all underutilized and vacant space in the area. As a result, the Southeast Area could not ensure they optimized the use of such space to avoid future leasing costs. ASM 13,

Chapter 5,<sup>5</sup> requires installation heads to review the inventory of postal-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.

At the time of our audit, we identified examples of Southeast Area management's efforts to identify and use postal-owned vacant space;<sup>6</sup> however, we determined they did not communicate or enforce policies and procedures outlined in the ASM to ensure consistent tracking and reporting of such space. The Southeast Area's Finance Office stated the Southeast FSO was responsible for this requirement; in contrast, Southeast FSO management stated their office does not identify underutilized or vacant space. They stated the districts notify the FSO if they identify space that can accommodate administrative offices that are currently leasing space.

We believe the Postal Service would benefit from using a consistent method to identify, track, and report on underutilized and vacant space. When there are informal and inconsistent procedures to actively track leased space and identify underutilized and vacant space, the Postal Service may be missing opportunities to reduce future lease costs and realize long-term savings for the organization.

### **Recommendation**

We recommend the Vice President, Southeast Area Operations, in coordination with the Vice President, Facilities:

1. Develop consistent procedures for communication among installation heads, district managers, and Facilities Service Offices to identify and track underutilized and vacant space.

### **Management's Comments**

Management agreed with the recommendation and stated they will remind installation heads semi-annually of their responsibility to report excess space using the FDB System. Southeast FSO and Southeast Area personnel will work together to identify under used and excess real property to ensure that available space is put to the best use. Management also stated the absence of a complete excess property tracking system hampers the identification and utilization of all usable space. They believe a national database of all useable space is needed at the headquarters level rather than establishing a centralized area system. Management further stated that implementation of the Facilities Condition Assessment program in FY 2008 should help with this requirement, as the program should provide updated and verifiable excess space information by 2011.

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<sup>5</sup> ASM 13, Chapter 5, Section 513, page 6; and Section 517, page 10.

<sup>6</sup> In the North Florida District, management identified excess space and contacted the FSO to determine if there were administrative offices occupying leased space that could move into that excess space. In addition, the Southeast Area is in the process of selling unused space in Memphis, Tennessee.

### **Evaluation of Management's Comments**

Management's comments are responsive to the recommendation and actions taken and planned should correct the issue 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.

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

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

Attachments

cc: Katherine S. Banks

## APPENDIX A

### VACANT SPACE IN THE SOUTHEAST AREA BY DISTRICT\*

District	Square Footage of Vacant Space**
Alabama	1,138
Atlanta	2,875
Central Florida	360
Mississippi	4,088
North Florida	8,410
South Florida	no vacant office/retail space reported
South Georgia	28,502
Suncoast	no vacant office/retail space reported
Tennessee	8,398
<b>Total</b>	<b>53,771</b>

\* Per the *Vacant Space Report* obtained from the FMS portal March 15, 2007.  
\*\* Excludes storage space, restroom vacancies, and space marked unrentable.

## APPENDIX B

### SOUTHEAST AREA LEASED ADMINISTRATIVE SPACE BY DISTRICT\*

District	Interior Square Footage **	Annual Rent
Alabama	14,682	\$225,154
Atlanta	56,390	688,580
Central Florida	5,001	86,024
Mississippi	20,953	220,007
North Florida	23,687	420,444
South Florida	27,866	614,318
South Georgia	0	0
Suncoast	62,193	770,925
Tennessee	325,400	2,033,981
<b>Total</b>	<b>536,172</b>	<b>\$5,059,433</b>

\*Administrative space information provided by the former manager of Facilities Program Management, and cross-referenced with the Facility Inventory List in FMSWIN and lease data in eFMS.

\*\*Approximately 74 percent (395,404 square feet) of total square footage represents lease administrative space managed by the Southeast Area. Area management leased administrative space represents approximately 60 percent (\$3,017,748) of Southeast lease administrative annual rent. Headquarters manages the remaining leased space in the Southeast Area.



## APPENDIX C

### MANAGEMENT'S COMMENTS



September 7, 2007

MEMORANDUM FOR: Kim H. Stroud  
Director, Audit Reports

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

Our response to the subject draft audit report, in which we address the single recommendation, is indicated below.

1. *Develop consistent procedures for communication among installation heads, district managers, and Facilities Service Offices to identify and track underutilized and vacant space.*

Management Response:

Installation heads will be reminded semi-annually of their responsibility to report excess space, buildings, and land, utilizing the Facilities Database System program. The Southeast Facilities Service Office and Southeast Area personnel will also work together to identify underutilized and excess real property with the intent of ensuring that available space is put to its highest and best use.

While Asset Management's *Vacant Space Report* is the culmination of excess space, building, and land reporting, no centralized tracking system exists which includes both administrative and rentable space. The absence of a complete excess property tracking system hampers the identification and utilization of all useable space. Since this appears to be a system-wide problem, based on the five audits cited in the subject OIG Audit Report, it is felt the need for a national database of all useable space would be best addressed at the Headquarters level rather than establishing and maintaining a centralized area system.

We feel that the implementation of the Facilities Condition Assessment program by Facilities should help meet this requirement. The program will start in FY08 and should provide updated and verifiable excess space information for all USPS-owned facilities by FY 2011. It is also standard practice for Facilities personnel to review available space in all facilities within a ten-mile radius of any facility where a lease is being considered for renewal.

We appreciate the efforts of the OIG in the review of existing Postal-owned space in the Southeast Area. We will endeavor to identify excess space, buildings, and land which can be better utilized or released for outleasing or disposal.

Handwritten signature of Terry J. Wilson in black ink.

Terry J. Wilson  
Vice President, Southeast Area Operations

Handwritten signature of Tom A. Samra in black ink.

Tom A. Samra  
Vice President, Facilities