

September 30, 2003

RUDOLPH K. UMSCHIED
VICE PRESIDENT, FACILITIES

SUBJECT: Management Advisory – Management
of Facility Lease Program
(Report Number CA-MA-03-009)

This report presents the results of the survey phase of our self-initiated review of the Facility Lease Program (Project Number 03XG027CA000).

Results in Brief

Our review of 72 leases totaling over \$14.1 million in annual rent disclosed that the Postal Service was generally initiating and renewing its leases in accordance with policies and procedures. Additionally, our review of 11 leases, totaling over \$2.9 million in annual rent, that were terminated prior to expiration disclosed no issues. However, facilities service office personnel did not always identify and document the condition of facilities prior to lease renewal. As a result, the Postal Service does not always have sufficient information available at lease renewal to effectively negotiate leases or resolve outstanding maintenance issues. During our review, management stated this area needed attention, and began drafting a facility condition checklist for facilities service office personnel to use in renewing leases.

Management agreed with the recommendations to implement procedures to use the newly created facility condition checklist to identify and document the condition of facilities prior to lease renewal, and communicate this information to responsible facilities service office personnel. Management also agreed with the recommendations to enforce its requirement to identify and send the lessor a letter of outstanding maintenance items when the lessor is responsible for maintenance, and establish and implement procedures to document outstanding maintenance items

prior to assuming maintenance responsibility from the lessor. To address these issues, management agreed to issue a policy memorandum and revise its Maintenance Rider USPS Responsibility (Partial) in quarter 1, Fiscal Year (FY) 2004.

Background

The Postal Service is one of America's largest owners, developers, and managers of real estate. The Postal Service's active facility inventory contains 28,536 leased facilities with over \$821 million in annual rent.

Objective, Scope, and Methodology

The objective of the review was to determine if the procedures and internal controls for initiating and renewing leases, and terminating leases prior to expiration were adequate. During the review, we also gathered information about the Postal Service's Single Source Provider Program.

To determine the adequacy of procedures and internal controls, we reviewed current Postal Service policies and interviewed headquarters, facilities service office, and administrative service office officials. We also contacted postmasters at several leased facilities. Additionally, we reviewed a judgmental sample of 72 leases worth over \$14,156,461 in annual rent. Our sample included new leases on existing properties completed during FYs 2001 and 2002, new leases for properties not previously in the Postal Service inventory, new leases for properties previously in Postal Service inventory, leases with a termination option, leases with no renewable options, and active leases with an occupied date prior to January 1, 1980. We also judgmentally sampled 11 leases terminated prior to lease expiration worth over \$2,945,113 in annual rent.

In addition, we gathered information about the Postal Service's Single Source Provider Program, and followed up on facilities that came to our attention because of leasing or maintenance issues.

This review was conducted from November 2002 through September 2003 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

We believe the computer-generated data was sufficiently reliable to support the opinions, conclusions, and recommendations in this report.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

Sufficient Information Not Always Gathered Prior to Lease Renewal

Our review of 72 leases totaling over \$14.1 million in annual rent disclosed the Postal Service was generally initiating and renewing its leases in accordance with policies and procedures. Additionally, our review of 11 leases, totaling over \$2.9 million in annual rent, that were terminated prior to expiration disclosed no issues. However, facilities service office personnel did not always identify and document the condition of facilities prior to lease renewal. As a result, the Postal Service does not always have sufficient information available at lease renewal to effectively negotiate leases or resolve outstanding maintenance issues.

District administrative service office personnel are currently responsible for communicating with postmasters or installation managers about the condition of facilities. However, there are no procedures to ensure that information about the condition of facilities is communicated to facilities service office personnel responsible for renewing leases.

We did not find any evidence of inquiry or documentation of any outstanding maintenance items at lease renewal as applicable in the 72 leases reviewed. In addition, Postal Service officials stated there was no requirement to inquire about the condition of the facilities prior to lease renewal. However, Postal Service policy states that the facilities service office is responsible for sending the lessor a letter to document outstanding maintenance items that exist at lease renewal for which the lessor has maintenance responsibility.¹ In addition, if the Postal Service is assuming maintenance responsibility, the lessor must correct all outstanding maintenance items.²

¹ Realty Acquisition Handbook, RE-1, Section 316.3.

² Realty Acquisition Handbook, RE-1, Section 326.11.

We were made aware of a lease renewal for a post office with outstanding maintenance items where the lessor had maintenance responsibility.³ Although the real estate specialist indicated they had contacted the postmaster prior to renewal, the lease file did not contain any evidence of inquiry or any notification informing the lessor of outstanding maintenance issues. After this issue was brought to the real estate manager's attention, he provided written direction to the facility service office staff reminding them to determine any lessor maintenance prior to lease negotiations.

We also noted a recently renewed lease for a post office where the Postal Service was assuming maintenance responsibility for the first time,⁴ yet no list of outstanding maintenance items had been completed prior to our inquiry. A list was subsequently prepared prior to the effective date of the renewal.

Without a consistent policy to identify and document the condition of facilities prior to lease renewal, the Postal Service may not be able to effectively negotiate lease terms or resolve outstanding maintenance issues. Also, when the lessor has maintenance responsibility, knowledge of the condition of the leased facility enables the Postal Service to coordinate with the lessor to resolve maintenance issues. This reduces the risk of future safety hazards or unsafe working conditions. Furthermore, when the Postal Service assumes maintenance responsibility, knowledge of any outstanding maintenance items reduces the risk that the Postal Service may incur maintenance expenses that are the responsibility of the lessor.

During our review, Postal Service management agreed that the issue of identifying and documenting the condition of facilities at renewal should be addressed. In fact, Facilities headquarters management began drafting a facility condition checklist for facilities service offices to use when renewing leases. The checklist will be used in lease negotiations and in identifying and resolving outstanding maintenance items.

³ Franktown, Colorado. This lease was not included in the original sample universe.

⁴ Freeport, Texas, Downtown Station. This lease was not included in the original sample universe.

In addition, we were advised of the implementation of the Single Service Provider Program. Under this program, facilities service offices will assume responsibility to communicate with postmasters or installation heads regarding maintenance issues. This initiative will streamline communication between postmasters and facilities service office personnel regarding maintenance issues.

Recommendation	<p>We recommend the vice president, Facilities:</p> <ol style="list-style-type: none"> 1. Implement procedures to use the newly created facility condition checklist to identify and document the condition of facilities prior to lease renewal, including communication with personnel responsible for negotiating the lease.
Management's Comments	<p>Management agreed with the recommendation and is currently finalizing a facility condition checklist and policy memo to be issued in quarter 1, FY 2004.</p>
Recommendation	<ol style="list-style-type: none"> 2. Enforce the requirement to identify and send the lessor a letter of outstanding maintenance items when the lessor has maintenance responsibility.
Management's Comments	<p>Management agreed with the recommendation. Management will reemphasize this issue in the policy memorandum discussed previously, to be distributed in quarter 1, FY 2004.</p>
Recommendation	<ol style="list-style-type: none"> 3. Establish and implement procedures to document outstanding maintenance items prior to assuming maintenance responsibility from the lessor.
Management's Comments	<p>Management agreed with the recommendation. Management stated that with the new facility condition checklist, deferred maintenance will be identified prior to the Postal Service taking responsibility for maintenance, and a written list will be furnished to the lessor. In addition, an updated Maintenance Rider will be issued in quarter 1 FY 2004 stating that if deferred maintenance is not completed and the proper certifications are not received, the lessor will remain responsible for the maintenance of the building, systems, and equipment.</p>

Evaluation of Management's Comments	<p>Management's comments are responsive to recommendations 1, 2, and 3. Management's actions taken or planned should correct the issues identified in the report.</p> <p>Management provided a technical correction that we incorporated into the report.</p>
Single Source Provider Program	<p>Postal Service management recently initiated the Single Source Provider Program. This program will consolidate repair and maintenance functions previously performed by district administrative service office personnel into a single function within the facility service offices. This initiative is designed to enhance communication regarding repairs and maintenance issues. The program was fully implemented in one facilities service office and is scheduled for implementation at all offices over the next several years.</p> <p>During our review, we gathered preliminary information regarding the Single Source Provider Program. Additionally, we identified two issues that we brought to management's attention:</p> <ul style="list-style-type: none">• A search of facilities in the Web-based database revealed facility names had been input differently by the technicians and were not always synchronized with the Facilities Management System in Windows.• Four of twenty-one postmasters and/or installation heads were unaware of the new procedure for requesting repair work under the Single Source Provider Program. <p>Management immediately took corrective action by implementing a process to synchronize the database with the Facilities Management System in Windows, and sending additional information about the program to all postmasters and installation heads.</p> <p>We did not perform any additional tests to validate the effectiveness of the Single Source Provider Program. Therefore, the Office of Inspector General (OIG) does not express any opinion regarding the effectiveness of the program as a whole. However, we may review this program in the future.</p>

Observation

During the course of our review, we discussed an isolated issue regarding a post office lease renewal⁵ without the required Postal Service Form 7437, Request for Services⁶ with Facilities management. Although no recommendation is provided, this issue is documented here for information and future management attention as necessary.

We noted there were discussions to close this post office because only one employee works at the facility for 3 hours a day, 5 days a week. Postal Service management was considering relocating to a new facility or to the existing main post office. Without documentation of the operational need, this potential change may not have been considered in the renewal of the 5-year lease expiring in 2007. Facilities management stated that because the lease had recently been renewed and no final management decision had been made, there was no action that could be taken now. However, on lease renewal they would consider this issue.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Lorie Siewert, director, Contracts and Facilities, at (651) 855-5856 or me at (303) 925-7429.

Colleen A. McAntee
Deputy Assistant Inspector General
for Financial Management

Attachment

cc: John A. Rapp
Susan M. Duchek

⁵ Freeport, Texas, Downtown Station. This lease was not included in the original sample universe.

⁶ This form is used to obtain operational need and funding authorization from the district office when renewing a lease.

APPENDIX. MANAGEMENT'S COMMENTS

RUDY UMSCHIED
VICE PRESIDENT, FACILITIES



September 16, 2003

COLLEEN MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL FOR FINANCIAL MANAGEMENT

SUBJECT: Transmittal of Draft Audit Report – Management of Facility Lease Program
(Report Number CA-MA-03-DRAFT)

This is in response to the draft audit report.

Recommendation

We recommend the Vice President, Facilities:

1. Implement procedures to use the newly created facility condition checklist to identify and document the condition of facilities prior to lease renewal, including communication with personnel responsible for negotiating the lease.

Management Response. Management agrees with this recommendation. We are currently finalizing the facility condition checklist and a policy memo, with the checklist attached, will be sent to Facilities Service Offices in Quarter I, FY2004.

2. Enforce the requirement to identify and send the lessor a letter of outstanding maintenance items when the lessor has maintenance responsibility.

Management Response. Management agrees with this recommendation. However, the draft report cites Section 513.112 of Handbook RE-1. The 1996 version of RE-1 has no such section, but Section 316.3, discusses sending the lessor a letter regarding outstanding maintenance items. Section 316.3 will be reemphasized in the policy memo referenced in item 1 above, to be distributed in Quarter I, FY2004.

3. Establish and implement procedures to document outstanding maintenance items prior to assuming maintenance responsibility from the lessor.

Management Response. Management agrees with this recommendation. Section 326.3 of the RE-1 outlines our policy regarding the lessor's correction of all deferred maintenance deficiencies prior to the Postal Service assuming maintenance responsibility from the lessor. While the Maintenance Rider USPS Responsibility (Partial) in our lease has specified this policy, follow-up to ensure that the proper certifications were received has been lacking. With the facility condition checklist, deferred maintenance will be identified prior to the Postal Service taking responsibility for maintenance, and a written list will be furnished to the lessor. The lessor will be required to correct all items prior to the Postal Service assuming maintenance in accordance with the Rider. In addition, we will issue updated documents, Maintenance Rider – USPS Responsibility (Partial) in Quarter I, FY2004. The revised Rider states that, if the deferred maintenance is not completed and the proper certifications are not received, the Landlord (Lessor) "shall remain responsible for the maintenance of the building, systems, and equipment" in accordance with the Maintenance Rider, Landlord Responsibility, which is also included with the Lease.

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Should you have further questions or concerns regarding our response, please do not hesitate to contact Cathy Bailey at (703) 526-2760.



Rudy Umscheid

cc: Mr. Strange
Mr. Pak
Ms. Duchek