



August 18, 2008

MICHAEL J. DALEY  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

TOM A. SAMRA  
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report – Regatta Annex Lease  
(Report Number SA-AR-08-011)

This report presents the results of our review of the Regatta Annex Lease (Project Number 08YG013SA002). Our objective was to determine whether U.S. Postal Service management made a prudent facility investment when entering into the 5-year lease renewal at the Regatta Annex in Richmond, California. We conducted this self-initiated review to assess the financial risk associated with the lease renewal. Click [here](#) to go to Appendix A for additional information about this review.

## **Conclusion**

Postal Service management did not make a prudent investment decision when they renewed the Regatta Annex lease for 5 years. Management in the Pacific Area and Bay Valley District renewed the lease although the facility was not needed for future Postal Service operations.

## **Renewal of Regatta Annex Lease**

Bay Valley District management ended mail processing operations at the Regatta Annex in October 2007, approximately 30 days before the original lease expired. Although the facility was no longer needed for Postal Service operations, Pacific Area management renewed the 5-year lease. This occurred because:

- Managers in the Pacific Area, Bay Valley District, and Pacific Facilities Service Office (FSO) did not properly coordinate to ensure the Regatta Annex lease renewal was a prudent investment decision for the Postal Service.<sup>1</sup>

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<sup>1</sup> *Administrative Support Manual (ASM)* requires organizations that no longer need a leased facility to submit Postal Service (PS) Form 7437, *Facilities Services Request*, to notify the responsible FSO. These requests must be submitted in a timely manner to allow the FSO to take action according to the lease's provisions.

- Bay Valley District managers did not establish a formal review committee to ensure facility investment decisions reflected the best use of Postal Service resources.<sup>2</sup>
- FSO officials did not adequately explore and identify leasing alternatives in response to the planned closure of the Regatta Annex.<sup>3</sup>

When the lease was renewed in August 2007, management was obligated to pay approximately \$2,050,938 over the next 5 years. Additionally, the Postal Service assumed the inherent risk and liability associated with a vacant building.<sup>4</sup>

In June 2008, during our audit work, Pacific Area officials negotiated a buyout agreement to terminate the remaining Postal Service lease obligation for the Regatta Annex effective July 1, 2008. Management is obligated under the buyout agreement to pay \$621,964, which we identified as unrecoverable questioned costs. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

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

1. Require the Pacific Area, Bay Valley District, and Facilities Service Office management to coordinate future leasing efforts to help ensure that investment decisions for leasing facilities are prudent.

### Management's Comments

Management agreed with the recommendation and stated they must make prudent decisions on facility investments when entering into lease agreements to ensure they are cost-effective investments. Facilities management stated that they did not agree that a prudent decision was not made. Management stated they have established internal controls to effectively manage facility investments in the Pacific Area. Specifically, they are requiring Pacific Area personnel to provide oversight and assistance to districts and facility service offices to ensure facility leases are cost-effective and reflect the best use of agency resources. However, management did not provide the date they implemented corrective actions.

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<sup>2</sup> Handbook F-66C strongly recommends review of field-sponsored projects by a work group, functional review team, or field investment committee (FIC). In October 2007, the Bay Valley District formed an FIC, partly to recommend action to the District Manager on lease renewals. Because the Bay Valley District established an FIC, we are not making additional recommendations to the Vice President, Pacific Area Operations, on this issue.

<sup>3</sup> The Pacific FSO provides real estate services, including planning, leasing, and purchasing of facilities, to the Pacific Area.

<sup>4</sup> Inherent risks include unauthorized entry, theft, and vagrancy. Liabilities include the responsibility for future utility bills, taxes, maintenance, and personal injury.

Management stated the U.S. Postal Service Office of Inspector General (OIG) modified the scope of work. Further, Pacific Area management stated they specifically requested the OIG examine the cost savings associated with the area's subsequent relocation and consolidation of the Regatta Annex operations, which resulted in savings of \$2.7 million in fiscal year 2008 to date. Management's comments, in their entirety, are included in Appendix F.

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

The OIG considers management's comments responsive to the recommendation and the corrective actions taken should resolve the issue identified in the report.

The OIG did not change the scope of the audit and did not agree to examine the cost savings associated with the area's subsequent relocation and consolidation of the Regatta Annex operations. We agree the move from Regatta may have resulted in costs savings to the Postal Service. However, management renewed the 5-year lease at a time when they knew, or should have known, that the facility was not needed for future operations. The \$2.7 million cost savings could have been increased had management not renewed the lease.

We recommend the Vice President, Facilities:

2. Require responsible Pacific Facilities Service Office personnel to immediately explore and identify leasing alternatives when notified of changes in facility requirements.

### **Management's Comments**

Management agreed with the recommendation but indicated there are adequate policies and procedures currently in place to address potential changes in requirements. Management stated they recognized there was a lack of coordination between the FSO, Pacific Area, and Bay Valley District, and that policies and procedures were not closely followed because of an inadvertent withholding of information at the FSO, all of which factored into this situation. Additionally, management stated they have reviewed the current policies and procedures with the Real Estate group at the Pacific FSO and are confident this, combined with internal area and district controls, will help eliminate the potential for oversight in the future. In supplemental correspondence, management stated they met with the Real Estate group at the Pacific FSO on August 4, 2008.

Management disagreed with the \$621,964 identified as unrecoverable questioned costs and stated the early termination buy-out agreement would result in unrecoverable lease costs of \$196,397.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and management's corrective actions should address the intent of our recommendation and resolve the issue identified in the report. However, management's assessment of unrecoverable costs did not include \$214,022 in unrecoverable rent from December 1, 2007 to June 30, 2008 and did not include related costs for utilities, taxes, and applicable brokerage fees for a total of \$621,964.

The OIG considers both recommendations 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 follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We will report \$621,964 in unrecoverable questioned costs in our *Semiannual Report to Congress*.

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.



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

### Attachments

cc: William P. Galligan  
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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service has occupied the leased space at the Regatta Annex since 1994. The Regatta Annex was originally used to stage mail transport equipment. It was subsequently converted to accommodate bulk mail processing operations, supplementing the San Francisco Bulk Mail Center's operations, and was later used to perform other mail processing functions.

A renegotiated lease for the Regatta Annex began on December 1, 2002. The lease contained a 5-year renewal option at a cost of \$366,895 per year, which is approximately 40 percent above fair market value (FMV). To exercise the renewal option, the Postal Service was required to send written notice to the lessor at least 90 days before the end of the original lease term on November 30, 2007.

The 5-year lease renewal option for the Regatta Annex was exercised on August 28, 2007, and the new lease term began on December 1, 2007. Postal operations at the Regatta Annex ended on October 27, 2007. However, Postal Service specific equipment remained at the Regatta Annex for depostalization.<sup>5</sup> Click [here](#) to go to Appendix C for a timeline of events leading to the renewal of the Regatta Annex lease. Also, click [here](#) to go to Appendix D for photographs of the Regatta Annex.

### CRITERIA

#### ***Postal Service Administrative Support Manual, September 27, 2007.***

The ASM addresses facility requirements and planning, including facility space planning, real estate, design and construction, and preparation of Decision Analysis Reports. It outlines the responsibilities for continued occupancy of leased facilities, outleasing, and subleasing. It also describes responsibilities for developing excess or underutilized space in existing owned and leased facilities that are not currently being used or are being held for future operational requirements, or alternatively, for disposing of those facilities.

#### ***Handbook F-66, General Investment Policies and Procedures, October 11, 2007.***

Handbook F-66 provides requirements for ensuring that the capital and expense investments of the Postal Service provide the necessary facilities, vehicles, and equipment to meet its goals for customer and employee satisfaction and revenue generation while ensuring accountability, credibility, and competitiveness. The policies

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<sup>5</sup> Depostalizing refers to removing all postal-specific items from a vacant facility and restoring the facility to its condition before it was used by the Postal Service. Two Small Parcel Bundle Sorters and other mail processing equipment remained at the Regatta Annex as of April 16, 2008. Postal Service officials stated during our exit briefing that although mail processing was discontinued in October 2007, the 5-year renewal was necessary for depostalization of the Regatta facility.

and procedures must be followed closely to ensure that decision-makers have the information they need to make informed investment decisions.

**Handbook F-66C, *Field Investment Policies and Procedures*, April 13, 2006.**

Handbook F-66C provides requirements to ensure field-sponsored investments support the strategic objectives of the Postal Service, make the best use of available resources, and establish management accountability for investment decisions. Postal Service personnel must apply prudent business sense for field-sponsored investments. The handbook also contains policies and procedures for field investments to ensure projects reduce costs in keeping with the *Strategic Transformation Plan 2006 – 2010*, and guidelines for investment projects that include the leasing of facilities, equipment, or systems.

**Handbook RE-1, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*, October 2006.**

Handbook RE-1 provides guidance to Postal Service personnel, suppliers, and the public about the authority, responsibility, and policies of the Postal Service with respect to supporting Postal Service needs to acquire, manage, and dispose of real property and related rights and interests. The policy requires management to dispose of excess real property under terms and conditions that provide the greatest value to the Postal Service.

***Implementing the RE-1 in Postal Real Estate Actions*, November 2007.**

This guidance provides procedures and practices for postal personnel who acquire, manage, and dispose of real property in accordance with *Handbook RE-1*. The FSO must notify the requiring organization<sup>6</sup> when a lease is scheduled for expiration, and the requiring organization must notify the FSO if it does not wish to extend the lease.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine whether Postal Service management made a prudent facility investment when entering into the 5-year Regatta Annex lease renewal.

To accomplish our objective, we interviewed Pacific Area and Bay Valley District officials, including officials from the Pacific FSO, to gain an understanding of the events leading to the renewal of the Regatta Annex lease. We reviewed Postal Service policies and procedures for leasing facilities and related documents surrounding the lease renewal. We estimated the monetary impact associated with the 5-year renewal of the Regatta Annex lease before and after the termination agreement. Click [here](#) to go to Appendix E for our monetary impact calculation after the termination agreement.

We conducted this review from April through August 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as

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<sup>6</sup> Requiring organizations include Pacific Area, district, or field operations.

we considered necessary under the circumstances. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective. We discussed our observations and conclusions with management officials on June 27, 2008, and included their comments where appropriate.

## **PRIOR AUDIT COVERAGE**

*Efficiency of the Oakland International Service Facility and the Regatta Facility* (Report Number NO-AR-04-007, dated March 31, 2004). The OIG assessed the operations at the Oakland International Service Facility (ISF) and the Regatta facility. The OIG concluded that military surface mail processed at the Regatta facility could be processed more efficiently at the Oakland ISF. Further, the Postal Service could avoid facility costs of approximately \$3.4 million over 10 years by closing the Regatta facility. Management agreed with our finding and recommendation except that Building 512 would be closed instead of the Regatta facility. Management indicated that Building 512 was similar to the Regatta facility with regard to operating cost.

## APPENDIX B: DETAILED ANALYSIS

### Regatta Annex Lease

The Postal Service renewed a 5-year lease for a facility that was not needed for future Postal Service operations. This occurred because:

- Pacific Area, Bay Valley District, and Pacific FSO officials did not properly coordinate leasing efforts to ensure that the Regatta Annex lease renewal was a prudent investment decision.
- Bay Valley District officials did not establish a formal review committee to ensure facility investment decisions made the best use of Postal Service resources.
- FSO officials did not adequately explore leasing alternatives in response to the planned closure of the Regatta Annex.

The Bay Valley District Senior Plant Manager and the Pacific Area Manager Operations Support (MOS) instructed Pacific FSO officials to exercise the 5-year renewal option. The Pacific Area MOS stated he wanted to renew the lease to support mail processing operations during the 2007 Christmas peak season. However, operations were discontinued at the Regatta Annex in October 2007,<sup>7</sup> and as of June 2008, the facility was still vacant and in the process of depostalization.

During our fieldwork in April 2008, FSO officials stated they did not know the Regatta Annex would be closed until the day after they renewed the lease. FSO officials further stated that if Pacific Area officials had informed them of the Regatta Annex closure, FSO could have attempted to renegotiate a lease extension or month-to-month occupancy.

During our exit briefing with Postal Service officials on June 27, 2008, FSO officials stated they were informed of the planned closure of the Regatta Annex and discussed the lease renewal with Pacific Area officials before exercising the option to renew the lease.

Further, we determined that on August 23, 2007, a representative of the owner of the Regatta Annex informed the Pacific FSO of the owner's willingness to negotiate a 1-year extension for the Regatta Annex lease. However, when we met with FSO officials on June 27, 2008, they stated they were not aware of this, and stated they attempted to negotiate month-to-month occupancy but were unable to secure an agreement with the lessor.

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<sup>7</sup> Mail volume reports provided by Bay Valley District officials, indicate mail processing was discontinued at the Regatta Annex in October 2007.



When the lease was renewed in August 2007, management was obligated under the lease to pay approximately \$2,050,938 over the next 5 years. Additionally, the Postal Service assumed the inherent risk and liability associated with a vacant building.

In June 2008, during our review, Pacific Area officials negotiated a buyout agreement to terminate the remaining Postal Service lease obligation for the Regatta Annex effective July 1, 2008. Under the buyout agreement, management is obligated to pay \$621,964, which we identified as unrecoverable questioned costs.

## APPENDIX C: TIMELINE OF EVENTS LEADING TO THE LEASE RENEWAL

December 13, 2005: The Pacific FSO contracted for an appraisal of the Regatta Annex lease renewal in accordance with Postal Service policy.<sup>8</sup>

April 5, 2006: The Pacific FSO requested information from the Bay Valley District about the need for additional space at the Regatta Annex.

November 24, 2006: The Pacific FSO notified Bay Valley District officials that according to the appraisal, rent for the Regatta Annex lease renewal was approximately 47 percent above FMV.<sup>9</sup>

May 21, 2007: The Pacific FSO informed the Bay Valley District of the deadline to renew the lease and recommended leaving the Regatta Annex by November 30, 2007, if the district decided to move.

June 1, 2007: The Bay Valley District Senior Plant Manager informed the Pacific Area Finance Manager, the Bay Valley District Manager, and Pacific FSO officials of his intent to retain the Regatta Annex for Priority Mail operations.

June 6, 2007: The Pacific Area Finance manager discussed short-term leasing alternatives with the FSO. The FSO responded on June 7, 2007, stating that a termination clause would increase the rent. The FSO did not respond to the Pacific Area Finance manager with information about short-term lease alternatives. However, the FSO stated the Bay Valley District Senior Plant Manager wanted to continue leasing the Regatta Annex and stated that the lease agreement provided for subleasing if the facility was not needed.

July 19, 2007: The Bay Valley District Senior Plant Manager stated he had a need for the Regatta Annex, discussed his plans with the Pacific Area MOS, and stated that he was waiting for direction from the Pacific Area MOS on whether to retain the annex or pursue other options. In addition, the Pacific Area Finance Manager reminded the Pacific Area MOS the lease would expire on November 30, 2007, and a decision to move or remain at the Regatta Annex was necessary before August 30, 2007.

August 1, 2007: The Pacific FSO informed the Bay Valley District that, according to the lease contract, the landlord must receive notice of intent to renew the lease no later than August 31, 2007. Otherwise, the lease would terminate on November 30, 2007. The Pacific FSO informed the Bay Valley District the renewal option would be exercised in the last week of August 2007 unless they received other directions from Postal Service management.

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<sup>8</sup> Guidance in *Implementing the RE-1 in Postal Real Estate Actions* requires a contract appraisal for leases with annual rent of more than \$150,000.

<sup>9</sup> The Postal Service would be obligated to pay approximately \$146,700 per year more than FMV.

August 8, 2007: The Pacific Area MOS received a request from the Bay Valley District Senior Plant Manager to relocate mail processing equipment from the Regatta Annex to the Oakland Processing and Distribution Center.<sup>10</sup>

August 23, 2007: A representative for the owner of the Regatta Annex informed the Pacific FSO that the owner was willing to negotiate a 1-year extension for the Regatta Annex.

August 24, 2007: The Pacific Area MOS instructed Pacific FSO officials to exercise the 5-year renewal option.

August 28, 2007: Pacific FSO officials exercised the 5-year lease renewal option for the Regatta Annex.

August 29, 2007: The Bay Valley District Senior Plant Manager informed the Pacific FSO that operations would be moving out of the Regatta Annex by December 31, 2007.<sup>11</sup> Pacific FSO officials stated that since the lease had been renewed for an additional 5 years, they would attempt to sublease the space or negotiate out of the contract.

February 8, 2008: The Postal Service initiated actions to determine the feasibility of subleasing the Regatta Annex. As of June 2008, the Postal Service had not subleased the Regatta Annex.

July 1, 2008: Pacific Area Officials negotiated a buyout agreement to terminate the Postal Service's remaining lease obligation for the Regatta Annex effective July 1, 2008.

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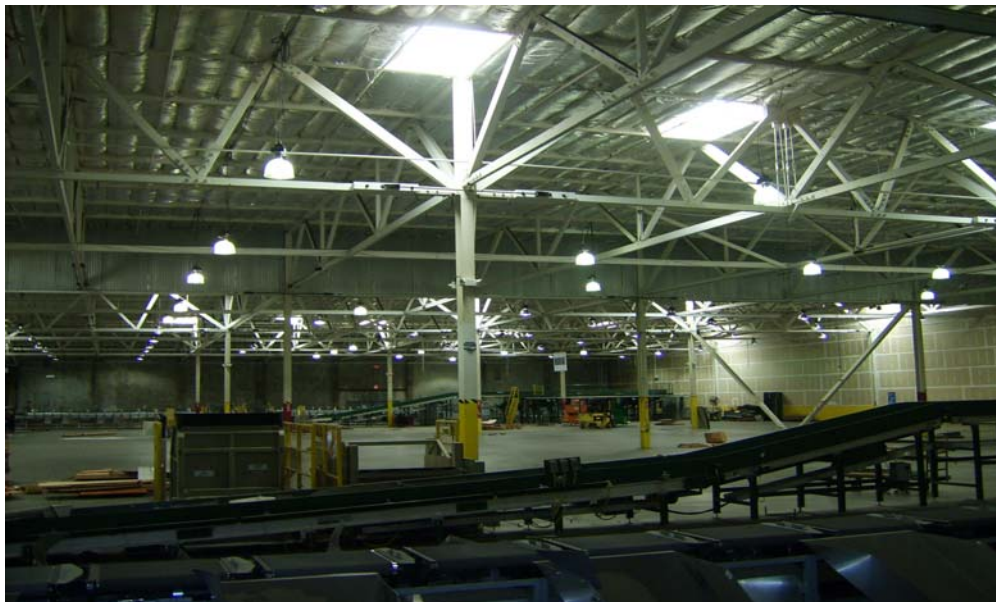
<sup>10</sup> This was the first indication that mail processing operations would relocate from the Regatta Annex.

<sup>11</sup> After notification was provided by the Bay Valley District Senior Plant Manager, FSO officials stated they could not negotiate a month-to-month agreement and had no choice but to exercise the renewal option because the FSO was not timely informed of Bay Valley District's plans for the Regatta Annex.

**APPENDIX D: PHOTOGRAPHS OF THE REGATTA ANNEX**



Photograph taken April 16, 2008, by OIG staff showing the Regatta Annex docking entrance.



Photograph taken April 16, 2008, by OIG staff showing interior of the Regatta Annex. Two Small Parcel Bundle Sorters were awaiting disposition.

## **APPENDIX E: CALCULATION OF UNRECOVERABLE QUESTIONED COSTS AFTER TERMINATION AGREEMENT**

### **Objective of Methodology**

Our objective was to estimate the monetary impact associated with the 5-year renewal of the Regatta Annex lease after termination agreement.

### **Overview of Methodology**

The methodology consisted of six parts:

- We determined the annual cost of rent, taxes, and electricity for the Regatta Annex.
- We applied 7 months of the annual rent from the contract that was in effect (December 2007 to termination in June 2008).
- We used the 2007 lease contract to determine the ratio of taxes to overall lease costs. We applied 7 months of the calculated annual tax amount to 2008, based on the 2008 rent costs from the current contract.
- We obtained the six most current electricity bills and annualized the result, then applied 7 months of the annualized amount to 2008.
- We included the buyout amount from the contract.
- We included the 4.5 percent brokerage fee.

### **Justification**

If the Postal Service had not renewed the Regatta Annex lease, the costs associated with the lease could have been saved.

### **Calculation of Monetary Impact (Discounted Cash Flow)**

Because the entire financial impact of the Regatta Annex lease renewal occurred in 2008, the impact is stated in present-day dollars and not discounted.

## APPENDIX F: MANAGEMENT'S COMMENT

MICHAEL J. DALEY  
VICE PRESIDENT, PACIFIC AREA OPERATIONS



August 5, 2008

OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Regatta Annex Lease (Report Number SA-AR-08-DRAFT).

This provides the management response to the above referenced draft audit report. (Project Number 08YG013SA002).

The report contained the following recommendation specific to the Pacific Area.

### Recommendations

1. The Vice President, Pacific Area Operations, in coordination with the Vice President, Facilities, require the Pacific Area, Bay Valley District, and Facilities Service Office management to coordinate future leasing efforts to help ensure that investment decisions for leasing facilities are prudent.

### Response

#### *Regatta Annex Lease Assessment*

Management agrees that Postal Service management must make prudent decisions on facility investment when entering into lease agreements to ensure that they are cost effective investments. All lease agreements are required to be reviewed by the Area Capital Investment Committee (CIC) for approval. The Facilities Service Office is notified by Area personnel once a determination is made.

Pacific Area Management was informed that the scope of the audit was limited to determining if the renewal of the Regatta lease was a prudent facility investment. That representation was factually incorrect. The scope of the audit is has been modified and narrowed to the risk value of the five year lease failing to accurately reflect the total present and future savings achieved by Postal management which is in excess of \$2.7 million in FY 2008 to date. The Pacific Area specifically requested that the OIG examine the cost savings associated with the Area's subsequent relocation and consolidation of the Regatta Annex operations. No such examination was conducted. No assessment of the cost savings was done and/or no consideration that the Annex was designated as an off load site was included in the audit findings.

#### *Lease Renewal*

The audit report contains the following observations:

"Managers in the Pacific Area, Bay Valley District, and Pacific Facilities Service Office (FSO) did not properly coordinate to ensure the Regatta Annex lease renewal was a prudent investment decision for the Postal Service."

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Pacific Area management was informed by the FSO that the Regatta lease was to expire November 30, 2007 and that a decision to renew was due by August 30, 2007. Information provided to the Area by the FSO indicated that although the payment on the lease was above market rent, putting a termination clause on the lease would only increase the rent. The Area was informed that there were no other facilities of this type available and if there had been, a cost analysis was prepared showing that postalizing new space far exceeded the lease costs of the current facility. It was determined that the facility was also to be used as the off-load site for the San Francisco PDC Small Parcel Bundle Sorter (SPBS) operation if and/or when their Automated Package Processing System (APPS) was installed. In the event that the Postal Service determined that facility was not needed, the lease agreement contained a provision to sublease. In addition, the Regatta Annex remained the primary offload site for the San Francisco BMC Integrated Emergency Management Plan as required by the IEMP guidelines and referenced in OIG Audit - Postal Service Continuity of Operations for the Pacific Area (Project Number 08YG013SA001).

At the time of lease renewal, the Area had the understanding that the Bay Valley District would need the facility through December. With limited options available, the Area took the best course of action and exercised the lease renewal option in order to meet the August 30<sup>th</sup> decision date. The lease renewal also ensured the continued occupancy of the facility in the event operations could not be moved prior to the expiration of the lease and/or the facility was needed as an off load site. The Area was reviewing moving operations out of the Regatta facility and informed the FSO that they no longer had any need for the facility.

The audit report also contains the following observation:

"Bay Valley District managers did not establish a formal review committee to ensure facility investment decisions reflected the best use of Postal Service resources."

Pacific Area does have a Pacific Area Staff work group as well as a formal Capital Investment review committee (CIC) in place to review facility investments. All lease renewals are reviewed by the committee for approval. Members of the Area CIC did review the lease options prior to the lease renewal being exercised.

After the lease renewal had been exercised, the determination to relocate the mail processing operations out of the Regatta facility was finalized. To that end, operations at the Regatta facility were relocated at local management's initiative shortly before the expiration of the original lease agreement. Local management felt it was a prudent decision to eliminate and consolidate operations due to the previously unforeseen declining volume associated with the current business climate and USPS lean process analysis. To that end, local management made the decision to expedite the removal of mail processing operations from the Regatta facility in October to capture savings in F1, F3a and F3b with the understanding that the FSO was attempting to work out an exit plan for the new lease obligating us for only one year. That savings amounted to approximately \$2,736,894 for the period from September 2007 to March 2008 (See attachment A). After the removal of the mail processing operations, depostalization of the facility was initiated.

However, the Regatta facility remained a viable alternative facility as it has all utilities available and was at the time listed as the primary off load site for the San Francisco BMC (see Attachment B). Management was aware that the FSO was participating in negotiations to exit the Regatta lease agreement and as such the San Francisco BMC offload was updated and changed in April 2008.

The FSO did in fact negotiate the early termination of the Regatta lease effective July 2008 (see attachment C). This action was initiated by the FSO and Pacific Area Management to ensure the best use of Postal resources and to maintain cost effective operations prior to the findings outlined in the audit.

The depostalization of the Regatta Annex and any remaining issues connected to the facility are being finalized. This effort will yield the redeployment of capital equipment (i.e. SPBS machines, Siemens feed systems, and conveyor systems) to other facilities resulting in cost savings for the Pacific Area in addition to the \$2.7 million already identified.

*Summary*

The Vice President, Pacific Area Operations, had established the internal controls required to effectively manage facilities investments in the Pacific Area. Specifically, we:

1. Established that Area personnel provide oversight and assistance to districts and facility Services office to ensure facility leases are cost effective and reflect the best use of Postal Service resources.
2. Negotiated termination of the Regatta lease effective July 2008.

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



Michael J. Daley

cc: AVP Board  
Tim J. Perez  
Diana K. Alvarado  
Katherine S. Banks



Attachment A

REGATTA ANNEX			Estimated F1	Estimated 3B	Estimated 3A
Week #	From	To	Savings	Savings	Savings
1	10/01/07	10/05/07	0	0	0
2	10/06/07	10/12/07	0	0	0
3	10/13/07	10/19/07	0	0	0
4	10/20/07	10/26/07	1,716	128	252
5	10/27/07	11/02/07	1,697	127	249
6	11/03/07	11/09/07	1,735	130	255
7	11/10/07	11/16/07	1,714	128	252
8	11/17/07	11/23/07	1,486	111	218
9	11/24/07	11/30/07	1,723	129	253
10	12/01/07	12/07/07	1,869	140	275
11	12/08/07	12/14/07	1,910	143	281
12	12/15/07	12/21/07	1,989	149	292
13	12/22/07	12/28/07	1,484	111	218
14	12/29/07	01/04/08	1,385	103	203
15	01/05/08	01/11/08	1,663	124	244
16	01/12/08	01/18/08	1,701	127	250
17	01/19/08	01/25/08	1,592	119	234
18	01/26/08	02/01/08	1,641	123	241
19	02/02/08	02/08/08	1,574	118	231
20	02/09/08	02/15/08	1,586	118	233
21	02/16/08	02/22/08	1,501	112	220
22	02/23/08	02/29/08	1,584	118	233
23	03/01/08	03/07/08	1,592	119	234
24	03/08/08	03/14/08	1,615	121	237
25	03/15/08	03/21/08	1,586	118	233
26	03/22/08	03/28/08	1,506	113	221
27	03/29/08	04/04/08	1,567	117	230
28	04/05/08	04/11/08	1,599	119	235
29	04/12/08	04/18/08	1,568	117	230
30	04/19/08	04/25/08	1,553	116	228
31	04/26/08	05/02/08	1,537	115	226
32	05/03/08	05/09/08	1,560	117	229
33	05/10/08	05/16/08	1,540	115	226
34	05/17/08	05/23/08	1,521	114	223
35	05/24/08	05/30/08	1,406	105	207
36	05/31/08	06/06/08	1,519	114	223
37	06/07/08	06/13/08	1,492	111	219
38	06/14/08	06/20/08	1,439	107	211
39	06/21/08	06/27/08	1,421	106	209
40	06/28/08	07/04/08	0	0	0
41	07/05/08	07/11/08	0	0	0
42	07/12/08	07/18/08	0	0	0
43	07/19/08	07/25/08	0	0	0
44	07/26/08	08/01/08	0	0	0
45	08/02/08	08/08/08	0	0	0
46	08/09/08	08/15/08	0	0	0
47	08/16/08	08/22/08	0	0	0
48	08/23/08	08/29/08	0	0	0
49	08/30/08	09/05/08	0	0	0
50	09/06/08	09/12/08	0	0	0
51	09/13/08	09/19/08	0	0	0
52	09/20/08	09/26/08	0	0	0
53	09/27/08	09/30/08	0	0	0

Clerks & MH
43
ET
2
Custodian
1
MVS
6

Total Work Hour Savings	62,640	4,680	9,200
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Dollar Rates	\$34.73	\$41.11	\$40.11
Dollar Savings	\$2,175,487.20	\$192,394.80	\$369,012.00
Total Savings	\$2,736,894.00		
F1 Hour Savings From 2/08 >	31,169		



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TOM A. SAMRA  
VICE PRESIDENT, FACILITIES



August 6, 2008

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Regatta Annex Lease  
(Report Number SA-AR-08-DRAFT)

Thank you for the opportunity to review and comment on the above subject draft audit report.

We do not agree with the conclusion that a prudent investment decision was not made when the five year renewal option for the Regatta Annex lease was exercised. The decision to proceed with the renewal was made with the belief that it was in the best operational interest for the Postal Service at that particular point in time. The understanding at the Pacific Facilities Service Office (FSO) at that time was that the district required the space for a longer term because of insufficient space to support the Priority Mail operation during peak periods. After the lease renewal was exercised, the determination to relocate the mail processing operations out of the Regatta facility was finalized. Operations at the Regatta facility were relocated at local management's initiative shortly before the expiration of the original lease agreement in an effort to eliminate and consolidate operations primarily due to unforeseen declining mail volume. We also feel it is important to recognize that corrective action was taken immediately after communications between all parties was clarified and the long-term needs were understood by all. The FSO initially investigated the potential for out-leasing of the space, and then proceeded to negotiate an early termination of the lease effective July 1, 2008.

We also disagree with the \$621,964 identified as unrecoverable questioned costs. If only a one-year lease extension been executed in October 2007, the Postal Service would have been obligated to pay an entire year's rent at \$366,895. The early termination buy-out was effective on July 1, 2008, which saved the Postal Service from five months of rent (July through November). Therefore, the unrecoverable lease cost would be as shown below:

Buy-out as of July 1, 2008	\$349,270.00
Less five months rent (7/1/08 to 11/30/08)*	(152,873.00)
<b>Unrecoverable lease costs</b>	<b>\$196,397.00</b>

\* would have been obligated with the one-year extension

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Recommendation 2:

***The Vice President, Facilities require responsible Pacific Facilities Service Office personnel to immediately explore and identify leasing alternatives when notified of changes in facility requirements.***

We agree in principle with this recommendation, but feel there are adequate policies and procedures currently in place to address these potential changes in requirements. However, we do recognize that in this specific instance, there was a lack of coordination in communications between the FSO, Pacific Area and Bay Valley District and also that those policies and procedures were not closely followed because of an inadvertent withholding of information at the FSO, all of which factored into this situation. We have reviewed the current policies and procedures with the Real Estate group at the Pacific FSO and are confident this, in combination with internal area and district controls, will help eliminate the potential for an oversight in the future.

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

  
Tom A. Samra

cc: Diana K. Alvarado  
Katherine S. Banks  
Kayode Kadara  
Tim Perez