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UNITED STATES
POSTAL SERVICE

April 2, 2015

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DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Postal Service Management of CBRE Real Estate Transactions. Draft Audit Report Number SM-AR-14-DRAFT (March 16, 2015)

Thank you for the opportunity to review and comment on the above referenced revised draft Audit Report. The Postal Service generally agrees with the Report's findings and will adopt nearly all of the OIG's recommendations.

In Section A below, Management addresses the OIG's findings. In Section B below, Management addresses the OIG's recommendations. In Section C, Management responds the OIG's Report of Monetary and Other Impacts.

A. OIG Draft Audit Report Findings and Management Response.

OIG Finding #1.

Lessors in the past often negotiated leases directly with the Postal Service without representation. However, since the start of the CBRE contract, some lessors have told the OIG of having been approached by CBRE agents regarding required payment of a commission to CBRE. In these instances, the lessors expressed that they were told if they did not agree to pay CBRE a commission, CBRE, as the Postal Service's representative, would find another building and discontinue the lease. We also received allegations that CBRE announced, rather than negotiated, the lease rate the Postal Service would pay. CBRE informed lessors that they could "recover" these fees from the Postal Service's increased rents. CBRE made the process for commissions appear mandatory despite the fact that the Postal Service had no such requirement. This arrangement allowed CBRE to negotiate in its own best interest by, in essence, representing both the lessor and the Postal Service.

These practices increase the Postal Service's financial risk as lessors will consider commission fees a cost of doing business with the Postal Service and, thereby, increase rental rates to include these fees. Prior to the CBRE contract, lessors negotiated directly with the Postal Service regarding lease terms and did not have to pay commission fees. The Postal Service's contract with CBRE states the Postal Service will not pay commissions for negotiating leases; however, Postal Service management allowed CBRE to include commissions in the lease rent that the Postal Service paid because the total lease amount, with commissions, was within the market rent valuation. Management stated it was an industry standard to include commissions in market rent. We did not identify evidence to substantiate this claim.

We analyzed 15,793 renegotiated Postal Service leases with renewal dates falling between October 2012 and September 2016. CBRE collected commissions on 3,405 of 4,718 leases it renegotiated, with commissions totaling $20.6 million. Of the 4,718 leases CBRE negotiated, the average annual rent increase was $2,792 (8.07 percent) more than the prior lease rate. The Postal Service's average rent increase was $773 (3.53 percent) for the 11,075 leases it renegotiated. CBRE's average lease rate increase was more than three times higher than the Postal Service's increase. As a result, the Postal Service could be overpaying an estimated $9.5

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million annually for leases CBRE negotiated. We questioned $38,101,994 in lease payments the Postal Service is making for FYs 2013 to 2016 by having CBRE negotiate its leases. We also identified 57 leases where CBRE negotiated a rate increase of 200 percent or more than the previous lease rate. Because the percentage increases were significantly higher than CBRE's average lease rate increase of 8.07 percent, we have referred these transactions to the OIG's Office of Investigations for further review.

<u>Management Response to Finding #1</u>:

Management is concerned by the OIG's report of CBRE personnel engaging in unauthorized negotiation practices. Since inception of performance of the CBRE contract, the Postal Service has prohibited such practices. The Postal Service is committed to addressing these concerns and will work with the OIG to take corrective action, if appropriate.

Management believes that the CBRE contract does not prohibit CBRE from collecting a leasing commission from landlords as the Postal Service's representative; in fact, the CBRE contract explicitly states that the contractor can expect to get paid a leasing fee from landlords. This is in accordance with standard practices in the real estate leasing industry. Moreover, the statement in the CBRE contract that the Postal Service will not pay commissions applies, as made explicit in the language of the contract, where the landlord refuses to pay the commission to CBRE. The contract does not prohibit CBRE from collecting leasing commissions from landlords. Landlords, following standard practices in the real estate industry, can include such commissions in the rent charged to the Postal Service over the lease term. The contract states:

> The USPS intends to issue leasing assignments… for which the contractor can expect to get paid a leasing fee from the Landlord, as the tenant's representative in the transaction…The USPS will NOT be responsible for the payment of leasing commission, brokerage fees, or any other payment to any party *should the landlord refuse to pay the contractor's tenant representative leasing commission (*emphasis added*).*

The first sentence of this contractual provision sets forth the parties' expectation that landlords will pay CBRE a fee as the Postal Service's tenant representative. The second sentence clarifies that if the landlord refuses to pay a commission, then CBRE cannot look to the Postal Service for payment of the commission. That second sentence does not apply when the landlord includes commission in the lease rent because in that event the landlord is paying (not refusing to pay) a commission to CBRE. Moreover, for the reasons discussed in Management Response to Recommendation # 1, the Postal Service expected that landlords would include commissions in the Postal Service's rent in accordance with standard industry practice.

Management does not dispute the factual result of the OIG's finding that compares the immediately preceding rental rates versus the new lease rental rates. However, Management believes the comparison cited in the draft report is flawed because the data shows that 85% of the CBRE negotiated leases were new leases (the category with the highest risk of rent increase), while 72% of the Postal Service negotiated leases were renewals (the category with the lowest risk of rent increase). Therefore, the CBRE negotiated lease results, for the most part, are not fairly comparable to the USPS negotiated lease results. At the time the Postal Service entered into the CBRE contract, the Postal Service needed to achieve lease cost savings, but given the limited number of Postal Service personnel, the Postal Service needed to leverage the resources of a large national real estate company to accomplish these savings. To make the best use of Postal personnel and their finite time, the Postal Service generally has assigned to CBRE all large lease renewals and all new leases, which are the leases that require the most time to negotiate. They are also the leases with the highest risk of rent increase. The Postal Service generally has assigned to Postal personnel, who now have the additional sizable task of managing CBRE workflow, small lease renewals with fixed renewal terms, which require the least time to negotiate, and have the lowest risk of rent increase. However, when any of those smaller leases have had above market renewal rent, the Postal Service generally has assigned those leases to CBRE to attempt to negotiate a lower rate. Therefore, Management believes the OIG's finding reflects the Postal Service generally assigning to CBRE the leases with the highest risk for rent increases and generally assigning to Postal personnel the leases with the lowest risk of rent increases. Management believes a fair comparison would exclude, for example, USPS negotiated leases with fixed renewal terms, CBRE negotiated leases with imminent expiration dates, and CBRE negotiated leases where the USPS otherwise had impaired bargaining leverage.

Further, Management believes, as a business matter, that the comparison most likely to reflect whether the Postal Service real estate program is commercially reasonable is a comparison of new rental rates versus market rental rates. Since the Postal Service must enter into leases under the then current market conditions, the rents being charged by landlords to the Postal Service under the new leases as compared to the current market rents being paid in the relevant geographic area should be evaluated to determine the success of the Postal Service's lease negotiation strategy. Moreover, in determining the optimal business arrangement for the Postal Service, the costs of relocating personnel and machinery and the business disruption caused by moving the postal operation may outweigh the negative economic consequences of paying an above market rental rate. For those reasons, a comparison of what the Postal Service pays on a going forward basis against the historic rental rate is unlikely to provide meaningful information. Instead, USPS tracks CBRE-negotiated lease rental rates against the relevant current market rates. As demonstrated by the following chart, since January 2013, CBRE-negotiated lease rates are at or below market rates for 90% of our leases:

CBRE Lease Negotiation
Cumulative January 2013 through March 2015

	Below Market	At Market	Above Market	Totals
No. of Leases	1696	3391	573	5660
Percent of Total Leases	30%	60%	10%	100%

<u>OIG Finding #2</u>.

The Postal Service did not accurately identify CBRE as the lease negotiator in the electronic Facilities Management System (eFMS) for 1,049 of 4,718 leases, with annual rents totaling about $59 million. Tracking leases that CBRE negotiates is essential for properly managing these transactions. Twenty-six of 30 randomly selected lease negotiations that we reviewed, totaling about $4.7 million in annual rent, did not have supporting documentation to capture the proposed lease rate for review against the final negotiated rate. The Postal Service did not require CBRE to record initial offers, which are necessary to ensure the transparency and reasonableness of the negotiated lease amounts. Additionally, documentation for market rent rates and analyses for all 30 were not centrally maintained in eFMS.

<u>Management Response to Finding #2</u>:

Management agrees that identifying the lease negotiator and capturing the lease negotiation history, market rent, and rent analysis has value. As noted below in the response to OIG Recommendation #5, by April 30, 2015, Management will issue direction to all USPS Leasing staff and to CBRE requiring them to include in the eFMS leasing negotiation summary the responsible negotiator, initial offers by both USPS and the Landlord, the market rate, and rent analysis results.

OIG Finding #3.

Postal Service employees did not itemize the detailed expenses CBRE invoiced in eFMS for 111 of 246 payments made to CBRE for later analysis. The 111 payments totaled about $466,000. Itemization is needed to enable management review.

Management Response to Finding #3:

Management agrees with this finding; however, the Postal Service has ceased using CBRE to perform the type of work for which these 111 payments were made.

OIG Finding #4.

For the 21 property sales transactions reviewed, the Postal Service met its sales goal of 90 percent or more of the properties' appraised value; however, CBRE managed the entire appraisal process. The appraisals were solicited by CBRE, prepared by contractors, and used to determine whether the sale price was acceptable to the Postal Service. To avoid conflicts of interest, the appraisal process is normally managed and performed by professionals not involved in negotiating sales and leases or by realtors marketing the properties. We concluded that appraisals for seven of the transactions contained questionable financial analyses and comparisons to other properties that could have affected the credibility and reasonableness of the estimated market value. We did not calculate a revised appraised value for the seven properties due to the time lapse since the original appraisal and the cost to do a full appraisal. Instead, we focused on the adequacy of the appraisal methodologies. Postal Service personnel did not detect discrepancies in these seven appraisals and did not complete checklists, as required, to document the review for six of the seven properties. Instead, they relied on contractors hired to review the appraisal to complete the checklists.

Management Response to Finding #4:

Although Management believes that the Postal Service obtained fair market value for the properties associated with this finding, Management nevertheless agrees that it is important for the Postal Service to have confidence that all of the appraisals upon which we rely to determine the proper market rate are properly prepared and technically proficient. As discussed in our response to Recommendation #1, the Postal Service is taking steps to improve the appraisal process.

OIG Finding #5.

Employees could not locate a file to support the sale of one property for $2 million and did not maintain appraisal reviews to support the sale of two properties totaling about $6.4 million.

Management Response to Finding #5:

Management agrees that disposition files and appraisal checklists must be adequately maintained and stored, and will take steps to avoid this kind of error in the future.

OIG Finding #6.

Eight properties that sold for about $15.9 million were incorrectly coded as "active" (not sold) in the facilities management system and six disposal transactions valued at $53,000 did not have itemized due diligence costs.

Management Response to Finding #6:

Management has undertaken steps to ensure that eFMS is updated on a timely basis, and is changing its policy to require itemization of all due diligence costs when applicable.

OIG Finding #7.

We found potential relationships between the buyer and CBRE in five transactions. Specifically, we found a relationship between the buyer and CBRE for one transaction and a possible relationship in four others. Our analysis showed that four of the five properties were sold at or above their appraised value. The other property was sold for 96 percent of its appraised value. We do not believe there were any audit issues; however, because of the increased risks from CBRE managing the appraisal process for these property sales, we have referred the transactions to the OIG's Office of Investigations for further review.

Management Response to Finding #7:

Given the referral of this matter to the Office of Investigations, Management will not comment on this recommendation.

OIG Finding #8.

Management did not fully implement a prior OIG recommendation to designate CORs to monitor contract performance and approve payments to CBRE. Between July 1, 2013, when management agreed to implement the prior recommendation, and September 30, 2013, employees not designated as CORs authorized 12 payments, totaling about $63,000. Because payment authorizations were not approved by the CO for the contract or a designated COR, there is an increased risk of poor contract oversight, unauthorized expenditures, and contract changes.

Management Response to Finding #8:

Management agrees that this recommendation was not fully implemented until October 2013, when the Postal Service reiterated that only a single contracting officer is allowed to authorize or approve payments under the CBRE contract. Management acknowledges that during a short period, between July and October, 2013, other contracting officers, rather than the CO on the particular contract, signed work orders to close out remaining due diligence payments. Management has corrected this matter. CORs have been appointed.

B. OIG Draft Audit Report Recommendations and Management Response.

OIG Recommendation #1.

Terminate and re-compete the current CB Richard Ellis, Inc. (CBRE) real estate management services contract.

- Ensure the new contract prohibits the contractor from collecting commissions from opposing parties when negotiating leases and from representing both the Postal Service and prospective buyers and lessors in Postal Service real estate transactions.
- Until the current contract is re-competed, modify the current contract to prohibit CBRE from collecting commissions from opposing parties when negotiating leases and from representing both the Postal Service and prospective buyers and lessors in Postal Service real estate transactions.
- Notify lessors they are not required to pay commissions for new leases.

Management Response to Recommendation #1:

As discussed below, Management agrees in part, and disagrees in part with this recommendation, pending Management's receipt and review of a consultant's report evaluating certain key aspects of the Postal Service's leasing program with CBRE against industry best practices.

As an initial matter, Management is in the process of engaging an independent consultant to evaluate certain key aspects of the Postal Service's leasing program with CBRE against industry best practices. Once Management receives and evaluates that report, Management will take reasonable corrective actions to insure consistency with the best practices in the industry, to the extent feasible. Pending Management's receipt and evaluation of that consultant's report, Management disagrees in the interim with the recommendation to terminate and re-compete the CBRE contract. Management believes that terminating the contract at this time would be imprudent because the Postal Service lacks sufficient personnel to handle all of the required leasing activity and because the Postal Service does not have any alternative means to satisfy the Postal Service's substantial real estate transaction requirements. Further, because Management believes it uses the industry standard method for compensating its broker and because Management will implement the additional actions identified above, Management also believes termination of the CBRE contract is inadvisable at this time.

For the same reasons, Management does not believe it is in the best interests of the Postal Service to notify lessors they are not required to pay commissions for new leases. However, Management will re-evaluate this position after reviewing the report of the consultant described above.

Management agrees with the recommendation with respect to dual representation in leasing transactions. Management has begun a process to prevent CBRE's representation of both the Postal Service and lessors in leasing transactions.

In sales transactions, however, where the Postal Service is the seller, Management will continue to permit dual agency on a case by case basis. The Postal Service expects CBRE to present all offers to the Postal Service, and then the Postal Service independently determines which is the optimal business deal for the Postal Service. On those occasions when CBRE represents the prospective purchaser, it is nonetheless in the best interests of the Postal Service to accept an offer from such a purchaser if that offer represents the best business deal for the Postal Service, including situations when it is the highest offer to the Postal Service. Further, when the Postal Service is the seller, the Postal Service (not the opposing party) pays CBRE's commission, and the commission, based on the sales price, incentivizes CBRE to negotiate for the highest price to the Postal Service.

Concerning CBRE's collecting commissions from Postal Service landlords, as noted above, the Postal Service believes it uses the industry standard method for compensating its broker. Compensation through commissions is the common method used by the General Services Administration, American Red Cross, ExxonMobil and other large real estate portfolio owners for compensating third party brokers (see Schedule 1 for other examples). Moreover, the commercial real estate industry expects that lessors will typically pay commissions to tenant representatives and then factor that cost into the rent. For example, with respect specifically to Postal Service lessors paying CBRE a commission, the Association of United States Postal Lessors (AUSPL) advises its members, "it is common in non-postal commercial leases for tenants' representatives to receive a part of the lease commissions paid… [and] the lessors under those leases factor in the cost of lease commissions when setting the rental rates they will accept." Management is not aware of any other alternative broker compensation models widely used for handling large real estate portfolios like that of the USPS. The Postal Service does not have sufficient personnel to handle the volume of leasing today. Paying CBRE directly (in lieu of lessors paying CBRE) would cost the Postal Service millions of dollars, whether such payments were on a traditional commission or flat fee basis, and there is no industry model to follow to structure such a program. Further, as noted above in Management's response to OIG's Finding #1, on an overall basis, CBRE consistently has delivered most leases with at or below market lease rates for the Postal Service. However, as noted above, Management will re-evaluate this position after reviewing the consultant's report evaluating certain key aspects of the Postal Service's leasing program with CBRE against industry best practices.

While Management disagrees with the OIG's recommendation to prohibit CBRE from collecting commissions from opposing parties pending the report of the consultant, Management agrees that additional steps should be taken to further ensure that we obtain the optimal business deal for the Postal Service in each leasing transaction under the circumstances. Management agrees that the Postal Service must have a robust process in place to make its own, independent determination that we are obtaining the optimal deal for the Postal Service in every lease transaction under the circumstances. In an effort to address the OIG's concerns in that regard, the Postal Service is committed to strengthening our processes and procedures to ensure that we can independently determine that our lease transactions represent the optimal business arrangement for the Postal Service, given its unique role and requirements. In that regard, Management will:

- Improve our processes for assuring the Postal Service can rely on appraisals it obtains to determine market rents for leases presented by CBRE. This step includes creating a new USPS Appraisal Administrator position as discussed below in response to Recommendation #3.
- Continue to require Postal Service employees to independently research and evaluate market rental rates, and ensure that the market rate is accurately stated in the negotiation summary in eFMS, as discussed below in Management Response #2.
- Continue to take steps to assure the Postal Service's rental rate for each lease reflects the optimal business deal for the Postal Service under the circumstances.
- Continue to assign sole responsibility and authority to Postal Service employees for determining whether to accept proposed lease terms or to require different lease terms.
- Not later than April 30, 2015, begin negotiations with CBRE to modify the CBRE contract to eliminate that portion of Award Fee that may be viewed as overlapping with lessor paid commissions.

<u>OIG Recommendation #2</u>.

Implement policy for lease transactions that requires Postal Service employees to capture the lessor's or Postal Service's initial lease rate offer, market rent, rent analysis results, and responsible negotiator, and record it in the enterprise Facilities Management System (eFMS).

<u>Management Response to Recommendation #2</u>:

Management agrees with this recommendation. By April 30, 2015, Management will issue direction to all USPS Leasing staff and to CBRE requiring them to state in the leasing negotiation summary in eFMS the initial offers by both USPS and the Landlord, and the market rate, rent analysis results, and responsible negotiator.

OIG Recommendation #3.

Implement revisions to the appraisal review checklist to detect technical errors in appraisals and instruct and train employees to comply with the requirement to review appraisals independent of CBRE.

Management Response to Recommendation #3:

Management agrees with the recommendation to improve oversight of appraisals. Management has implemented, or will implement by April 30, 2015, the following steps to assure the Postal Service evaluates market lease rates and purchase prices independent of CBRE:

- Train employees to ensure all appraisal procedures, including checklists, are completed.
- Create and fill a new USPS Appraisal Administrator position to:
    - Manage appraisal activities, highlight risk management concerns, and ensure Postal Service procedures comply with regulatory requirements, professional standards and Postal policy.
    - Ensure robust reporting of property valuations and supporting rationales.
    - Implement and maintain quality controls
    - Oversee on-going training for quality and control and implement additional training of Postal Service employees to increase their proficiency in independently determining market rents and prices and evaluating offers presented by CBRE.
    - Evaluate and implement improvements to existing Postal Service appraisal procurement and evaluation procedures.
- Review current forms used by the Postal Service in the appraisal process, including the appraisal checklist, for adequacy and consistency.
- Improve accountability by requiring three levels of sign-offs for an appraisal: by the review appraiser, by the Postal Service employee handling the lease or sale transaction, and by the Appraisal Administrator.
- When USPS procures an appraisal, and then engages a second appraiser to review that appraisal, USPS will require the second appraiser to confirm the soundness of the appraisal's value determination.

OIG Recommendation #4.

Establish updated records management retention requirements for employees to retain files to support real estate transactions, including appraisal reviews.

Management Response to Recommendation #4**:**

Management agrees with the recommendation and has already begun implementation of procedures to address this recommendation. Facilities re-trained employees prior to October 31, 2014, regarding records retention. Due to funding approval delays, we could not implement further changes to eFMS with respect to record retention. Funding was approved on January 30, 2015, and Management has now begun the process of modifying eFMS to permit permanent digital storage of additional documents (including all appraisal reviews) in eFMS and on-line access to the documents by permitted users. Management expects this modification will be in place by September 30, 2015.

OIG Recommendation #5.

Implement Postal Service policy that requires employees to itemize due diligence payments within eFMS and update the facility record to "disposed" when the facility is sold.

Management Response to Recommendation #5:

Management agrees with this recommendation and has already begun implementation of procedures to address this recommendation. Prior to October 31, 2014, staff was trained on the procedures to itemize due diligence payments within the enterprise Facilities Management System and update the facility record to "disposed" when the facility is sold. Management will issue a clarifying memorandum to all Facilities staff to reiterate the importance of itemizing due diligence commitments and payments within eFMS. Management implemented a policy in 2014 whereby work orders must specify the scope of work and breakdown of labor (when applicable) and commitments and payments must reference the work orders(s) covered by the applicable commitment and/or payment. Management has reinforced this policy by a written memorandum to the Facilities staff issued by March 6, 2015. Also, to improve eFMS data, disposals will be reviewed on a quarterly basis by the Facilities Analyst to ensure, once all projects and terms are completed, projects are updated to “disposed.” This quarterly review process has been implemented beginning on April 1, 2015.

OIG Recommendation #6.

Confirm that the contracting officer follows policy to require the proper certification of payment authorizations.

Management Response to Recommendation #6:

Management agrees with this recommendation and has already begun implementation of procedures to address it. Management issued a memorandum to the staff in September 2014, regarding the proper certification of payment authorizations. Management issued a memorandum on March 6, 2015, reminding staff that there are currently only two contracting officers authorized to sign work orders and payments to CBRE and no other individuals are authorized or permitted to contract or pay for work via the CBRE contract.

C. OIG Reported Monetary and Other Impacts, and Management’s Response.

OIG Reported Monetary Impacts.

OIG reported $62,734 as Unsupported Questioned Costs, attributed to the payments discussed above in OIG Finding #8.

OIG Reported Other Impacts

Disbursements at Risk

1. OIG reported $38, 101, 994 as Disbursements at Risk, attributed to the difference between CBRE and USPS negotiated leases when comparing the immediately preceding rental rates versus the new lease rental rates over a four year period.

Data Integrity

2. OIG reported $59,226, 012 as the value of the Postal Service not properly identifying the lease negotiator in 1,049 leases. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

3. OIG reported $4,677,662 as the value of the Postal Service omitting lease negotiation information for 30 lease transactions. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

4. OIG reported $465,941 as the value of the Postal Service missing due diligence itemization for 111 lease transactions. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

5. OIG reported $8,405,000 as the value of the Postal Service not locating a missing file or two appraisal reviews. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

6. OIG reported $15,889,000 as the value of the Postal Service not changing its database from “active” to “sold” for eight properties. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

7. OIG reported $53,162 as the value of the Postal Service not having due diligence itemization for six disposal transactions. This amount does not represent actual losses incurred by the Postal Service but rather incorrect data recorded in the eFMS.

<u>Management Response to OIG Monetary and Other Impacts</u>:

<u>Management Response to Monetary Impacts</u> - As discussed in Management Response to Finding #8, Management has corrected the matter.

<u>Management Response to Other Impact #1- Disbursements at Risk</u> – Management disagrees with the characterization of this amount as Disbursements at Risk. Management followed the terms and conditions of the CBRE contract and the internal processes in that all rents whether negotiated by CBRE or by the Postal Service were reviewed and determined to be acceptable based upon our internal controls and rent analyses. Moreover, the amount listed is misleading because the analysis used to obtain it is flawed. The two data sets used for the most part are not fairly comparable. CBRE negotiated leases where there was no fixed renewal rent, or the fixed renewal rent was above market and thus generally unacceptable to the Postal Service. Thus, CBRE had to negotiate based upon current market conditions. In contrast, the Postal Service generally handled renewals where the rent was established years ago and acceptable to the Postal Service, thus eliminating the need for substantial negotiations. Further Management believes comparing the new lease rate versus the prior lease rate is unlikely to provide meaningful information. Instead, USPS tracks CBRE-negotiated lease rental rates against the relevant current market rates, and, as demonstrated in the chart above, since January 2013, CBRE-negotiated lease rates are at or below market rates for 90% of our leases.

<u>Management Response to Other Impacts #2 and #3 - Data Integrity</u> - Management agrees that the amounts OIG identified do not represent actual losses incurred by the Postal Service, but rather incorrect data recorded in the eFMS. As discussed in Management Response to

Finding #2, Management will require identification of the responsible negotiator and lease negotiation information in the future.

Management Response to Other Impact #4 - Data Integrity - Management agrees that the amount OIG identified does not represent an actual loss incurred by the Postal Service, but rather incorrect data recorded in the eFMS. As discussed in Management Response to Finding #5, the Postal Service has ceased using CBRE to perform the type of work for which these 111 payments were made.

Management Response to Other Impact #5 - Data Integrity - Management agrees that the amount OIG identified does not represent an actual loss incurred by the Postal Service, but rather incorrect data recorded in the eFMS. As discussed in Management Response to Finding #5, Management will take steps to avoid this kind of error in the future.

Management Response to Other Impacts #6 and #7 Data Integrity - Management agrees that the amounts OIG identified do not represent actual losses incurred by the Postal Service, but rather incorrect data recorded in the eFMS. As discussed in Management Response to Finding #6, Management has undertaken steps to ensure that eFMS is updated on a timely basis, and is changing its policy to require itemization of all due diligence costs when applicable.

In conclusion, Management appreciates the OIG's efforts in auditing the Postal Service's Management of CBRE Real Estate Transactions and preparing this draft Audit Report. The draft report and Management's responses do not contain information that Management believes may be exempt from disclosure under the FOIA.

Tom Samra

Attachment

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Schedule 1

Other Entities Using Commission Compensation Model

Gannett

Towers Watson Company

Department of Veterans Affairs

Walt Disney Company

McGraw Hill

Allergan/Actavis

Textron

TIAA CREF

State of New York

Pepsico

State of Maryland

WPP

Strayer

Eli Lily Company