OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 8, 2015

MEMORANDUM FOR: TOM A. SAMRA
VICE PRESIDENT, FACILITIES

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Management Alert – Oversight of Properties Financed by Bonds (Report Number SM-MA-15-002)

This management alert presents data integrity risks associated with the U.S. Postal Service's Oversight of Properties Financed by Bonds (Project Number 15BG016SM001).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Keshia L. Trafton, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Introduction

The U.S. Postal Service Office of Inspector General (OIG) is currently conducting an audit on the U.S. Postal Service's Oversight of Properties Financed by Bonds. The objectives of the audit were to (1) determine the risks to the Postal Service from bonds issued to renovate and improve Postal Service properties and (2) assess the Postal Service's oversight of these properties. During our fieldwork, we found internal control deficiencies related to the oversight of bond financed properties that require management's immediate attention. This management alert presents data integrity risks associated with the Postal Service's Oversight of Properties Financed by Bonds (Project Number 15BG016SM001).

Between 1995 and 2005 the Postal Service worked with Keating Development Company (KDC) to renovate four properties located in Lynchburg, VA; Waco, TX; and Wilkes-Barre, PA. KDC established limited partnerships to issue four bonds totaling $83.3 million[1] to finance the renovations. The bonds mature between November 2017 and April 2028[2] and are to be repaid by lease payments collected on the properties.

The General Services Administration (GSA) has a 20 year lease with the Postal Service and occupies space in all four properties. The GSA makes monthly lease payments to the bond trustees[3] totaling $651,938 for all four properties.[4] According to the bond agreements, the Postal Service can be held liable for repaying the bonds if rents are inappropriately used or applied.

We are issuing this alert to make the Postal Service aware of the serious need to obtain all property documents, payment information related to property ownership, and bond requirements as they relate to these four properties. We will closely examine the Postal Service's risks associated with these bond-financed properties in our ongoing audit.

Conclusion

The Postal Service did not adequately oversee the four bond-financed properties. Asset Management[5] was not aware of three of the four properties and did not have complete property agreements[6] for all four of them. Additionally, Asset Management did not know whether other properties were financed via bonds. All of our information on the bond-financed properties was obtained from the GSA or KDC. GSA officials confirmed the

[1] The total consists of the bond amounts prior to Waco and Lynchburg being refinanced.
[2] These are the maturity dates of the original bonds before two properties were refinanced.
[3] The trustees are U.S. Trust Company of New York, Chase Manhattan Trust Company, and J.P. Morgan Trust Company. They are responsible for collecting and applying the rent payments to the appropriate escrow fund.
[4] This total comprises the most current lease payment amounts per the contracting officers we spoke with at the GSA.
[5] A group within the Facilities organization that is responsible for the disposal of excess buildings and land, developing real estate to improve the value of an asset, and leasing excess space.
[6] Property agreements include bond agreements, development agreements, escrow agreements, limited partnership agreements, private placement memorandum, lease agreements, and trust indenture and security agreements.

lease payment amounts found in Postal Service and KDC documents for three of the four properties; however, payment amounts for one property differed. Specifically, the GSA records for a Wilkes-Barre property indicated monthly lease payments of $157,811, but the Postal Service's documents listed monthly payments of $122,292, a difference of $35,519 per month and $852,463 over the last 2 years. However, after we met with the Postal Service on this alert, management provided evidence of the updated rent amount in the amendments to the lease agreements, which matched the rent amounts reported by the GSA.

This occurred because the Postal Service did not have procedures to reassign the bond-financed properties after the asset manager assigned to the properties retired. In addition, it did not retain the property records in accordance with the records retention policy.[7] The Postal Service needs to properly oversee and maintain leased property records in order to effectively manage its assets or account for monies the lessee paid to the trustees. Also, if the Postal Service does not ensure that lease payments for the four bond-financed properties are properly allocated, it may be liable for them due to the terms of the bond agreements. We will determine the extent of this risk during our ongoing audit.

Oversight of Bond-Financed Properties

The Postal Service did not oversee the four bond-financed properties. Asset Management was not aware of three properties and did not have complete property agreements for all four of them. The original asset manager assigned to the four properties maintained an incomplete hard copy file for them. After he retired, the properties were not reassigned to another manager. Because the Postal Service's records were missing or incomplete, we had to obtain all property information from the GSA or KDC.

This occurred because the Postal Service did not have a policy to reassign properties after an asset manager retires or leaves the agency. In addition, the Postal Service did not retain the property documentation in accordance with the records retention policy,[8] which states that records should be retained for 6 years and 3 months from the date agreements expire or are terminated.

The property agreements were initiated between 1995 and 2005 by a former asset manager who retired in 2005. The retiree stated that prior to his retirement, he uploaded the property documentation and tracked the properties in the electronic Facilities Management System (eFMS).[9] However, he claimed a Postal Service Information Technology database update that occurred during his tenure erased all of the supporting documents and they could not be recovered before he retired. According to

[7] Handbook AS-353*, Guide to Privacy, the Freedom of Information Act, and Records Management*, Section 6-1.1, Records Management Policy, February 2015.
[8] Handbook AS-353*,* Section 400.00, Supplier and Tenant Records.
[9] The official Postal Service record for real property inventory and the management system for administering all property related projects including acquisition, design, construction, disposal, repairs, health and safety mitigation, and property inspections.

Postal Service policy[10] for database backups, property information and documents contained in eFMS should have been backed up and recovered if data was somehow lost. We were unable to substantiate the manager's claim that the data could not be recovered. As part of our ongoing audit, we will evaluate this claim to determine whether the documentation can be recovered.

According to Postal Service policy, proper and systematic management of Postal Service records is essential to ensuring the organization complies with applicable laws and regulations. Because these properties are still active leases, the Postal Service should have all applicable documents for each property. Proper records retention is necessary to provide adequate control and transparency over leased and owned properties.

Without proper oversight, the Postal Service cannot effectively manage its assets or account for payments owed through rent or other income. GSA officials confirmed lease payment amounts found in Postal Service and KDC documents for three of the four properties; however, payment amounts for one property differed. Specifically, GSA records indicated that the GSA had been paying monthly lease payments of $157,811 for one of the Wilkes Barre properties but the Postal Service's documents listed monthly payments of only $122,292; a difference of $35,519 per month and $852,463 over the last 2 years. After we met with the Postal Service on this alert, management provided us amendments to the Postal Service's lease agreement with the GSA, which reflected increases in the rent amount that matched the rent payments reported by the GSA.

The Postal Service may be at risk if it fails to make required payments or reallocate payments for properties it is unaware of, or if it has no record that it has fulfilled its obligations. We will determine the extent of risk to the Postal Service related to the repayment of the bonds and identify any systemic issues related to other bond financed properties in our ongoing audit.

Recommendations

We recommend the vice president, Facilities:

1. Implement a policy to reassign properties after asset managers retire or leave the Postal Service.

2. Verify that all associated records for all bond-financed properties are retained in the Facilities Management System.

[10] *U.S. Postal Service Database Management Standards*, Operating Considerations, revised September 2, 2014.

Management's Comments

Management agreed and disagreed with certain parts of the findings; however, they agreed with both recommendations.

Regarding recommendation 1, management implemented a policy effective August 25, 2015, to reassign properties after asset managers retire or leave the Postal Service.

Regarding recommendation 2, management uploaded all associated records necessary to manage the four bond-financed properties into eFMS.

Management added that the Postal Service no longer enters into bond financing transactions, such as the ones that are the subject of this report.

Regarding the findings, management stated that between 1995 and 2005, the Postal Service engaged, as a limited partner, in partnerships that used bond financing for the revitalization of vacant property and the acquisition of other property, with the knowledge that the GSA intended to enter into long term leases at such properties. These transactions allowed the Postal Service to renovate or acquire valuable property with long term credit worthy leases, thus, increasing the value of the Postal Service's portfolio of assets with little or no financial risk to the Postal Service. Further, the bond financing mechanism was set up in a manner that would insulate the Postal Service from financial liability under the bonds.

Management stated that the bond documents make the issuer of the bonds liable for repayment and that the Postal Service is not the issuer of the bonds. They stated that, as a limited partner, the Postal Service cannot be liable for the bonds unless it commits fraud or misappropriates rents that it receives. Management further stated that the Postal Service does not receive any lease payments from the GSA and, therefore, cannot misapply or misappropriate the monies because the GSA pays its rents directly to the bond trustee. Accordingly, management believes the Postal Service has no responsibility for the allocation or reallocation of rents paid by the GSA.

Management asserted that as lessor to the GSA and as tenant to the various limited partnerships, the Postal Service did properly oversee the properties. Asset Management was involved in two recent refinancings of two of the properties within the last 5 years, and was paying rent for Stegmaier, in which it occupies space. Management acknowledged that Asset Management does not track the financing vehicles used by any of the building owners in its leased portfolio and does not need to do so to protect its interests. Management further stated that doing so is not a good use of Postal Service resources. Management did acknowledge not all of the property documents were included in eFMS.

See Appendix A for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and corrective actions should resolve the issues identified in the report.

We disagree with management's assertion that the Postal Service does not need to track the financing vehicles used by any of the building owners to protect its interests and we will address the extent of the Postal Service's liability related to the repayment of the bonds in a separate audit.

The OIG considers both recommendations significant, and therefore requires OIG concurrence before closure. Management stated that corrective action has been completed; however, before we can close the recommendations, the Postal Service should provide written documentation supporting the actions taken. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A. Management's Comments

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

UNITED STATES POSTAL SERVICE

August 31, 2015

LORI LAU DILLARD via email (audittracking@uspsoig.gov)
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Alert – Oversight of Properties Financed by Bonds
Report Number SM-MA-15-DRAFT

Thank you for the opportunity to review and comment on the above referenced draft Management Alert. Management agrees with the OIG's recommendations, which will help the Postal Service improve its oversight of the bond-financed properties that are the subject of the Management Alert. The Postal Service manages a portfolio of over 32,000 properties to ensure efficient and economical delivery of the mail to every American household. Between 1995 and 2005, the Postal Service engaged as a limited partner in partnerships that used bond financing for the revitalization of vacant property and the acquisition of other property, with the knowledge that the GSA intended to enter into long term leases at such properties. The transactions allowed the Postal Service to renovate or acquire valuable property with long term credit worthy leases, thus increasing the value of the Postal Service's portfolio of assets with little or no financial risk to the Postal Service. It is important in understanding these transactions to recognize that this bond financing mechanism was set up in a manner that would insulate the Postal Service from financial liability under the bonds.

In section A below, management has addressed OIG's findings. In section B below, management has addressed the OIG recommendations.

A. OIG Draft Management Alert Findings.

1. "According to the bond documents, the Postal Service can be held liable for repaying the bonds if rents are inappropriately used or applied." "If the Postal Service does not ensure that lease payments for the four bond-financed properties are properly allocated, it may be liable for them due to the terms of the bond agreements."

Management Response: Management disagrees with this finding. The bond documents make the issuer of the bonds liable for repayment. The Postal Service is not the issuer of the bonds. The issuer is a limited partnership in which the Postal Service is a limited partner. As a limited partner, it cannot have liability for the bonds unless the Postal Service itself commits fraud or misappropriates rents that it receives. The Postal Service has not committed any fraud. In addition, the Postal Service does not receive any lease payments from GSA for the four bond-financed properties; and therefore, cannot misapply or misappropriate the monies. GSA pays its rents directly to the Bond Trustee.

2. "The Postal Service may be at risk if it fails to make required payments or reallocate payments for properties it is unaware of, or if it has no record that it has fulfilled its obligations."

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Management Response: To the extent this finding applies to rents paid by GSA under leases with the Postal Service for the four bond-financed properties, management disagrees with this finding for the reasons stated above. The Postal Service has no responsibility for the allocation or reallocation of GSA rent as only the Trustee for the bondholders receives and allocates the rent. To the extent that this finding applies only to rent being paid by the Postal Service under its lease at the Stegmaier complex in Wilkes-Barre, PA (Stegmaier), management agrees with this finding. Indeed, non-payment of rent by the Postal Service for property it leases is a risk to the Postal Service. This is true for the lease at Stegmaier and for all 23,000 other leases where the Postal Service is a tenant. The Postal Service has not failed to pay its rent.

3. "The Postal Service did not adequately oversee the four bond-financed properties. Asset Management was not aware of three of the four properties and did not have complete property agreements for all four of them. Additionally, Asset Management did not know whether other properties were financed via bonds." "All of our information on the bond-financed properties was obtained from GSA or KDC."

Management Response: Management disagrees in part and agrees in part with these findings. The Postal Service's responsibilities for the four bond-financed properties is based upon its role as lessor to the GSA and as tenant to the various limited partnerships. It is not responsible for bond payments or allocation of receipts from the properties by the Trustee of the bonds. It is not responsible for payments to the bond holders. As lessor to GSA and as tenant to the various limited partnerships, the Postal Service did properly oversee the properties. Management agrees that not all of the "property documents" (as that term is defined in the Management Alert) were included in the electronic Facilities Management System (eFMS). Management disagrees with the finding that Asset Management was not aware of three of the four properties. Asset Management was aware of these properties' existence and their status. In fact, Asset Management was involved in two recent refinancings of two of the properties within the last five years, and was paying rent for Stegmaier in which it occupies space. Management agrees with the statement that Asset Management did not know whether other properties were financed via bonds. The Postal Service does not track the financing vehicles used by any of the building owners in its leased portfolio, nor would it need to do so to protect its interests. Tracking such information is not a good use of Postal Service resources. While it may be true that the information obtained by OIG came exclusively from the GSA and KDC, Management disagrees with the finding that these were the only sources of information available to the OIG on the properties.

4. "[T]he Postal Service did not have a policy to reassign properties after an asset manager retires or leaves the agency. In addition, the Postal Service did not retain the property documentation in accordance with the records retention policy."

Management Response: Management agrees with the finding that a written policy to reassign properties after an asset manager retires or leaves the Postal Service is important and Management has implemented such a written policy as noted in the response to Recommendation 1 below. Management does not agree with the finding that documents were not retained in accordance with the records retention policy since the OIG has indicated that it was unable to substantiate the manager's claim that electronic data stored in the Postal Service records was somehow lost and could not be recovered.

5. The Postal Service needs to properly oversee and maintain leased property records in order to effectively manage its assets or account for monies the lessee paid to the trustees.

Management Response: Management agrees in part and disagrees in part with this finding. The Postal Service does in fact properly maintain records for the properties it leases. The Postal Service maintains all records relating to payments it makes for rent for space it occupies in the Stegmaier building. It occupies no space and pays no rent at the other three properties. The Postal Service is not required to monitor the monies that the lessee (GSA) pays to the Trustee as payments to the Trustee are the responsibility of the limited partnership. As noted above, the Postal Service receives no money from GSA and would not be responsible for any bond payments if GSA failed to pay its rent. However, the Postal Service does maintain records of rent paid by the GSA to the Trustee.

B. OIG Draft Audit Report Recommendations.

1. Implement a policy to reassign properties after asset managers retire or leave the Postal Service.

Management Response: Management agrees with the recommendation and has implemented this recommendation effective August 25, 2015.

2. Verify that all associated records for all bond-financed properties are retained in the Facilities Management System.

Management Response: Management agrees with the recommendation and has uploaded all of the records necessary for Facilities to manage the four properties into the electronic Facilities Management System.

It is important to note for purposes of this Management Alert and any future Audit concerning bond financing that the Postal Service no longer enters into bond financing transactions such as the ones that are the subject of this Management Alert.

In conclusion, management appreciates the OIG's efforts in auditing the Postal Service's oversight of properties financed by bonds and preparing this important Management Alert. The draft and management's responses do not contain information that management believes may be exempt from disclosure under the FOIA.

Tom A. Samra

cc: Sally K. Haring
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