

GAO

August 1986

POSTAL SERVICE

Treatment of Alternate  
Oklahoma Training  
Site Offer Appears  
Reasonable



130678



**General Government Division  
B-221964**

August 8, 1986

The Honorable Mickey Leland  
Chairman, Subcommittee on Postal  
Operations and Services  
Committee on Post Office and Civil Service  
House of Representatives

The Honorable William E. Dannemeyer  
House of Representatives

In your letters of May 23, 1985, and June 28, 1985, you asked us to review certain aspects of the Postal Service's decision to construct a new Technical Training Center in Norman, Oklahoma. You asked that we review the Service's treatment of the Technical Oil Tool Corporation's (TOTCO) proposal to meet the Service's training space requirements at a TOTCO-owned facility in Norman. You also asked that we investigate TOTCO's allegations that a possible conflict of interest and other irregularities may have existed when the Service purchased a land site in Norman for its new Center.

In summary, we believe—and Baker International, parent organization of TOTCO, now agrees—that the Service acted reasonably in rejecting the TOTCO proposals, and we did not find any evidence of either a conflict of interest or any other irregularities concerning the Service's purchase of land for its new training center. The results of our review are discussed below and, in more detail, in the appendixes

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**TOTCO's Proposals**

TOTCO submitted its first proposal to meet the Service's training space requirements in January 1985, almost 10 months after the Service closed its Request for Proposals (RFP) in March 1984. In February 1985, the Service advised TOTCO that the proposal would be retained by the Service for its future reference. In June 1985, in response to a second TOTCO proposal, the Service evaluated TOTCO's facility and site.

The Service rejected TOTCO's second proposal after identifying what it felt were real, and possible, limitations in the TOTCO-proposed 28-acre site's potential to accommodate the needed training center and after determining that renovation and expansion of the existing TOTCO facility to provide needed training space would apparently not be more cost effective than the Service's preferred alternative—a newly constructed Center on a 50-acre site

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In June 1985, when the Service evaluated the second TOTCO proposal, it had already acquired a site in Norman it considered suitable for locating the new Center and had completed the preliminary design for the new Center to be constructed on that site. While these completed actions could have served as disincentives for the Service to evaluate the TOTCO proposal in greater depth, we believe the Service's concerns about the TOTCO site limitations were reasonable.

Further, the Service had established milestones which it considered critical to the timely completion of a new Center. Interviews with Service officials indicate that the Service believed that, even if the limitations in the TOTCO site could be resolved, there was a risk in accepting the TOTCO proposal—the risk that the new Center would not be completed and ready for occupancy by the October 1988 target date. Service management considered this risk unacceptable.

In our view, probably no single limitation cited by the Service would, in itself, clearly disqualify the TOTCO site and facility without further examination. However, the potential collective impact of the limitations identified—including the possibility that the Service would realize no savings in construction costs and the potential delay in occupying a new center that might result from trying to correct or overcome the limitations—indicates that the Service acted reasonably in rejecting the TOTCO site without expending further time and resources in a more in-depth study of the TOTCO proposal.

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## Allegations Regarding Land Acquisition

We reviewed the following TOTCO allegations regarding the Service's purchase of a 50-acre site in Norman for its new Center:

- A possible conflict of interest may have existed when the Service purchased the site.
- The Service paid more than the market value for the site.
- All land contiguous to the site was owned by the East Ridge Development Trust (Trust) and the Trust would benefit from this ownership.

We found that:

- The Service conducted land acquisition negotiations with an agent/member of the Trust, which owned the land purchased by the Service, and the agent/member did not represent, or work for, the Service, as had been alleged by TOTCO.

- The Service acquired the site for less than its appraised value rather than overpaying for the site as alleged by TOTCO. An independent appraiser had valued the site at \$1 million, or about \$20,000 per acre. The Service acquired the site for \$800,000, or about \$16,000 per acre.
- We were unable to determine whether the Trust would benefit from site improvements made by the Service, as had been alleged by TOTCO. Although it appears that owners of land contiguous to the Service's site—including the Trust—might benefit from site improvements made by the Service, the Trust owns some—not all—of the land contiguous to the Service's site. Additionally, the Norman City Engineer told us that the Trust's contiguous sites would probably be served by existing sewer lines rather than the sewer line that the Service plans to install. Thus, along with the Trust's limited ownership of contiguous land, would limit benefits the Trust might realize from contiguous ownership.

## Agency Comments

In commenting on our draft report, the Postal Service said that the report was accurate. The Postmaster General's letter of reply concerning the draft report is included as appendix IV.

## TOTCO's Comments

We provided relevant sections of the report to Baker International for its review and comment. Baker International said the report was thorough and responsive to the company's concerns. It said that concerns raised by the company had been based on the best information available to it at the time. It added that, considering the content of the report and the fact that the Postal Service has awarded a contract to a competing party, Baker International now considers the issue a closed matter. Baker International's letter of reply is included as appendix V.

As arranged with your offices, copies of this report are being sent to the Director, Office of Management and Budget; the Postmaster General; Baker International; and the Technical Oil Tool Corporation. Copies will also be made available to other interested parties upon request.

*W. J. Anderson*

William J. Anderson  
Director

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Corporation		

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**Abbreviations**

RFP Request for Proposals  
TOTCO Technical Oil Tool Corporation

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# Introduction

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## Background

The Service's current Technical Training Center, located in Norman, is comprised of nine leased facilities decentralized within a 20-square mile area. The Center provides training to mechanics and technicians who are responsible for postal maintenance functions. During the past 5 years, the number of students receiving training at the Center has tripled. In fiscal year 1985, about 15,500 students attended the Center

Management problems and costs associated with decentralized facilities and training program growth prompted the Service to initiate a project to consolidate the Center's activities. In December 1983, the Service published a Request for Proposals (RFP) for land upon which it could construct its Center and proposals for land and building space which could partially or fully meet its space requirements.

In January 1984, the Service also notified the lessors of facilities being used by the Center about its need for additional building space. It invited the lessors, including TORCO, to respond to the RFP. Eight proposals for land and three proposals for land and building space were received in response to the RFP, which closed in March 1984. The Service evaluated the proposals and determined they would not satisfy its requirements.

When the Service issued its RFP it reserved the right, without liability, to search for and acquire a site and facilities outside of the RFP process. It also reserved the right to search for facilities outside of the preferred area—Norman, Oklahoma.

In April 1985, the Service's Board of Governors authorized funds to purchase land for the new Center. Also in April, the Service accepted an offer from the East Ridge Development Trust to sell a 50-acre site in Norman, Oklahoma, at a cost of \$800,000 or about \$16,000 per acre.

The Service plans to complete the construction of the new Center in October 1988. Service officials consider this to be a critical date because leases on the current facilities will begin to expire about that time. In a paper prepared for presentation to the Board of Governors, Postal Service management said that "very economically unfavorable negotiations" with the University of Oklahoma would be expected should an extended lease be required.



## Objectives, Scope, and Methodology

In response to requests by Representative Mickey Leland, Chairman, Subcommittee on Postal Operations and Services, House Committee on Post Office and Civil Service; and Representative William E. Dannemeyer, we reviewed the Service's treatment of proposals submitted by TORCO offering to meet the Service's training space requirements. We also reviewed the following allegations by TORCO

- A possible conflict of interest may have existed when the Service purchased a land site for its new Center.
- The Service paid more than the market value for the land site.
- All land contiguous to the land site was owned by the East Ridge Development Trust and the Trust would benefit from this ownership.

We conducted our work during the period May through December 1985. We reviewed Service files, internal memorandums, and correspondence. We interviewed responsible officials in the Service's Headquarters in Washington, D.C., and at the Technical Training Center in Norman, Oklahoma. We also interviewed and obtained information from a city official and TORCO and Trust representatives in Norman, Oklahoma. Our work was done in accordance with generally accepted government auditing standards.

Shortly after we started our work, the Postmaster General requested that the U.S. Postal Inspection Service investigate certain allegations made by TORCO. The Inspection Service was asked to investigate similar allegations of impropriety. We reviewed the work performed by the Inspection Service and interviewed the inspectors who did the work. We considered the results of the inspectors' work in reaching the conclusions expressed in this report.

# Postal Service's Treatment of TOTCO Proposals

In January 1985, the Postal Service, having been informed by TOTCO's agents that TOTCO would soon submit a proposal, advised the agents that the RFP had closed and that TOTCO should not spend funds to prepare a proposal. However, in January and again in June 1985, TOTCO submitted proposals that identified ways in which TOTCO believed it could economically meet the Service's training space requirements. In response to TOTCO's first proposal, the Service told TOTCO's agents that it would retain the data in the proposal for future reference. However, in response to TOTCO's second proposal, the Service evaluated the TOTCO-proposed facility and site.

## Service's Treatment of the First TOTCO Proposal

TOTCO agents first notified the Service in December 1984 and again early in January 1985, about 9 months after the Service closed its RFP, that TOTCO was interested in making its facility and site available to the Service to meet the Service's need for a training center. A TOTCO agent also notified the Service that, by the end of January 1985, TOTCO would submit to the Service a proposal offering to meet all of the Service's training space requirements. In a letter dated January 25, 1985, the Service notified the TOTCO agent that the deadline for receiving proposals—that is, the date when the RFP closed—was March 31, 1984, and recommended that TOTCO not spend money to prepare a proposal. The Service informed the agent that it would retain information on the TOTCO facility and site for future use in the event that several alternatives then being considered by the Service proved to be unacceptable.

TOTCO submitted to the Service a proposal, dated January 28, 1985, offering to construct and then lease to the Service a facility that it believed would meet the Service's training space requirements. TOTCO offered to lease the facility to the Service for a 30-year term. Acknowledging that it was submitting its proposal after the RFP closing date, TOTCO wrote the Service that it had decided in November 1984 to place its site on the market and consequently was not in a position to respond to the RFP until December 1984.

The Service does not have formalized procedures for processing unsolicited proposals offering real property to the Service. Service officials told us that unsolicited proposals may be retained in files for the Service's future reference or additional information may be requested from proposers if the proposal can satisfy an existing Service requirement. In February 1985, the Service acknowledged receiving the TOTCO proposal and informed TOTCO the proposal would be retained for future reference.

Thus, while the Service does not have formalized procedures for processing unsolicited proposals, its treatment of both the correspondence it received from TOTCO's agents and the first TOTCO proposal was consistent with its stated practices for processing unsolicited proposals offering real property.

In congressional testimony in June 1985, TOTCO alleged that a Service official had orally promised TOTCO a hearing on its January 1985 proposal before the Service's Board of Governors. Service officials had previously told TOTCO representatives, in an April 1985 meeting, that TOTCO was not promised such a hearing. A Service official told us that Service management—not the Board of Governors—is responsible for evaluating individual proposals (such as TOTCO's), while the Governors are responsible for approving funds for proposals or projects recommended by the Service's management

We were unable to verify whether or not Service officials promised TOTCO a hearing before the Board of Governors. Only TOTCO representatives and Service officials were present when the proposal was discussed and the substance of the discussions and subsequent agreements are disputed by both parties.

In an August 1985 report, the Postal Inspection Service cited the Service's January 25, 1985, letter as evidence that the Service, rather than encouraging TOTCO to submit its January 1985 proposal, as TOTCO alleged, had tried to dissuade TOTCO from doing so. However, the Inspection Service also could not establish whether the Postal Service had agreed to present the TOTCO proposal to the Board of Governors

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## Service's Treatment of the Second TOTCO Proposal

In June 1985, TOTCO submitted a second proposal to the Service. TOTCO again proposed to construct a facility and then lease it to the Service and also proposed, as alternatives, to either construct the facility and sell it to the Service for \$53 million, or to sell the Service the existing site and facility in an "as-is" condition for \$7.5 million. TOTCO was aware that it was again submitting a proposal after the RFP closing date. However, it contended that one of the three options would meet the Service's needs and that all were financially advantageous to the Service.

The Service evaluated the TOTCO facility and site in June 1985 after receiving TOTCO's second proposal. A Service official told us that before that time the Service had preferred the alternative of designing and building a new Center because it could exercise more direct control over