October 17, 2001

DONNA M. PEAK
VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Audit Report - Shared Real Estate Appreciation Loan Program
(Report Number FT-AR-02-001)

This report presents the results of our audit of the Postal Service's shared real estate appreciation loan program (Project Number 00PA019FR002). The Board of Governors requested the overall relocation audit, and this report is the fifth in a series of reports examining relocation benefits for Postal Service executives. We will prepare a capping report to summarize the relocation audit work.

Through benchmarking, we determined that the Postal Service's shared real estate appreciation loan program was not comparable to programs offered by the private sector and other government agencies. The program was only offered to a small number of eligible Postal Service employees, and controls over the program needed strengthening. Management agreed to our recommendations and has initiatives completed or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The OIG considers recommendations 1-5 significant and, therefore, requires OIG concurrence before closure. These recommendations should not be closed in the follow-up tracking system until OIG provides written confirmation that the recommendations can be closed. We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact me at (703) 248-2300.

John M. Seeba
Assistant Inspector General
for Financial Management

Attachment

cc: Richard J. Strasser, Jr.
John M. Nolan
Suzanne F. Medvidovich
Mary Anne Gibbons
William T. Johnstone
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

This report addresses the Postal Service's shared real estate appreciation loan program. It examines: (1) comparability of the program with those offered in the private and public sectors; (2) equitability of program participation; and (3) adequacy of program controls. The Board of Governors requested the overall audit on relocation benefits, and this report is the fifth in a series of reports examining such benefits for Postal Service executives. Our relocation work is continuing, and a capping report will be issued summarizing our work in this area.

Results in Brief

Our audit disclosed that the shared real estate appreciation loan program was not comparable to programs offered by private and public sector agencies. None of the 20 organizations we benchmarked with purchased employees' homes and operated as the lien holder.

Between January 1997 and October 2000, the shared real estate appreciation loan program was offered to 48 individuals, 10 of which did not meet program requirements for eligibility. Further, the program was offered in three areas that did not meet program requirements and five employees participated multiple times regardless of their eligibility.

Controls over the shared real estate appreciation loan program needed strengthening. The program was administered based on informal policies that did not address granting exceptions to the program or establishing adequate documentation for loan information.

Summary of Recommendations

We recommended that the vice president, Finance, controller, provide the shared real estate appreciation loan program policy to all executives, improve program documentation, restrict program participation to defined high cost areas, update approved high cost areas annually, and ensure that program exceptions are in the best interest of the Postal Service.

Summary of Management's Comments

Management generally agreed with the recommendations and implemented actions to provide the shared real estate appreciation loan policy to all executives, restrict program participation to defined high cost areas, and ensure that program exceptions are in the best interest of the Postal Service. Additionally, for future shared appreciation loan mortgages, program documentation will be improved.

Although management agreed with the need to accurately measure differences in the urban cost-of-living index, they noted that an annual review, as recommended, was too frequent. They proposed conducting a biennial index review and searching for another index source other than the American Chamber of Commerce Researchers Association's index. They noted that the Chamber of Commerce is not required to update the index annually and the testers may change the area reviewed. Management's comments, in their entirety, are included in Appendix D of this report. We appreciate management's efforts to take immediate corrective action when these issues were brought to their attention during the audit.

Additionally, management commented in subsequent meetings, that this program was an accepted practice by major universities. Universities intended this program as a means to attract and retain talent.

Overall Evaluation of Management's Comments

Postal Service management's actions taken and planned were responsive to our recommendations. In addition, to address management's subsequent comments, we are performing additional work to determine the extent of this practice by universities and will address this issue in our overall capping report.

INTRODUCTION

Background

The shared real estate appreciation loan program, established in 1989, allows Postal Service executives to relocate to high-cost areas without lowering their standard of living. Under the program, executives offset increased mortgage costs by applying equity from a previous residence to the purchase of a new residence, with the Postal Service absorbing any increase in the overall cost of the home and mortgage. When the home is sold, the Postal Service is entitled to a return of its equity interest and a share of any appreciation. At the time of our review there were 30 residences in the program valued at $12.3 million.

Table 1 details the highest and lowest purchase price of residences acquired through the shared real estate appreciation loan program.

Table 1: Shared Real Estate Appreciation Loan Program Snapshot

	Lowest Purchase Price	Highest Purchase Price
New Home Purchase Price	$300,000	$583,245
Less Down Payment	$55,000	$75,245
Total Amount Financed	$245,000	$508,000
Less Fixed (Employee) Portion	$145,000	$274,800
Shared Portion (Contingent Deferred Mortgage)	$100,000	$233,200
Postal Service Interest In Property	33.33%	39.98%
Mortgage Interest Rate	7.500%	7.000%
Monthly Principal and Interest Payment Based on Total Amount Financed	$1,713	$3,380
Monthly Principal and Interest Payment Based on Fixed Portion	$1,014	$1,828
Monthly Savings To Employee	$699	$1,551

Appendix B details the program participants by functional areas. Appendix C shows the major metropolitan areas where participant homes were located.

Objectives, Scope, and Methodology

The objectives of our audit were to determine whether the Postal Service's shared real estate appreciation loan program was: (1) comparable with private industry and public sector agencies, (2) offered equitably to eligible Postal Service employees, and (3) adequately controlled.

To determine whether the Postal Service's shared real estate appreciation loan program was comparable with private industry and similar government agencies, we surveyed 24 Fortune 500 companies and 7 nonappropriated government agencies. A listing of these agencies is included in Appendix A. We compared the Postal Service's shared real estate appreciation loan program with programs used by these entities to help reduce housing costs for employees moving to high cost areas.

To determine whether the program was offered equitably to eligible Postal Service employees, we reviewed program guidelines prepared by the Postal Service for the shared real estate appreciation loan program. We also reviewed supporting documents for 48 current or former participants in the shared real estate appreciation loan program from January 1997 to October 2000. Additionally, we reviewed American Chamber of Commerce Researchers Association's cost-of-living index reports from 1994 through 1999. Finally, we discussed program eligibility requirements and participation with Postal Service officials.

To determine whether controls over the shared real estate appreciation loan program were adequate, we reviewed the Postal Service's Travel and Relocation Handbook and program guidelines.

We conducted the audit from May 2000 through September 2001 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings and conclusions with management officials and included their comments, where appropriate.

Prior Audit Coverage

In our May 2000 report, Relocation Benefits for Postal Service Officers, (Report Number FR-FA-00-010(R)), we concluded that two officers, who were promoted but did not change duty stations, received relocation benefits of about $248,000 for moves within the local commuting area. In addition, we found that controls were not in place to ensure that the Board of Governors approved relocation benefits. Management concurred with our recommendation to require written justification documenting the reasons for relocations

within the local commuting area. Also, the Board of Governors agreed with our recommendations to review and approve deviations from officer relocation policy and components of officer incentive plans.
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Our September 2000 report, Miscellaneous Relocation Expense Payments, (Report Number FT-AR-00-001) concluded that executives received miscellaneous relocation expense payments of $10,000 or $25,000 without having to document expenses incurred. Consequently, payments could be perceived as a way to exceed the statutory limits on compensation, which according to the Postal Service, does not include relocation benefits. Management agreed with our recommendations to use benchmarking information for determining the appropriate payments and to update and publish criteria used for requesting payments. However, management disagreed with our recommendation to implement controls to ensure payments are not received until relocation has commenced and to classify payments exceeding the miscellaneous expense amount as relocation bonuses.

In September 2000, we issued a report, Equity Loss Payments, (Report Number FT-AR-00-004), that examined payments for losses on real estate transactions incurred as part of relocation benefits for Postal Service executives. We confirmed that the Postal Service policy of reimbursing employees for losses incurred on real estate transactions was similar to policies of private and public sector agencies. In addition, payments were calculated properly based on verbal formulas provided by Postal Service officials. However, controls over equity loss payments needed improvement. Management agreed with our recommendation to fully document policies and procedures for equity loss calculations and reimbursements; and develop and publish a list of approved capital improvements used in determining losses on the sale of employees' residences.

In September 2000, we issued a report, Deviations from Postal Relocation Policy, (Report Number FT-AR-00-005) on deviations from the Postal Service's Relocation Policy that were granted to Postal Service executives. We concluded the deviations reviewed appeared to be in accordance with Postal Service relocation policy and in the best interest of the Postal Service. No recommendations were offered with this report, and management did not provide comments.

AUDIT RESULTS

Program Not Comparable With Private and Public Sector

The Postal Service's shared real estate appreciation loan program was not comparable to programs offered by private and public sector agencies. None of the 20 organizations we benchmarked with purchased employees' homes and operated as the lien holder. The Postal Service carries the home as an asset on their financial statements. A portion of the asset is owned by the Postal Service and does not require a monthly payment. The following example illustrates how the shared real estate appreciation loan program works:

> An employee purchased a home in Memphis, Tennessee, in 1993 for $185,000. The initial mortgage on the home was $175,000. The employee sells the residence in 2000 for $200,000 upon reassignment to Washington, D.C. The employee pays off the mortgage balance of $168,000 leaving $32,000 of equity to put into the new home.
>
> The employee finds a new home in the Washington metro area for $340,000 that is purchased by the Postal Service. The employee invests $32,000 of equity into the new residence, leaving a balance of $308,000. The employee's new fixed mortgage is set at $190,000. The Postal Service provides the employee with a 30-year mortgage on this amount at 7.5 percent, which equates to a monthly payment of $1,329. This represents a savings of $825 if the employee's monthly mortgage payment was based on $308,000.
>
> The Postal Service carries the remaining $118,000 on its financial statements as a contingent deferred mortgage. This amount represents the Postal Service's 34.7 percent interest in the home. A summary of how the shared real estate appreciation loan program works is contained in Table 2.

Table 2: Summary of How the Shared Real Estate Appreciation Loan Program Works	
New Home Purchase Price	$340,000
Less Down Payment	-$ 32,000
Balance	$308,000
Less Fixed (Employee) Mortgage	-$190,000
Shared Portion (Contingent Deferred Mortgage)	$118,000
Postal Service Interest in Property	34.7%
Mortgage Interest Rate	7.5%
Monthly Principal and Interest Payment Based on $308,000	$2,154
Monthly Principal and Interest Payment based on $190,000	$1,329
Monthly Savings	$825

The Postal Service's costs include the cost of capital for the duration of the loan and mortgage processing costs that total approximately $500 per loan.

Six of the twenty organizations that we contacted helped employees obtain lower mortgage interest rates. The employer provides a mortgage interest differential payment to the employee to offset the costs associated with a higher interest rate. The normal term for these payments was 3 years.

Equitability is Questionable

The shared real estate appreciation loan program was offered to 48 individuals from January 1997 to October 2000. This represents a limited number of the total eligible executives, which is about 1,000 employees. Five of these employees were executives who had participated in the program several times. Four employees had participated at least twice since 1997, and one employee had participated three times.

Participation in the shared real estate appreciation loan program was designed to be limited to officers and their direct reports.[1] The shared real estate appreciation loan program was not publicized to all eligible Postal Service employees or included in Postal Service policy manuals, handbooks, or bulletins from inception of the program in 1989 through 2000. In September 2000, the chief financial officer issued guidance on the shared real estate appreciation loan program to Postal Service officers. The guidance defined the program along with the criteria for program participation. Program eligibility was changed to include all executives, not just those that directly reported to officers. This information, however, was only disseminated to officers instead of all eligible program participants. In December 2000, the Postal Service issued a revised relocation handbook[2] that made reference to the shared real estate appreciation loan program, but did not contain specific information on the program.

Consequently, not all eligible Postal Service officers and executives had access to program information. Because of limited participation in the shared real estate appreciation loan program, there could be a perception that all eligible employees were not treated fairly and equally.

Recommendation

We recommend the vice president, Finance, controller:

1. Provide all Postal Service executives the policy for the shared real estate appreciation loan program.

[1] A July 28, 1998, letter sent from the chief financial officer to the postmaster general.
[2] Handbook F-15, Travel and Relocation, Part 3 Relocation (non-bargaining only) replaces Handbook F-11, PCES Relocation Policy and Handbook F-12, Relocation Policy for non-bargaining employees only. Handbook F-12, Relocation Policy is used by bargaining employees.

Management's Comments

Management agreed with the recommendation and stated this was completed last year. In the acting chief financial officer and executive vice president's memorandum to officers, dated September 29, 2000, details of the program were spelled out and worksheets included. All new officers receive this package. It is customary that information addressed to officers that concerns Postal Career Executive Service managers be distributed as needed. Management believed that this occurred, and the result was the full and complete distribution of program information. Additionally, the Internet F-1 5 relocation handbook, issued last year, cites the availability of the program.

Additionally, management commented in subsequent meetings, that this program was an accepted practice by major universities. Universities intended this program as a means to attract and retain talent.

Evaluation of Management's Comments

Management took corrective action when this issue was briefed to them during the audit. This action was responsive to our recommendation. In addition, to address management's subsequent comments, we are performing additional work to determine the extent of this practice by universities and will address this issue in our overall capping report.

Lack of Program Controls

Controls over the shared real estate appreciation loan program were inadequate, allowing exceptions to be granted that compromised program objectives. As a result, 10 of 48 participants were not eligible, and benefits were paid for moves that were not to high cost cities. In addition, the program was offered in three areas that did not meet program requirements and five employees participated multiple times, regardless of their eligibility. Important documentation on shared appreciation loans was also missing or incomplete. This occurred because the program was administered based on informal policies that did not address granting program exceptions or establishing adequate documentation for loan information. Without adequate controls, the shared real estate appreciation loan program may be used inconsistently and inappropriately.

The Postal Service did not formally document policy and procedures for the shared real estate appreciation loan program. While reviewing memoranda and notes about program participants, we found several policy initiatives that were not included in Postal Service policy manuals or handbooks. For example, a memorandum outlined how an additional down payment on a residential purchase resulted in a decrease in the shared loan amount carried by the Postal Service. This policy was not found in the other documents we reviewed.

In a September 2000 letter to officers from the acting chief financial officer and executive vice president, the Postal Service documented the policy for the shared real estate appreciation loan program. The letter outlined the program and gave eligibility requirements and specific examples of how financing would be arranged. At that time, the shared real estate appreciation loan program was not referenced in the Postal Service's relocation handbook. The Postal Service added a reference to the program in the F-15, Travel and Relocation Handbook, dated December 22, 2000. However, no specific program guidance was included in the handbook.

Benefits Paid to Ineligible Employees

The Postal Service granted exceptions in 35 percent[3] of the shared real estate appreciation loan files we reviewed. Postal Service management approved these exceptions because the positions and employees were considered key

[3]Exceptions to the shared real estate appreciation policy were granted for 17 of the 48 files we reviewed.

to overall operations. However, the large number of exceptions may have compromised the program objectives. As a result of these exceptions, the program expanded to cities not included in the program and to employees that did not report directly to officers, and, therefore, may not have been in the best interest of the Postal Service.

We found 10 individuals out of the 48 participants were not officers and did not directly report to officers. For example, one employee, an attorney, reported to an individual who was three levels below that of an officer. In addition, certain postmasters and postal inspectors participated in the program, although they did not directly report to officers. Postal Service officials told us that it was policy to allow postal inspectors to participate in the shared real estate appreciation loan program, but we found no documentation of this policy. Also, the program was offered in three areas that did not meet program requirements and five employees participated multiple times regardless of their eligibility.

Per the revised shared appreciation loan program policy, all requests for exceptions are to be addressed to the manager, Corporate Personnel, who coordinates with Finance. Requests for members of the Postal Career Executive Service should be sent to the manager, Corporate Accounting, who coordinates with Human Resources.

Payments Made for Moves Other Than To High Cost Cities

Cities such as Philadelphia, Pennsylvania; Chicago, Illinois; and Sacramento, California, were included in the Postal Service's shared real estate appreciation loan program, although they were not officially part of the program. Postal Service criteria for high-cost cities are based on the American Chamber of Commerce Researchers Association's cost-of-living index and these cities did not meet that criterion. Only the following cities with an index over 50 percent above the average (100) index were authorized by the Postal Service:[4]

[4] Los Angeles and Long Beach, California, were subsequently added and San Diego was removed in accordance with a memorandum issued on September 29, 2000, by the acting chief financial officer and executive vice president.

- San Francisco, California
- New York, New York
- Boston, Massachusetts
- District of Columbia
- San Diego, California

Postal Service officials told us that Sacramento was included because participants who subsequently relocated could remain in the program if their housing index did not decrease by more than 25 points.

By including cities not listed in the memorandum from the chief financial officer, the Postal Service expanded the program beyond what was initially planned. Table 3 shows the information received from the American Chamber of Commerce Researchers Association, which listed three additional cities with a composite index over 150. The table also lists 16 additional cities that could be included based on the continuation aspect of the program.

Table 3: American Chamber of Commerce Researchers Association Cost-of-Living Index, Fourth Quarter 1999

Cost-of-Living Index	Number of Cities
Greater than 150	8 *
125 - 150	16 **

* Framingham, Massachusetts; Los Alamos, New Mexico; and Los Angeles-Long Beach, California. Also included are five cities in the shared real estate appreciation loan program: San Francisco, California; New York, New York; Boston, Massachusetts; District of Columbia; San Diego, California.

** New Haven, Connecticut; Glenwood Springs, Colorado; Santa Fe, New Mexico; Kodiak, Alaska; Anchorage, Alaska; Scottsdale, Arizona; Pittsburgh, Pennsylvania; Philadelphia, Pennsylvania; Juneau, Alaska; Chicago, Illinois; Springfield, Massachusetts; Hartford, Connecticut; Burlington, Vermont; Corvallis, Oregon; Denver, Colorado; and Hilton Head Island, South Carolina.

In a September 2000 letter to officers from the acting chief financial officer, the Postal Service identified geographic areas that should be included in the shared real estate appreciation loan program because of the high cost of housing. The letter also stated that officers in other areas might be eligible if the cost of the housing differential between the previous residence and a comparable new residence increased by 25 points. Participants who subsequently relocated would be recommended for continuation if the housing index did not decrease by more than 25 points or was in one of the geographic areas listed.

Although the Postal Service used the American Chamber of Commerce Researchers' Association's cost-of-living index for geographic areas, it has not addressed the issue of expanding the program. In addition, the Postal Service has not addressed how frequently it will evaluate the cost-of-living index.

As a result, the program initially designed for five high-cost areas may include at least 24 cities. This could significantly increase the cost of the shared real estate appreciation loan program. Although the Postal Service recognized the need to formalize policies and procedures for the program, management has not adequately addressed program exceptions noted in this report.

Missing or Incomplete Documentation

Documentation of shared real estate appreciation loan information was missing or incomplete. Important information, such as approvals for entrance into the program, approved exceptions, and the names of the nominating officers, was missing from participants' files. In addition, files frequently did not include documentation of equity from the sale of the former residence and information indicating that all equity was used as a down payment. This documentation was not included in all files because it was not required when the shared real estate appreciation loan program was created. According to General Accounting Office standards for internal control in the federal government, organizations should have control activities in place to help ensure that all transactions and events are completely and accurately recorded. Without adequate supporting documentation, management assumes the risk for potential waste, fraud, or abuse in a program.

To address concerns about the documentation of loan information, the Postal Service has developed a participant planning worksheet that documents approval for inclusion in the shared real estate appreciation loan program. The worksheet explains the approved exceptions and lists the names of nominating officers. However, the worksheet does not mention equity received from the sale of a former residence and does not require the participant to state that all equity was used as a down payment.

Recommendation

We recommend the vice president, Finance, controller:

2. Review exceptions made to program participation to ensure that approvals are based on documentation showing that the move is in the best interest of the Postal Service and are in line with the objectives of the shared real estate appreciation loan program.

Management's Comments

Management generally agreed with this recommendation. Management noted that, under revised guidelines adopted last year, all requests for inclusion in the program would be approved, as appropriate, by the Board of Governors or the chief financial officer and the deputy postmaster general and, unless otherwise approved by the Board of Governors, would be restricted to high cost areas as defined in the program. The approvals, if granted, are considered to be in line with the objectives of the program and in the best interest of the Postal Service.

Recommendation

3. Restrict program participation to high cost areas as defined in the program.

Management's Comments

Management agreed with this recommendation and stated this was completed last year. Management noted that the Board of Governors has the authority to approve officer participation in the program regardless of location.

Recommendation

4. Annually review the American Chamber of Commerce Researchers' Association's cost-of-living index to ensure that it accurately measures cost differences among urban areas to ensure continued qualification for participation in the program.

Management's Comments

Management also agreed that there was a need to accurately measure differences in the urban cost-of-living index. However, they proposed conducting a biennial index review and searching for another index source other than the American Chamber of Commerce Researchers Association's index. They noted that the Chamber of Commerce is not required to update the index annually and the testers may change the area reviewed.

Recommendation	5. Ensure that program participants use the entire amount of equity received from the sale of their prior residences as a down payment and fully document this in program files and the shared appreciation loan program planning worksheet.
Management's Comments	Management noted that it has been a practice that all equity obtained from the sale of the previous residence be used as the down payment on the new residence. They will include copies of the equity statements of HUD-1 settlement records in the documentation from the prior residence sale.
Evaluation of Management's Comments	We appreciate management's immediate corrective actions when these issues were briefed to them during the audit. Management's actions taken or planned were responsive to our recommendations.

APPENDIX A
SHARED REAL ESTATE APPRECIATION LOAN PROGRAM
BENCHMARKED COMPANIES

We contacted the following 31 private and public sector organizations:

1. AIG
2. AT&T
3. Bell Atlantic
4. Boeing
5. Citigroup
6. Comptroller of the Currency
7. Costco
8. Enron
9. Fannie Mae
10. Federal Deposit Insurance Corporation
11. Federal Reserve
12. FedEx
13. Freddie Mac
14. Hewlett-Packard
15. Home Depot
16. Department of Housing and Urban Development
17. IBM
18. Intel
19. Johnson & Johnson
20. Kmart
21. Lucent
22. Pepsi
23. Phillip Morris
24. SBC Communication
25. Sears & Roebuck
26. State Farm
27. Target
28. Texaco
29. Tennessee Valley Authority
30. United Parcel Service
31. Walmart

APPENDIX B
SHARED REAL ESTATE APPRECIATION PARTICIPANTS BY FUNCTIONAL AREA
JANUARY 1997 THROUGH OCTOBER 2000

Vice President Level	Number of Participants	Percentage of Participants[5]
Pacific Area Operations	12	25.0
Inspection Service	6	12.5
Sales	5	10.4
Technology	5	10.4
Human Resources	4	8.3
General Counsel	4	8.3
Controller	3	6.3
Chief Operating Officer	1	2.1
Expedited Package Services	1	2.1
Marketing Systems	1	2.1
Network Operations Management	1	2.1
Allegheny Area Operations*	1	2.1
Great Lakes Area Operations	1	2.1
Northeast Area Operations	1	2.1
Workforce Planning	1	2.1
New York Area Operations	1	2.1
	48	100.0

* Effective with the Postal Service reorganization on September 8, 2001, the Allegheny Area no longer exists and was absorbed into a new geographical area, which is now the Eastern Area.

[5] Percentages are rounded.

APPENDIX C
SHARED REAL ESTATE APPRECIATION PARTICIPANTS BY METROPOLITAN AREA AND VICE PRESIDENT LEVEL
JANUARY 1997 THROUGH OCTOBER 2000

Metropolitan Area	Vice President Level	Number of Participants
Boston, Massachusetts	Northeast Area Operations	1
Chicago, Illinois	Great Lakes Area Operations	1
District of Columbia	Chief Operating Officer	1
	Controller	3
	Human Resources	4
	Inspection Service	3
	General Counsel	3
	Marketing Systems	1
	Network Operations Management	1
	Sales	4
	Technology	3
	Workforce Planning	1
Los Angeles, California	Inspection Service	1
	Pacific Area Operations	3
New York, New York	Expedited Package Services	1
	Inspection Service	2
	General Counsel	1
	New York Area Operations	1
Philadelphia, Pennsylvania	Allegheny Area Operations*	1
Sacramento, California	Pacific Area Operations	1
San Francisco, California	Sales	1
	Technology	2
	Pacific Area Operations	8
Total		48

* Effective with the Postal Service reorganization on September 8, 2001, the Allegheny Area no longer exists and was absorbed into a new geographical area, which is now the Eastern Area.

APPENDIX D. MANAGEMENT'S COMMENTS

DONNA M. PEAK
VICE PRESIDENT
FINANCE, CONTROLLER

UNITED STATES
POSTAL SERVICE

September 5, 2001

DEBRA S. RITT

SUBJECT: Transmittal of Draft Audit Report—Shared Real Estate Appreciation Loan Program (Report Number FT-AR-01-DRAFT)

The attached report is our response to the finding identified as Transmittal of Draft Audit Report—Shared Real Estate Appreciation Loan Program dated August 8.

We agree with the need to improve the internal controls around the Shared Real Estate Appreciation Loan Program, as management has already taken steps to strengthen processes.

If you have any questions regarding our response and would like to discuss them further, please contact Dan Strong, real estate coordinator, Corporate Accounting, on (202) 268-3272.

Donna M Peak
Donna M. Peak

Attachment

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OIG Finding: Shared Real Estate Appreciation Loan Program
OIG Report Number: FT-AR-01-DRAFT

The Vice President, Finance, Controller should:

Recommendation 1: Provide all Postal Service executives the policy for the shared real estate appreciation loan program.

Response: We concur as this was completed last year. In the acting chief financial officer's memorandum to Officers, dated September 29, 2000, details of the program were spelled out and worksheets included. All new officers receive this package. It is customary that information addressed to Officers that concerns PCES managers be distributed as needed. We believe that this occurred, and the result would be the full and completed distribution of program information. Additionally, the Internet F-15 relocation handbook cites the availability of the program. This too was issued last year.

Recommendation 2: Review exceptions made to program participation to ensure that approvals are based on documentation showing that the move is in the best interest of the Postal Service and are in line with the objectives of the shared real estate appreciation loan program.

Response: We concur as this was implemented last year. Under revised guidelines adopted last year, all requests for inclusion in the SAL program will be processed in one of two ways. Officer requests are approved by the Board of Governors. Requests from other PCES managers go through the chief financial officer and the Deputy PMG for final approval. When these approvals are granted, they are considered to be in line with the objectives of the program and in the best interest of the USPS.

Recommendation 3: Restrict program participation to high cost areas as defined in the program.

Response: We concur as this was implemented last year. However, it should be noted that the Board of Governors does have authority to approve officer participation in the program regardless of location.

Recommendation 4: Annually review the American Chamber of Commerce Researchers Association's cost-of-living index to ensure that it accurately measures cost differences among urban areas to ensure continued qualification for participation in the program.

Response: We concur on the need to accurately measure differences in the urban cost-of-living index, however we believe that an annual review of the American Chamber of Commerce Researchers Association's index is too frequent. We suggest a biennial index review in even number years to be sufficient. We will continue to search for a non-biased criterion on which to base the review, as the Chamber of Commerce is not required to update the index annually and the testers may change the area reviewed. Currently, there is an annual review of the ACCRA cost of living index or a similar index compiled by other sources, i.e., Runzhiemers.

Recommendation 5: Ensure that program participants use the entire amount of equity received from the sale of the prior residences as a down payment and fully document this in program files and the shared appreciation loan program planning worksheet.

Response: We concur. It has been a practice that all equity obtained from the sale of the previous residence be used as the down payment on the new residence. However, for future SAL mortgages we will include copies of the equity statements of HUD-1 settlement records in the documentation from the prior residence sale.