May 12, 2009 Report Number FF-WP-09-003

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Senator Grassley:

This letter responds to your request to evaluate the Postal Service's relocation benefits program.

To complete our review, we:

- Evaluated employee relocations made in calendar year 2007 and 2008.
- Compared and benchmarked Postal Service relocation policies and practices to other federal agencies and private companies.
- Interviewed Postal Service officials and officials from federal agencies and companies in the private sector.
- Evaluated the Postal Service's contract with its Relocation Management Firm (RMF).
- Reviewed previous U.S. Postal Service Office of Inspector General (OIG) reports on relocation benefits.

In addition to the work the Office of Audit performed, our Office of Investigations conducted a narrow review of the relocation mentioned in your correspondence to determine whether it violated Postal Service policy and whether the actions would merit sanctions.

Based on a review of the documentation associated with this relocation action, as well as controlling regulatory authority, the Office of Investigations did not substantiate the allegation that relocation rules were violated. U.S. Postal Service Handbook F-15 Part 3, *Relocation,* issued March 2002 and in effect at the time of the relocation in question, addresses relocation benefits for non-bargaining employees. This policy provided no limit on the purchase price the Postal Service could be obligated to pay.

Postal Service Relocation Benefits Are Comparable But Costly

We determined through discussions with other federal agencies and private companies, and review of our prior audit work, that the Postal Service policies on relocation benefits were generally comparable, with the exception of differences related to maximum home purchase prices, house hunting trips, and the Shared Appreciation Loan Program. Specifically,

- Prior to February 2009, the Postal Service did not have an established maximum home purchase price. In February 2009, a $1 million ceiling on home purchase prices was established. Two of the seven federal agencies we contacted established ceilings for home sale prices of $750,000. On the other hand, the other five federal agencies and three private companies we interviewed had no established home purchase limit.
- The Postal Service allowed three house hunting trips until February 2009, when they reduced the allowable trips to one. Other federal agencies and private companies allowed one.
- The Postal Service has a Shared Appreciation Loan Program, whereby the Postal Service provides qualified Postal Career Executive Service (PCES) employees home financing to purchase a comparable home if moving to a higher cost of living area. This policy is unlike any in other federal agency programs, and the Postal Service is considering elimination of this program in its upcoming policy revisions.[1]

Enclosure A provides details of the results of this benchmarking.

While Postal Service relocation benefits are generally comparable to other federal and private sector companies, the benefits it provides to relocating employees are very costly to the Postal Service. In calendar year 2008, the Postal Service spent $73 million for relocation benefits to more than 2,000 employees.[2] In our view, some of the relocations that occurred during this time period were exorbitant. In one instance, the Postal Service paid over $1.9 million to relocate a vehicle maintenance program analyst interstate. The majority of this cost came from a $1.7 million loss on the sale of this employee's home. In another instance, as cited by the national media and in your letter, the Postal Service paid $1.2 million to purchase an employee's home through its real estate management firm. The home is currently under contract for $950,000, which will result in a Postal Service loss of $250,000 on the home sale. Enclosure B lists the detailed costs of home purchases over $1 million from January 2007 through March 2009.[3]

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[1] We recommended the Postal Service eliminate this program in a prior audit report, *Relocation Compilation Report* (Report Number FT-AR-02-012, dated May 31, 2002). At the time, we agreed with Postal Service's decision not to eliminate the program. However, Postal Service has recently informed us that it intends to eliminate this program as part of its upcoming relocation policy update.

[2] Includes relocations without a home purchase.

[3] There were a total of 14 home purchases from 2004 through 2009 for $1 million or more.

Underlying the high cost of relocating employees is the fact that the Postal Service does not limit the loss it will take on an employee's home sale. In addition, the Postal Service does not have a national policy to use in determining when a vacancy will be advertised locally versus nationally, and whether or not to offer or limit relocation expense benefits in certain circumstances. Instead, these important decisions are sometimes made for subjective reasons by local officials. For example, Postal Service officials told us that managers often advertise jobs nationally and including relocation benefits in order to bring in new talent or when they feel there are no qualified candidates locally. We believe a less expensive alternative to hiring nationally and paying the high costs of relocation would be to consider hiring and training locally available employees.

Employee Relocation Was In Accordance With Policy In Place At The Time

The revised February 2009 relocation procedures (including the $1 million home purchase ceiling) were not in place at the time the employee you cited took a lateral transfer and relocated from South Carolina to Texas. As part of his relocation and acting through its RMF, the Postal Service purchased that employee's home for $1.2 million. The employee's relocation and associated home purchase did not violate the policies that were in effect when the relocation request was initiated.

A Postal Service official told us that the position the relocating employee took in Texas was announced nationwide, and 16 individuals applied for the position. The selecting official in Texas interviewed the five best qualified candidates and decided that the individual selected was the best applicant for the position. The official also told us that, during the job interview, the relocating employee stated that his spouse, who was not a Postal Service employee, had already moved to Texas. The employee told us that his wife had been in Texas for about 3 years. The employee wanted the move to Texas as a convenience for himself and his family, but he applied for and was competitively selected for the subject position.

The Postal Service has paid over $75,000 to date to move this employee. This includes $16,075 for the employee and his spouse for a house hunting trip, including *per diem* and temporary living expenses. These costs were paid using a lump sum reimbursement process started in 2005 as part of a national standard for providing lump sum payments on relocation expenses.[4] Under the lump sum payment process, employees are not required to provide receipts substantiating their house hunting expenses (including airfare and/or lodging expenses) and temporary quarters. We spoke directly with the relocating employee who told us that he and his wife indeed had traveled back and forth to

[4] According to a Worldwide Employee Relocation Council® report, lump sum payment is a prevalent industry-wide method for covering relocation expenses for *per diem* and temporary lodging. The practice of covering actual expenses has steadily been declining; only 14 percent of organizations resorted to this method in the most recent year studied, according to this report.

Texas from South Carolina on house hunting trips. Consequently, this relocation appears to have been made in accordance with the policies and procedures in effect at the time of the relocation.

Relocation Contract With RMF Is Cost Beneficial To The Postal Service

The Postal Service entered into a 3-year contract, with three 2-year renewal options, in January 2007 with an RMF to provide relocation services. In accordance with its contract with the RMF, the Postal Service bears all the risk and cost of relocating an employee, including any loss on home sales. In return, the Postal Service pays the RMF fees based on the fee schedule set forth in their contract. In addition, the Postal Service receives a credit from the RMF on each home sale.

The relocation company realizes revenue from its realty partner relationships and receives referral fees from the realty companies with whom it does business. A real estate referral fee is a portion of a broker's commission paid to a party that provided either a listing or selling prospect to that broker. Referral fee programs are commonly used to generate additional business and income for real estate practitioners, brokerage firms, relocation management companies, and corporations.

It is in our opinion that, while the Postal Service bears the risk of loss, the contract overall is comparable to or better than the GSA fixed fee contracts. This is due to the fact that unlike the Postal Service contract, the fees associated with the GSA contracts can range up to 40 percent of the home sale price. Further, the Office of Comptroller of the Currency states their average relocation cost was $65,000 for fiscal year 2008. According to the Worldwide Employee Relocation Council Relocation Assistance Survey, the average cost to relocate a current employee homeowner was $76,600 in calendar year 2007 with many companies paying well above $100,000 per home-owning transferee. The Postal Service's average relocation cost was $45,254 in calendar year 2008.[5]

Relocation Policy Should Be Strengthened and Benefits Curtailed Due To Economic Conditions

We recognize that as an ongoing business enterprise, the Postal Service needs the flexibility to relocate employees. The Postal Service has taken steps to strengthen its relocation policy, including issuing revised procedures in February 2009 to install the $1 million ceiling on home purchases and to advise employees that relocation benefits may not be provided in each case. Officials also stated that they are considering further restricting the requirements to participate in the employee relocation program by reducing the maximum value of a home purchase and reducing the number of house hunting trips.

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[5] This includes all costs for relocating employees, including homeowners and non-homeowners.

While the Postal Service has taken action to strengthen its policy and reduce expenses, we believe the Postal Service needs to go further to reduce the overall cost of this program in light of the current economic crisis it faces. Specifically, the proposed policy does not provide guidance as to when a vacancy should be filled locally versus nationally, when moves should or should not be paid, and when relocation benefits should be reduced for expenses not incurred. In addition, the policy does not reduce relocation benefit payments if an employee already has established a residence at his/her new duty location.

We will be issuing a report under separate cover to the Postal Service regarding our specific findings and recommendations to reduce such costs and improve the overall value of the home relocation program to the Postal Service and its employees. We will provide a copy of it to your office upon issuance.

If you have any further questions related to this matter, your staff may contact Wally Olihovik, Stakeholder Relations, at (703) 248-2100.

Sincerely,

Tammy L. Whitcomb

Tammy L. Whitcomb
Acting Assistant Inspector General
for Audit

Enclosures

Enclosure A
Benchmarking Comparison of Relocation Benefits[6]

	Postal Service (EAS)	Federal Travel Regulations	Federal Deposit Insurance Corporation	Office of Comptroller of Currency	Department of Labor	Tennessee Valley Authority	Company A[7]	Company B	Company C	Employee Relocation Council (ERC) Survey[8]
Number of Workers	67,028	Not Applicable	5,400	3,000	16,848	11,460	5,100	70,000	100,000	Varies
Number of Houses Acquired (Last Two Years)	1,022	Not Applicable	30	50	22	43	35	10	35	Not Specified in Survey
Average Profit/(Loss) on Home Sale	($53,307)	Not Applicable	($43,343)	None	Unknown	($30,000)	Not Available	Not Available	$35,607	Not Specified in Survey
Home Purchase Ceiling	$1,000,000	No, Agency discretion	None	$750,000	None[9]	None[9]	None[9]	None[9]	None[9]	6 percent of companies offer with no limits
Offer relocation leave	Yes	No	5 days	5 days	No	No	5 days	3 days	No	Not Specified in Survey
Miscellaneous Expense Allowance	$2,500	$500/$1,000 or actual NTE 1 week salary (single) or 2 weeks' salary (family)	$5,000	2 weeks base salary	$500/$1,000	$500/$1,000	$5,000-$15,000	$4,000/$8,000	Yes	95 percent of companies provide an allowance with no requirement to itemize or document expenses
Advance House Hunting Trips	3 trips (lump sum payment)	1 trip	1 trip	1 trip	1 trip	1 trip	1 trip	1 Trip	1 trip	99 percent of companies cover for employees and spouse
Dependents on Advance Round Trip	Yes	Spouse Only	Yes	Yes	Spouse only	Spouse only	No	No	Spouse only	35 percent of companies cover one or more dependent children
Child care for dependent remaining home during advance round trip of parent	No	No	No	No	No	No	Included in Misc	Included in Misc	No	Not specified in survey
Temporary Quarters (TQ)	60 days (lump sum payment)	30 days or actual NTE 120 days	30/60 days	14/7 days	60 days	60 days	30/60 days	30 days	30 days	95 percent of companies cover; most common time limit is 30 days
TQ Expense Limits	Yes	Yes	No limit	GSA Per Diem Rate	Yes	$1,850/$1,550	Yes	No	No limit	Not Specified in Survey
Return Trips to Former Residence	1 trip	No	2 trips	No	No	No	2 trips/month	2 trips	Yes	62 percent of companies intend a lump sum payment to cover this
Return trip to former residence to escort family to new duty station	No	No	No	No	No	No	Yes	Yes; Final Trip	Yes	Not specified in survey
Expenses while en route to new location	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	50 percent of companies intend a lump sum payment to cover this
Use of RMF for: Home Purchase	Yes	Agency Discretion	No	Yes	Yes; not through RMF	Yes	Yes	Yes	Yes	77 percent of companies do not require their employees to use a specific lender

[6] We contacted General Services Administration (GSA), Department of Defense (DOD), and Federal Reserve in St. Louis. However, we did not receive responses to all our questions. GSA officials stated they have no home purchase ceiling, and DOD has a ceiling of $750,000. We also contacted 18 other private companies, but they did not provide responses.

[7] Due to concerns about publishing confidential commercial information from private companies who assisted us, we have redacted their actual names - This applies to columns titled Company A, Company B, and Company C.

[8] *Relocation Assistance: Transferred Employees.* This is a comprehensive picture of the programs that facilitate employee mobility prepared by the Worldwide Employee Relocation Council®, 2009.

[9] Uses an average of two appraisals; an additional third appraisal is used if the difference between the first two is significant.

	Postal Service (EAS)	Federal Travel Regulations	Federal Deposit Insurance Corporation	Office of Comptroller of Currency	Department of Labor	Tennessee Valley Authority	Company A[7]	Company B	Company C	Employee Relocation Council (ERC) Survey[8]
Use of RMF for: Marketing Assistance	Yes	Agency Discretion	Yes	Yes	No	Yes	Yes	Yes	No	77 percent of companies do not require their employees to use a specific lender
Use of RMF for: Home Finding Assistance	Yes	Agency Discretion	Yes	Yes	No	Yes	Yes	Yes	No	77 percent of companies do not require their employees to use a specific lender
Use of RMF for: Household Goods	Yes	Agency Discretion	Yes	Yes	Yes; not through RMF	Yes	Yes	Yes	No	77 percent of companies do not require their employees to use a specific lender
Home Purchase Expenses	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	90 percent of companies provide this benefit
Home Sale Expenses	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	90 percent of companies provide this benefit
Equity Loss-Loss on Sale of Previous Residence	Yes	No	Yes, up to $50,000	Yes, with limits.[10]	No	No	Yes, up to $10,000	Yes, up to $10,000	Yes	77 percent of companies make this assistance generally available to all transferred employees in all locations
50-mile rule	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Not Specified in Survey
Loan Origination Fee or Points	1 percent	Yes	Yes	Yes	1 percent	1 percent	No	Yes	Yes	40 percent of companies report paying discount points, with the most common amount being 1.0 point.
Shared Appreciation Loan (SAL) Program	PCES in select cities and Officers	No	No	No	No	No	No	Yes; called Mortgage Buydown Subsidy	No	42 percent of respondents provide mortgage buy-downs, either temporary or permanent, on a formal or case-by-case basis.
Mortgage Interest Differential	No	No	Yes	No; Use Mortgage Subsidy Program	No	No	No	No	Yes, if over 8 percent	Not Specified in Survey
Household Goods Storage	60 days	Up to 180 days	60 days	No	90 days	90 days	60 days	60 days	180 days max	91 percent of companies cover
Tax Assistance-Federal Income Tax	Yes	Agency Discretion	Yes	Yes	No	Yes	No	No	Yes	93 percent also assist the employee with additional tax liability
Calendar Year-end Relocation Income Tax Allowance	Yes	Yes	Yes	No	Yes	No	No	Yes	No	Not Specified in Survey
Surviving spouse relocation benefits	No	No	No	Yes	Yes	No	No	No	No	Not Specified in Survey
Spouse job search expenses	No	No	No	Yes	No	No	No	Yes; International to U.S. only	No	Not Specified in Survey
Relocation benefits for Retirees	PCES Only	Yes, for Senior Executive Service (SES) employees only	Yes, with years of service minimum	No	SES employees only	No	No	No	No	Not Specified in Survey

[10] Responsible for first 5 percent loss from original purchase price (maximum $25,000, if using a relocation company, and $35,000 if not).

	Postal Service (EAS)	Federal Travel Regulations	Federal Deposit Insurance Corporation	Office of Comptroller of Currency	Department of Labor	Tennessee Valley Authority	Company A[7]	Company B	Company C	Employee Relocation Council (ERC) Survey[8]
Different relocation polices for Executives vs. Non-Executives	Yes	Yes	No	No	No	Yes	No	No	Yes	78 percent of companies have tiered policy based on salary and job level
Require the relocating employee to list/market their home (if selling one) before using the RMF	Yes	Not Available	No	Yes	Yes	Yes	Yes	No	No	87 percent of employers require participation
Typical contract terms if using a RMF	Firm Fixed	Not Available	Cost Plus	Fixed Fee	Percent Fee	Standard	Not Available	Not Available	Not Available	Not Specified in Survey
How RMF is paid for services	Per Fee Schedule	Not Available	Fixed fee	Percentage of home value	Percentage	Invoiced	Not Available	Not Available	Flat Fee	Not Specified in Survey
RMF shares in the profit/loss of the home sale	No	Not Available	No	No	No	No	No	Yes	No	Not Specified in Survey

Enclosure B
Relocation Costs for Home Purchases in Excess of $1 Million from January 2007 – March 2009[11]

File Number	1926621[12]	1798971	1724964	1746977	1597958	1779351	1764607
Postal Service Area Location	Capital Metro	Pacific	Pacific	Southeast	Capital Metro	Pacific	Southeast
Home Finding					$3,538		
En Route Trip		$1,549	$755	$1,248			$1,405
Home Sale Incentive				$5,000			
Household Goods Moving	$21,252	$14,692	$25,556	$12,245	$8,340	$37,588	$15,678
Household Goods Storage	$6,234	$1,610	$2,018			$7,194	$1,722
Lump Sum Payments	$16,075	$11,997	$10,872	$14,967		$12,690	$20,750
Miscellaneous Allowance	$2,500	$2,500	$2,500	$2,500	$10,000	$2,500	$2,500
New Home Closing Costs	$5,531	$2,222	$5,819	$9,192	$18,150	$8,888	
Other	$27	$112	$111	$202	$205	$98	$138
Loss on Home Sale		$112,500	$112,500	$0	$0	$263,433	$1,700,000
Departing Home Costs (including Broker Fees)	$13,250	105,680	$100,084	$106,282	$92,342	$192,466	$222,760
Tax Assistance	$11,405	10,580	$10,795	$8,158	$14,605	$8,990	$7,959
Total	**$76,274**[13]	**$263,442**	**$271,010**	**$159,794**	**$147,180**	**$533,847**	**$1,972,912**

[11] In addition to the costs included in this schedule, the Postal Service receives a credit from the RMF on each home sale.
[12] This home has not yet been sold. Therefore, some of the relocation costs have not yet been incurred.
[13] Any addition differences are due to rounding.