

September 8, 1999

GEORGE L. LOPEZ
ACTING VICE PRESIDENT, SOUTHWEST AREA
OPERATIONS

SUBJECT: Management Advisory Report - Tulsa Chimney
Hill Carrier Annex
(Report Number FA-MA-99-001)

This is our report on the review of the lease negotiations for the Tulsa Chimney Hill Carrier Annex leased facility in Tulsa, Oklahoma. The report provides responses to a General Accounting Office Hotline Referral alleging that the United States Postal Service (USPS) was incompetent in its negotiations of the lease contract for the facility. The referral showed that the facility was leased approximately four or five years ago. The building is large enough to accommodate a full service post office with window service and post office boxes, but none have been installed. Instead, the USPS pays a private business to operate a contract station down the street in a hardware store. The referral also showed that several years ago an agreement was made that within a year there would be full service at the facility. However, that service has not been implemented.

Results in Brief

The review confirmed that the USPS signed a lease for a facility to house the Tulsa Chimney Hill Carrier Annex operations. The building has 37,560 square feet of net floor space. However, the operations required only 23,000 square feet. As a result, USPS is leasing over 14,000 square feet of unused floor space at the Chimney Hill Carrier Annex. In addition, district officials did not report the unused floor space as required by USPS policy. Further, officials did not conduct a Retail Analysis Program Survey to determine the need for retail operations and customer attitude in the Tulsa, Oklahoma area.

We suggested that the Vice President of Southwest Area Operations report unused space and allow the District to resubmit the request to incorporate retail operations at Chimney Hill Annex.

Background

On February 15, 1994, USPS Oklahoma District officials requested that the Dallas Facilities Service Office obtain an existing building containing approximately 20,000 net interior square feet for a carrier annex. At the time, the building was needed to relieve overcrowded conditions at the Southeast and Southside USPS stations in Tulsa. Once obtained, the building was designated as the Chimney Hill Carrier Annex to process mail for ZIP Code Zones 74133 and 74137. Zone 74133, consisting of 25 city and 7 rural routes, was transferred from Tulsa Southeast Station. Zone 74137, consisting of 6 city and 10 rural routes was transferred from Tulsa Southside Station. Our review of documents and interviews confirmed that the functions for the two zones were moved to the Chimney Hill facility due to extreme space deficiencies at the previous locations.

On November 18, 1994, the Dallas Facilities Service Office signed a lease for a building to process mail for the Tulsa Chimney Hill Carrier Annex operations. The building has 37,560 square feet of net floor space, which was approximately 14,000 square feet more than the 23,000 square feet required. The overall ground site area is 177,289 square feet.

The annual rental cost is \$225,360. The lease's fixed term is November 19, 1994 to November 18, 2004, with renewal options after each five-year period. After the first five-year period the annual rental cost will be \$262,920, and \$281,700 after the second five-year period. The lease also has several purchase options beginning after the first five-year period. One option allows the building to be purchased at a price of \$2,250,000 if made at the end of the first five-year period. Our review of documentation revealed that the USPS has initiated action to exercise that purchase option.

According to the Tulsa Postmaster and District officials, they were unsuccessful in 1996 and 1998, in their efforts to convert the Chimney Hill facility to a full service operation.

Objective, Scope, and Methodology

The objective of our review was to determine whether USPS management properly negotiated the lease contract for the Tulsa Chimney Hill Carrier Annex operations. During the review, we conducted interviews with USPS officials in the Dallas Facilities Service Office, Tulsa Chimney Hill Carrier Annex in Tulsa, Oklahoma, the Oklahoma District office and the Southwest Area office in Dallas, Texas. We reviewed policies and procedures on retail postal operations from the Oklahoma District Office and contracting files at the Dallas Purchasing Office. We also made site visits to the Chimney Hill Carrier Annex and the Contract Postal Unit retail operations located in a hardware store in Tulsa, Oklahoma. This review was conducted from April 1999 through August 1999, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections.

Observations

Our review did not identify any issues associated with the lease negotiation for the Tulsa Chimney Hill Carrier Annex. However, we did find that USPS is leasing over 14,000 square feet of unused floor space at the Chimney Hill Carrier Annex. In addition, district officials did not report the unused floor space as required by USPS policy. Further, officials did not conduct a Retail Analysis Program Survey to determine the need for retail operations and customer attitude in the Tulsa, Oklahoma area.

Unused Space Not Reported

Our review revealed that the District has not reported the 14,000 square feet of unused space at the Chimney Hill facility to the USPS Facilities Realty Asset Management Office as required by USPS policy (Paragraph 516.34, USPS Administrative Support Manual, dated 27 August 1998). As a result, the USPS paid about \$200,000¹ for unused leased floor space from November 1994 to June 1999.

Oklahoma City USPS District officials acknowledged that the facility's capacity exceeds their operations requirement. However, they stated that the Dallas Facilities Service Office contracting officer told them there were no other existing buildings available in the preferred area. As a result, he selected a grocery store to accommodate their needs. The annual rental cost for this building is \$225,360

¹ This cost is based on the annual lease cost of \$225,360 divided by 70,295 square feet of total building space, times the unused floor space of 14,000 square feet, times a 4.5-year period ($\$225,360 / 70,295 \times 14,000 \text{ square feet} \times 4.5$).

for a 10-year term with renewal options after each five-year period. The lease also has several purchase options beginning after the first five-year period. Our review of documentation revealed that an effort is under way to exercise the purchase option for \$2,250,000. The Tulsa Postmaster recommended converting the facility to a full service operation in late 1995, however, the Oklahoma District Office did not accept the recommendation. District officials stated that USPS Southwest Area (Area) policy, memorandum dated April 19, 1999, Subject: Retail Policy, does not allow for new retail operations in USPS facilities.² The policy stipulates that retail operations in the Southwest Area have led to increased retail hours and capital expenditures that have adversely impacted the Southwest Area's performance. However, the policy also stipulates that retail operations may be considered under other extenuating circumstances, if evaluated thoroughly.

**Customer Concerns
not Included in
Decision-Making
Process**

In addition, District officials did not conduct a Retail Analysis Program Survey as required by chapter 121 of the Postal Operations Manual to determine the need for retail operations and customer attitudes in the Tulsa, Oklahoma area. However, officials stated that they did not think the survey was necessary. As a result, the Southwest Area Capital Investment Committee's decision to disapprove retail service at Chimney Hill was not based on all the relevant information applicable to that location. Southwest Area officials stated that inclusion of the information might have made a difference in the decision-making process.

Chimney Hill Annex officials stated that they have received numerous complaints (written and oral) from customers about the lack of retail service at the Chimney Hill location and the fact that they must travel to a nearby Contract Postal Unit for retail service. The Contract Postal Unit, located in a congested hardware store, is responsible for serving the Chimney Hill area of Tulsa. Officials also stated that written complaints were forwarded to the District.

Officials from the Southwest Area Capital Investment Committee stated that the decision to disapprove retail service at Chimney Hill was based on the information provided by the District. That information did not include a Retail Study on Chimney Hill or the list of customer

² District officials eventually submitted the request to the Southwest Area Capital Investment Committee.

complaints received by Tulsa over the years. Southwest Area officials stated that having information on the lack of adequate postal retail services in the area might have made a difference in the decision-making process. The Southwest Area Capital Investment Committee is one of the committees responsible for ensuring new projects comply with the Area policy.

Suggestions

We offer the following suggestions:

The Vice President, Southwest Area Operations should:

1. Report unused (leased and owned) space to the USPS Realty Asset Management office to identify marketable interests and determine the highest and best use of the property.
2. Consider allowing the District to resubmit³ the Tulsa request for retail operations at the Chimney Hill Annex to the Capital Investment Committee.

Summary of Management's Comments

We have summarized management's comments and included the full text in Appendix A. The Vice President, Southwest Area Operations agreed with our suggestion of reporting unused space to the USPS Realty Asset Management office. The excess space at Chimney Hills Carrier Unit was reported to the Realty Asset Management Manager on August 26, 1999. He also stated that Southwest Area would identify excess space on future alternate projects. In addition, all Districts in the Southwest Area have been asked to declare excess space as required. The Vice President further stated that they have coordinated with the Headquarters Asset Management office to address our suggestion on reporting unused space because he feels this issue is applicable beyond the Chimney Hill location.

For the present time, the Vice President decided against using our suggestion to improve the quality of retail service in the Tulsa area. This is because they are currently pursuing an alternative that includes partnering with Mail

³ If resubmitted, ensure that District officials include all required information to support the request.

Boxes, Etc. However, the Vice President stated they will monitor the Mail Boxes, Etc. alternative. If it does not provide desired results, they will pursue other alternatives that may include retail operations at the Chimney Hill facility.

**Evaluation of
Management's
Comments**

Overall, management's comments are responsive to our suggestions. We would, however, appreciate being advised of the outcome of your proposed plan to partner with Mail Boxes, Etc. as it relates to the quality of customer service in your districts.

We appreciated the cooperation and courtesies provided by your staff during this review. If you have any questions, please contact Anthony T. Cannarella, Director, Facilities or me at (703) 248-2300.

//Signed//

Sylvia L. Owens
Assistant Inspector General
for Revenue/Cost Containment

cc: Rudolph K. Umscheid
Alan B. Kiel
John R. Gunnels

**Major Contributions
to This Report**



GEORGE L. LOPEZ
ACTING VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



August 26, 1999

SYLVIA L. OWENS
ASSISTANT INSPECTOR GENERAL FOR REVENUE/COST CONTAINMENT

SUBJECT: Draft Management Advisory Report - Tulsa, OK Chimney Hills Carrier Annex

We have carefully reviewed the subject report and offer the following response:

The excess space at Chimney Hills Station will be formally reported to Realty Asset Management, as required by the provisions of ASM 516.34, by August 26th. That action had not been undertaken previously because the property was originally leased as a temporary solution to relieve an over-crowded situation in two Tulsa Stations. On May 20, 1999, USPS committed the funds for purchase of the facility. The justification was economic in nature and based on lease versus purchase consideration. The purchase should be finalized by January 2000.

We have also asked Headquarters Asset Management to address your recommendation around proper reporting of unused space. Your suggestion is a valid one and is applicable beyond just the Chimney Hills issue before us. I have been advised they plan to go out to Areas and Districts on a regular basis in the future and request the field to identify excess space. I anticipate their first request to be out shortly.

As to the Southwest Area, we will identify excess space on future alternate quarters projects and ask Districts to "declare" the excess space, per requirements. Your second suggestion deals with establishing retail operations at this annex.

For the present time, local management is opposed to establishing a postal retail presence in this facility. I support their decision.

We are concerned with our customers' level of quality service and agree with the assessment of the hardware store's inadequacies. This contract station has generated \$842,500 in revenue YTD and produced \$862,000 in revenue in FY-98, at a cost of \$34,700 annually. A Mail Boxes Etc. (MBE) is across the parking lot of the hardware store. It generates approximately \$50,000 a year in Postal revenues, at no cost to the Postal Service, and truly provides an alternative to the hardware store.

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Sylvia L. Owens
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As you know, currently, there are ongoing negotiations at the national level to partner with MBE. A contract of this nature could provide service that would satisfy our customers' needs. It would be imprudent of us to choose this particular point in time to establish a postal retail presence. However, we will monitor the situation with regard to MBE. If this does not provide the outcomes desired, we will pursue other alternatives that may include traditional postal retail operations at this location.



George L. Lopez

SM/TW/rs

ADMINISTRATIVE SERVICES
OKLAHOMA DISTRICT



August 26, 1999

MEMORANDUM FOR DAVID EALES
MANAGER, REALTY ASSET MANAGEMENT
4301 WILSON BLVD
ARLINGTON VA 22203-1881

SUBJECT: Excess Space - Chimney Hills Carrier Unit - Tulsa OK

The subject facility, which has 37,560 net interior square feet, will be purchased by the US Postal Service on November 19, 1999. The ten year needs for this unit is 23,220 net interior square feet. Therefore, we are reporting the 14,340 net interior square feet as excess space.

This facility was formerly a Food Lion supermarket and much of the excess space is in what were formerly the deli and refrigeration/freezer areas. These areas are currently fenced off due to safety concerns. There is only one dock, which for security and operational reasons, must remain exclusively for postal utilization.

If you have any questions or if Asset Management personnel would like to inspect the site, please call me at 405-553-6110.

A handwritten signature in cursive script, appearing to read "J. Thraskill".

J. Thraskill
Manager, Administrative Services (A)

cc: Terry J. Wilson, District Manager
Mike Ward, Dallas Asset Management