May 31, 2002

DONNA M. PEAK
VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Audit Report - Relocation Compilation Report
(Report Number FT-AR-02-012)

This report presents the results of our audit of the Postal Service's relocation program (Project Number 00PA019FR006). The Board of Governors requested the overall audit on relocation work, and this report is the sixth in a series of reports examining relocation benefits for Postal Service executives. This is the capping report to summarize all relocation audit work performed.

We examined all aspects of the Postal Service's executive relocation program. The audit disclosed that amounts paid by the Postal Service for temporary quarters, house-hunting trips, and moving and storage of household goods were generally comparable with the relocation benefits offered by the private sector and other government agencies with which we benchmarked. However, our benchmarking also disclosed three areas where the Postal Service executive relocation program was excessive. These areas include miscellaneous relocation expense benefits, the Shared Real Estate Appreciation Loan Program, and equity loss payments. While Postal Service management maintains they need an adequate management tool to attract and retain talented employees, it is necessary for them to ensure that the relocation program is reasonable when compared with the private sector and government entities.

We offered four recommendations to strengthen controls over the program as well as improve the Postal Service's cash flow. Management agreed with recommendation 3, but disagreed with recommendations 1, 2, and 4. We consider management's disagreement with recommendations 1, 2, and 4 unresolved, and plan to pursue these recommendations through the formal audit resolution process. Management's comments are included in the report.

The Office of Inspector General (OIG) considers recommendations 1 through 4 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 appreciate the cooperation and courtesies provided by your staff during the audit. If you have questions or need additional information, please contact Bennie M. Cruz, director, Financial Statements, at (214) 775-9116, or 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
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INTRODUCTION

Background

This is a capping report that summarizes relocation audit work performed by the Office of Inspector General (OIG). The Board of Governors requested the overall audit on relocation benefits, and this report is the sixth in a series of reports examining such benefits for Postal Service executives. This review initially started with the audit of the relocation benefits paid to, two Postal Service officers, and then expanded to cover various components of the relocation program.

The Postal Service provides relocation benefits that include:

- Advance house-hunting trips to the new location.
- Temporary quarters at the new location.
- Return trips to the employee’s residence.
- En route travel expenses to the new location.
- Home purchase and sale expenses.
- Equity loss payments on the sale of the prior residence.
- Shared Real Estate Appreciation Loan Program.

Objective, Scope, and Methodology

The objective of this audit was to provide an overall assessment of the reasonableness and comparability of the executive relocation benefits.

We accomplished our audit objective by:

- Reviewing Postal Service relocation policies and procedures.

- Interviewing appropriate Postal Service officials.

- Analyzing supporting relocation documents and computer generated relocation payment information maintained by the Postal Service.

- Reviewing Internal Revenue Service, Office of Personnel Management relocation guidelines.

We analyzed the cost effectiveness of the Shared Real Estate Appreciation Loan Program, at the request of the deputy postmaster general. We performed a cash-flow analysis of properties sold from 1997 through 2000 under this program.

We performed benchmarking in response to Postal Service officials' assertion that programs such as the Shared Real Estate Appreciation Loan Program were an accepted practice at major universities to both attract and retain talent. We contacted 11 major universities.

We conducted the audits from January 2000 through May 2002 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 appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

This is the sixth in a series of reports examining executive relocation benefits. The five prior reports are summarized below.

Report Number FR-RA-00-010(R)

In our May 2000 report, Relocation Benefits for Postal Service Officers (Report Number FR-RA-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 recommendation to review and approve deviations from officer relocation policy and components of officer incentive plans.

Report Number FT-AR-00-001

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. In response, Postal Service management stated that, policy/guidelines do not include relocation benefits as part of compensation. 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 recommendations 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. We continue to believe that payments should only be made when the employee has actually begun the relocation process.
Report Number FT-AR-00-004	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 the relocation benefits for Postal Service executives. We confirmed that the Postal Service policy of reimbursing employees for losses incurred on real estate transactions were 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 to develop and publish a list of approved capital improvements used in determining loss on the sale of an employee's home.
Report Number FT-AR-00-005	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 the Postal Service's relocation policy and in the best interest of the Postal Service. No recommendations were offered with this report, and management did not provide comments.
Report Number FT-AR-02-001	In October 2001, we issued a report, Shared Real Estate Appreciation Loan Program (Report Number FT-AR-02-001). Through benchmarking, we determined that the Shared Real Estate Appreciation Loan Program was not comparable to programs offered by private companies or public sector agencies. In addition, the Shared Real Estate Appreciation Loan Program was only offered to a limited number of executives. Also, controls over the Shared Real Estate Appreciation Loan Program needed strengthening.

Specifically, we noted that the Postal Service lacked formal written policies and procedures for the program; waived program requirements in one-third of the files we reviewed; allowed participation by employees who were not officers or did not report directly to officers; lacked adequate documentation of loan information; and extended the offer to cities not included in the program.

We recommended, and Postal Service management agreed, to make the Shared Real Estate Appreciation Loan Program available to all executives, improve documentation, restrict participation to defined high-cost areas, and ensure that exceptions are in the best interest of the Postal Service. We also recommended that management update approved high-cost areas annually. Although management agreed with the need to accurately measure the differences in the urban cost of living index, they noted that an annual review, as recommended, was too frequent. Management proposed conducting a biennial review and searching for a source other than the American Chamber of Commerce Researchers Association's index. Management's actions, taken or planned, were responsive to our recommendations.

AUDIT RESULTS

Reasonableness and Comparability of Relocation Program

We found that amounts paid by the Postal Service for temporary quarters, house-hunting trips, moving, and storage of household goods were generally comparable with the relocation benefits offered by the private sector and other government agencies with which we benchmarked. However, our benchmarking disclosed several areas where the Postal Service executive relocation program was excessive when compared with companies in the private sector and other government agencies. These areas include miscellaneous relocation expense benefits and certain aspects of the Shared Real Estate Appreciation Loan Program. In addition, we found that controls over equity loss payments still need improvement.

Miscellaneous Relocation Expense Allowances Were Excessive

We determined that miscellaneous relocation expense payments made to Postal Service executives significantly exceeded the amounts paid by private industry and other government agencies. The Postal Service's miscellaneous relocation expense payments are excessive when compared to other governmental and private sector organizations.

In response to our report,[1] Postal Service management presented benchmarking information to the Compensation Committee of the Board of Governors. We analyzed their results and found that the information was misleading. The major difference was that the private sector salary information that was used was not comparable to the salaries paid to Postal Service executives. The salaries used were $579,000 and $1,600,000 for two private sector companies, which were 3.5 to 10 times higher than the $166,700 maximum salary that a Postal Service executive can earn. If these salaries were limited to the current Postal Service maximum salary, the miscellaneous relocation expense allowance would be reduced to $11,669 and $13,891 respectively.

We believe that this benchmarking information, when placed in the correct context, confirms our conclusion that miscellaneous relocation expense payments made to Postal

[1] Miscellaneous Relocation Expense Payments (Report Number FT-AR-00-001) dated September 2000.

Service executives significantly exceeded the amounts paid by private industry and other government agencies.

In addition, we believe that the amount provided clearly exceeds any reasonable expense any relocating official is expected to incur. Postal Service management believes that the miscellaneous benefit should be provided for major repairs, replacements, or improvements to their property prior to selling their old residence or purchasing a new residence.

Impact of Multiple Miscellaneous Payments

The way the existing program is currently set up allows officers to receive multiple miscellaneous reimbursements when relocating several times in a short period. For example, we found one Postal Service officer relocated three times in less than 3 years. This officer received a $25,000 miscellaneous relocation expense payment with each move. For this officer, miscellaneous benefits represented more than half of the total reimbursement paid to relocate this individual for all three moves.

Providing large dollar value payments without the employee supplying documentation to support their actual expenses can create a negative public perception of the Postal Service and appear excessive. We believe this further reinforces the need to reduce the amount for miscellaneous relocation expense payments to prevent this benefit from being used as a compensation tool versus a relocation tool for which it was originally designed.

Shared Real Estate Appreciation Loan Program is Unique and Not Cost Effective

Postal Service officials stated that universities had relocation programs. However, through our benchmarking, we found that only one of the nine major universities responding to our contact offered a program similar to the Postal Service’s Shared Real Estate Appreciation Loan Program. Additionally, two universities offered various forms of housing assistance to attract and retain qualified staff. These two universities offered programs that included reduced rate second mortgages and down payment assistance. Six universities stated they did not offer any housing assistance at all, an additional two universities did not respond to our contact.

Also, in response to a question about the cost effectiveness of this program, we performed a cash-flow analysis of the Shared Real Estate Appreciation Loan Program. We analyzed 13 program properties that were sold between 1997 and 2000.

The Postal Service invested approximately $4,337,700 in these properties. Interest income earned on these properties was about $916,000. The Postal Service's portion of the capital gain was approximately $101,600**.** This investment resulted in a net positive cash flow of nearly $1,017,600. This makes the program appear to be a sound investment. However, we found that, in spite of positive cash flow, this investment resulted in an extra cost of about $544,600 by way of negative net present value. The costs of borrowing for ten of the mortgages were higher than their internal rate of return. We did not analyze the impact of other possible costs to the Postal Service, such as loan servicing fees, real estate property taxes, and insurance charges. The Postal Service's share of the mortgages in the amount of over $1,897,900 did not earn any interest. Based on this analysis we concluded that the program is not economically justifiable.

Controls Over Equity Loss Payments Need Improvement

Controls over equity loss payments still need improvement. Areas that need to be addressed include, documenting all formulas used, as well as creating a list detailing what is considered a capital improvement. While the Postal Service insists that every effort has been made to ensure that the equity loss program has been administered on a consistent basis, without documented policies and procedures, the potential for inconsistent determinations is increased.

We acknowledge the limited information provided on this program by the recent update of Handbook F-15, Travel and Relocation, Part 3 Relocation (Non-bargaining Only). However, the information presented is not sufficient to ensure adequate understanding and administration of this program. Appendix A includes a summary of Postal Service relocation benefits.

Further, Postal Service officials informed us that a list of capital improvements considered to be appropriate for reimbursement under this program was not developed because such a list would be too long. We disagree with this assertion. The Internal Revenue Service Publication 523, “Selling Your Home,” contains a list of capital improvements, which could be used as guidance. We believe the Postal Service should either use the Internal Revenue Service definition, or develop and publish its own list.

Recommendation

We recommend the vice president, Finance, controller:

1. Adjust officer miscellaneous relocation expense benefits to between $11,000 and $13,000, as determined by our benchmarking. In addition, adjust other executives’ miscellaneous relocation expense accordingly.

Management’s Comments

Management disagreed with our recommendation to adjust the amount of the miscellaneous relocation expense payment. They stated that this payment is provided to ease the burden of the frequent moves required by Postal Service executives facing a myriad of moving expenses. Management also stated that this program has been reviewed and approved by the Board of Governors. Management’s comments, in their entirety, are included in Appendix B of this report.

Evaluation of Management’s Comments

We found the $25,000 miscellaneous relocation expense benefits paid to Postal Service executives excessive when compared to the $500 to $1,000 offered by most federal agencies and the $11,000 to $13,000 range determined through our benchmarking. These organizations also require employees to move frequently.

We view the disagreement on this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

Recommendation

2. Eliminate the existing Shared Real Estate Appreciation Loan Program and develop an alternative program that would be more cost effective and still provide a mechanism to recruit and retain executives.

Management’s Comments

Postal Service management disagreed with our recommendation that the Shared Real Estate Appreciation Loan Program be modified. Management indicated that with an organization as large and diverse as the Postal Service, they need varied staff experience in varied places throughout the country. They maintained that the program allows executives to accept the challenges in selected key cities with high-cost housing, without those executives losing their current standard of living. Finally, management considered the program to be cost effective. They stated that the ongoing cost to the Postal Service is related to the money tied up in assets not earning interest. Based on the Postal Service's share of the portfolio, interest is approximately $300,000 per year for all Shared Real Estate Appreciation Loans.

Evaluation of Management's Comments

We agree that the Postal Service needs a relocation program, which attracts and retains employees. We maintain that the Shared Real Estate Appreciation Loan Program is not economical. The cost of the program, as currently configured, is greater than the $300,000 indicated by management. In its calculations, the Postal Service did not consider the cost of borrowing money needed to make loans to individuals. In this case, the cost of borrowing money exceeded the internal rate of return for the loans. We calculated a negative net present value of $544,600 for the 13 loans sold between 1997 and 2000.

Further, our benchmarking disclosed that other organizations offer services that would be more cost effective to the Postal Service, such as lower rate second mortgages and down-payment assistance.

We view the disagreement on this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

Recommendation

3. Fully document policies and procedures for equity loss calculation and reimbursement in Handbook F-15, Travel and Relocation, Part 3 Relocation (Non-bargaining Only) and publish a list of appropriate capital improvements.

Management's Comments

Management agreed with our recommendation and will document policies and procedures for the equity loss calculation and reimbursement in Handbook F-15, Travel and Relocation. In addition, they will update the handbook to include the formulas used**,** and publish a list of capital improvements. All updates will be completed and published on the web by the end of the fiscal year, September 6, 2002.

Evaluation of Management's Comments	Management's comments were responsive to our recommendation.
Recommendation	4. Require officers to document costs before the miscellaneous relocation expense is paid out if they relocate more than once during a 3-year period.
Management's Comments	Management disagreed with our recommendation that officers be required to document costs before the miscellaneous relocation expense is paid, if they relocate more than once during a 3-year period. Management disagreed with this recommendation for the same reasons they mentioned in recommendation 1. Management also felt that the example we cited in the report was a unique and unusual occurrence.
Evaluation of Management's Comments	We maintain that officers need to document the actual amount of their miscellaneous expenses when they relocate multiple times. Although the example cited in our report was the only case where an employee received multiple miscellaneous relocation payments within a 3-year period, there is nothing in place to prevent this condition from recurring. This practice could create a negative public perception, especially as the Postal Service continues to raise rates and experience revenue shortfalls. We view the disagreement on this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

APPENDIX A
SUMMARY OF POSTAL SERVICE RELOCATION BENEFITS

Overview of Benefits

The benefits to which you are entitled are dependent upon the level of the position that you are about to assume. For example, if you are an EAS employee going to a PCES position, you are entitled to PCES relocation benefits. If you are a PCES employee going to an EAS position, you are entitled to EAS relocation benefits.

The matrix below summarizes benefits of the relocation program. Details are located later in this document.

Benefit	EAS	PCES	PCES Retiree	Officer & Officer Retiree
Relocation leave[1]	5 days	5 days	No	Yes for Officers No for Officer Retirees
Miscellaneous expense allowance	$2,500	$10,000	$10,000	$25,000
Advance house hunting[2]	3 trips	3 trips	2 trips	3 trips
Dependents on advance round trip	Yes	Yes	Yes	Yes
Child care for dependent remaining home during advance round trip of parent	No	Yes	Yes	Yes
Temporary quarters (TQ)	60 days[3]	75 days	60 days	75 days
TQ expense limits	Capped	Actual	Actual	Actual
Return trips to former residence[4]	1 trip	5 trips	1 trip	5 trips
Return trip to former residence to escort family to new duty location	No	Yes	No	Yes
Expenses while en route to new location	Yes	Yes	Yes	Yes
Use of Relocation Management Firm (RMF) for:				
home purchase	EAS 19[5]	Yes	Yes	Yes
home finding assistance	Yes	Yes	Yes	Yes
marketing assistance	Yes	Yes	Yes	Yes
household goods	Yes	Yes	Yes	Yes
Home purchase expenses	Yes	Yes	Yes	Yes
Home sale expenses	Yes	Yes	Yes	Yes
Equity loss – loss on sale of previous residence	Yes	Yes	No	Yes
Real estate time limit / 50-mile rule[6]	2 years / 50 miles	2 years / 50 miles	5 years / No minimum miles	2 years / 50 miles (Officer Retirees: 5 years / No minimum miles)

Loan origination fee[7]	Mgt approval over 1%	Mgt approval over 1%	Mgt approval over 1%	Mgt approval over 1%
Shared Appreciation Loan (SAL)[8] program	No	Yes, in designated cities	No	Yes, for Officers No for Officer Retirees
Mortgage interest differential (MID)	No	Yes	No	Yes for Officers No for Officer Retirees
Household goods storage	60 days[9]	75 days	60 days	75 days
Tax assistance – Federal income tax	Yes	Yes	Yes	Yes
Calendar year-end Relocation Income Tax Allowance (RIT)	Yes	Yes	Yes	Yes
Surviving spouse relocation benefits	No	Yes	Yes	Yes
Spouse job search expenses ($1,500 maximum)	No	Yes	No	Yes

[1] Travel related to "return trips home" is not counted against the 5 days authorized for relocation leave.
[2] All trips *combined* cannot exceed a total of 10 days / 9 nights.
[3] Temporary quarters may be extended to 75 days with approval by appropriate manager. See *Temporary Quarters* under *Finding a Place to Live* in this guide for details.
[4] Return trips home are authorized up to 3 months following the reporting date of the relocating employee. Each trip is restricted to 4 days; this includes travel time. The employee is authorized to use official work days for travel to-and-return-from the previous residence (the first and last day of the trip). The remaining two days of the 4-day trip must be weekend days or annual leave.
[5] Minimum grade for Inspection Service personnel is 17.
[6] You must meet the 50-mile distance requirement. That is, your new permanent duty station must be at least 50 miles farther from your former residence than your former permanent duty station was from your former residence. See *Distance – The "50-Mile Rule"* later in this guide for details.
[7] Under certain conditions, you may be reimbursed if rate is 2%.
[8] SAL is available only for executive employees in five pre-selected "high cost of living" cities. Contact Corporate Accounting (Headquarters) for eligibility questions and information.
[9] Household goods storage may be extended to 75 days with approval by appropriate manager

APPENDIX B. MANAGEMENT'S COMMENTS

DONNA M. PEAK
VICE PRESIDENT
FINANCE, CONTROLLER

UNITED STATES
POSTAL SERVICE

April 25, 2002

JOHN M. SEEBA

SUBJECT: Transmittal of Draft Audit Report–Relocation Compilation Report
(Report Number FT-AR-02-DRAFT)

The attached report is our response to the findings identified as Transmittal of Draft Audit Report-Relocation Compilation Report dated March 26.

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

Donna M Peak

Donna M. Peak

Attachment

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OIG Finding: Relocation Compilation Report
OIG Report Number FT-AR-02-DRAFT

1. **Recommendation: Adjust officer miscellaneous relocation expense benefits to between $11,000 and $13,000, as determined by our benchmarking. In addition, adjust other executives' miscellaneous relocation expense accordingly.**

Response: We disagree that the miscellaneous payment should be adjusted. Changing jobs and relocating creates one of the most stressful periods for an employee. The miscellaneous expense payment is provided to ease the burden of the frequent moves required by postal executives that face a myriad of moving expenses. This program has been reviewed and approved by the Board of Governors.

2. **Eliminate the existing Shared Real Estate Appreciation Loan Program and develop an alternative program that would be more cost effective and still provide a mechanism to recruit and retain executives.**

Response: We disagree that the shared appreciation Loan Program should be modified. The United States Postal Service (USPS) recognizes many of the human capital issues we face in the next five years. Over 60 percent of our current executives can retire. As of today, one in five executives is eligible to retire and, in fact, we did see almost 15 percent of our executive workforce retire in 2001. The USPS human capital strategies continue to have people prepared so that we may have the right people in the right place at the correct time. With an organization as large and diverse as the USPS, we need people with varied experience in varied places throughout the country. Although we must relocate people, we cannot afford to disadvantage our employees and their families. This program affords our executives to accept the challenges in selected key cities with high cost housing and maintain their current standard of living. We consider this to be a cost effective program. The ongoing cost to the USPS is related to the money tied up in assets not earning interest. Based on the USPS share of the portfolio, interest is approximately $300,000 per year for all SALS.

3. **Fully document policies and procedures for equity loss calculation and reimbursement in Handbook F-15 Travel and Relocation, Part 3 Relocation (Non-bargaining Only) and publish a list of appropriate capital improvements.**

Response: We concur with the recommendation to fully document policies and procedures for equity loss calculation and reimbursement in Handbook F-15 Travel and Relocation, Part 3 Relocation (Non-bargaining Only). We will update the handbook to include the formulas used, as well as creating a list detailing what we consider capital improvements. The update will be completed and published on the web by the vice president, Finance, Controller by the end of fiscal year 2002, September 6.

4. **Require officers to document costs before the miscellaneous relocation expense is paid out if they relocate more than once during a three-year period.**

Response: We disagree that officers should be required to document costs before the miscellaneous relocation expense is paid out if they relocate more than once during a three year period for the same reasons we disagree in recommendation 1. The particular circumstance cited in the report that triggered this finding was a unique and unusual occurrence.