



Office of Inspector General | United States Postal Service

## Audit Report

# Compensation, Benefit, and Bonus Authority in Calendar Year 2018

Report Number 19BG009FT000-R20 | December 11, 2019



*Awards*



*Employee Benefits*



*Perks and Bonuses*

*Social Security*



*Pay Raise*

*Wellness Benefits*



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# Highlights

## Objective

Our objective was to determine whether the U.S. Postal Service complied with applicable maximum total compensation provisions of the Postal Accountability and Enhancement Act of 2006 (PAEA), related Postal Service policies and guidelines, and related U.S. Internal Revenue Service regulations in calendar year (CY) 2018.

For CY 2018, the annual salary of each Postal Service employee was limited to Executive Schedule Level 1, or \$210,700. For this salary limit, compensation includes any federal annuity received. Two exceptions were granted under PAEA that allow the Postal Service to exceed this limit. The first exception provides for bonuses or other rewards such that the employee's total compensation does not exceed \$243,500 (the salary of the U.S. Vice President). The second exception allows the Postal Service to exceed the salary of the U.S. Vice President by 20 percent (\$292,200) for up to 12 critical senior executives.

Under the two exceptions, total compensation includes merit lump sum; incentive and recruitment bonuses; and the value of spot awards such as gift certificates or stamp yearbooks. Historically, the Postal Service has elected to also include in compensation, the tax impact on employees from spot awards that are cash equivalent items and non-cash tangible awards, which is commonly referred to as the gross up.

The value of benefits such as financial planning, annual leave exchange, health programs, and transportation services are excluded from total compensation, as are payments due to grievance or Equal Employment Opportunity settlements.

Each year the Postal Service is required to report on compensation in an annual comprehensive statement. Since the statement is published in the year following the end of the compensation calendar year, our audit included an assessment of the Postal Service's compliance with these reporting requirements for CY 2017 compensation as it appeared in the *Fiscal Year 2018 Comprehensive Statement of Postal Operations*.

## Findings

The Postal Service complied with the applicable maximum total compensation provisions of PAEA in CY 2018 based on recent practices. They also complied with Internal Revenue Service regulations for CY 2018 compensation.

However, the Postal Service did not accurately report the amount of bonuses or other payments for 25 employees or the amount by which 16 employees exceeded the CY 2017 compensation limit contained in the *Fiscal Year 2018 Comprehensive Statement of Postal Operations*. This included seven employees who were not, but should have been, identified as receiving bonuses or other payments that caused the total compensation to exceed the \$207,800 limit for CY 2017.

We also identified two types of payments or awards in CY 2018 compensation that are not clearly within the exceptions for total compensation in excess of Executive Schedule Level 1.

- Twenty-one Postal Career Executive Service employees received spot awards averaging \$755 that are not defined within a bonus program approved by the U.S. Postal Service Board of Governors (Board).
- One employee worked 4,287 regular, overtime, and premium hours during the year supplementing his annual \$60,148 salary by more than \$163,300. It is not clear within applicable laws, including the PAEA, whether overtime or premium pay should be included in the total compensation calculation. Although not directly relevant to the Postal Service, Title 5 includes some forms of premium pay in aggregate compensation, while overtime is excluded.

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*The Postal Service complied with the applicable maximum total compensation provisions of PAEA and Internal Revenue Service regulations for CY 2018 compensation.*

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Both types of payments contributed to the 22 employees receiving total compensation in excess of Executive Schedule Level 1 in CY 2018.

In addition, the Postal Service did not accurately compensate the Postmaster General and Deputy Postmaster General in CY 2018. The Postmaster General's salary was \$50 below the amount established by the Board because estimates used to establish the salary amount early in the calendar year were not revised when final federal guidance was available. Also, the Deputy Postmaster General's performance-based merit lump sum award for fiscal year 2017 performance was not paid until July 2019, when the error was brought to management's attention.

Finally, the Board did not timely notify Congress and the U.S. Office of Personnel Management of the eight individuals receiving CY 2018 compensation in excess of the U.S. Vice President. Due to multiple changes in Board and Postal Service staff, the Board issued the notifications on February 21, 2019, after the January deadlines.

## Recommendations

We recommended Postal Service management:

- Establish comprehensive procedures for preparing the compensation data necessary to comply with annual reporting requirements under the PAEA.
- Develop and submit for Board certification an updated description of the bonus or reward program under the PAEA that specifically defines all types of cash and non-cash awards, including spot awards, for which executives and officers are eligible.
- Revise Postal Service policy and handbooks on executive awards and recognition to include clear descriptions of the revised bonus and reward program certified by the Board.
- Request an interpretation from a third-party legal counsel on the treatment of overtime and premium pay as part of an employee's compensation under the 39 U.S.C. § 1003(a).
- Establish procedures for a management review of the accuracy and timely processing of authorized awards and salaries.
- Implement procedures to provide the Board with the information necessary to meet the reporting requirement for timely annual notification to Congress and the Office of Personnel Management for those employees designated in critical senior executive positions.

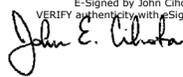
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

December 11, 2019

**MEMORANDUM FOR:** ISAAC S. CRONKHITE  
CHIEF HUMAN RESOURCES OFFICER  
AND EXECUTIVE VICE PRESIDENT

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report - Compensation, Benefit, and Bonus Authority in  
Calendar Year 2018 (Report Number 19BG009FT000-R20)

This report presents the results of our audit of the U.S. Postal Service's Compensation, Benefit, and Bonus Authority in Calendar Year 2018.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Finance, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service’s calendar year (CY) 2018 compensation, benefit, and bonus authority granted through the Postal Accountability and Enhancement Act of 2006 (PAEA) (Project Number 19BG009FT000). The objective of this audit was to determine if the Postal Service complied with applicable maximum total compensation provisions of PAEA, related Postal Service policies and guidelines, and related U.S. Internal Revenue Service (IRS) regulations for CY 2018. See [Appendix A](#) for additional information about this audit.

## Background

The PAEA amended portions of Title 39 of the U.S. Code regarding maximum salary and total compensation limits for employees, executives, and officers. The annual Executive Order on *Adjustments of Certain Rates of Pay* establishes the limits for the Executive Schedule (ES) and Vice President of the U.S.<sup>1</sup> Table 1 explains the authority and limits for CY 2018.

**Table 1. Statutory Limits for CY 2018**

Limit	Description (Authority)	Eligibility/Conditions	Amount for CY 2018
Basic Annual Salary Limit	No officer or employee may be paid compensation at a rate in excess of the rate for ES Level 1 (39 U.S.C. § 1003(a)).	Every officer and employee.	\$210,700
Bonus Exception	The Postal Service may establish a program to award an officer or employee in senior executive or equivalent positions a bonus or other reward up to the total annual compensation payable to the Vice President of the U.S. (39 U.S.C. § 3686(a) and (b)).	Any officer or employee in a senior executive or equivalent position <ul style="list-style-type: none"> <li>■ The Board must approve and certify for the annual period that the bonus and reward program makes meaningful distinctions based on relative performance. (However, the bonus or reward itself may be for purposes other than performance such as recruitment or retention.)<sup>2</sup></li> <li>■ Recipient’s name, amount of bonus or reward, and amount over limit as a result of the bonus or reward must be included in the annual <i>Comprehensive Statement of Postal Operations</i> (Comprehensive Statement) (39 U.S.C. § 3686(d)).</li> </ul>	\$243,500

<sup>1</sup> Executive Order No. 13819 established the limits effective the first day of the first applicable pay period beginning on or after January 1, 2018.

<sup>2</sup> Per guidance from the U.S Department of Justice, Office of Legal Counsel, dated May 15, 2013.

Limit	Description (Authority)	Eligibility/Conditions	Amount for CY 2018
Critical Positions Exception	The Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to 120 percent of the total annual compensation for the Vice President of the U.S. (39 U.S.C. § 3686(c)).	<p>Any officer or employee in one of no more than 12 critical senior executive or equivalent positions.</p> <ul style="list-style-type: none"> <li>■ The Board must approve and certify for the annual period that the bonus and reward program makes meaningful distinctions based on relative performance. (However, the bonus or reward itself may be for purposes other than performance such as recruitment or retention.)<sup>2</sup></li> <li>■ Recipient's name, amount of bonus or reward, and amount over limit as a result of the bonus or reward must be included in the annual Comprehensive Statement (39 U.S.C. § 3686(d)).</li> <li>■ Recipient's name, nature of duties, and basis for payment must be reported by the Board within 30 days of payment.</li> </ul>	\$292,200

Source: 39 U.S.C. § 1003(a) and 3686(a) through (d), and Executive Order No. 13819.

For purposes of the basic annual salary limit above, compensation includes the cumulative portion of annual compensation received during the year that is attributable to salary plus any federal annuity received. For the limits established under the two exceptions above, compensation also includes merit lump sum; incentive, recruitment, and executive detail bonuses; and the value of spot awards<sup>3</sup> such as gift certificates or stamp yearbooks. Historically, the Postal Service has also elected to include in compensation, the tax impact on employees (commonly referred to as the gross up) of spot awards that are cash equivalent items, gift certificates, and non-cash tangible awards. The value of benefits such as financial or retirement counseling, annual leave

exchange, health programs, and transportation services are excluded from total compensation, as are payments due to grievance or Equal Employment Opportunity settlements.

In November 2017, the Temporary Emergency Committee (TEC) of the Board authorized the use of the bonus exception for CY 2018 when they affirmed the previous certification of the performance appraisal system. In doing so, the TEC noted there had been no changes to the performance appraisal system since it was certified as making meaningful distinctions based on relative performance for CY 2017.

<sup>3</sup> *Employee Labor Relations Manual*, Issue 45, Recognition and Awards, September 2018, Exhibit 491.1 describes spot awards as cash, cash equivalent, gift certificate, or non-cash tangible items valued up to \$3,000.

At the same time, the exception for critical positions was also authorized for CY 2018 when the TEC designated the following eight positions as critical, senior executive or equivalent positions.

1. Postmaster General and Chief Executive Officer (PMG)
2. Deputy Postmaster General (Deputy PMG)
3. Chief Operating Officer and Executive Vice President
4. Chief Financial Officer and Executive Vice President
5. Chief Marketing and Sales Officer and Executive Vice President
6. Chief Human Resources Officer and Executive Vice President
7. Chief Information Officer and Executive Vice President
8. General Counsel and Executive Vice President

The Postal Service must report the use of the bonus exception and the critical positions exception in the annual Comprehensive Statement. This includes identifying the name of each person receiving a bonus or other payment which would not have been allowable without use of the exceptions, the amount of the bonus or other payment, and the amount by which the ES Level 1 limit for the year was exceeded.

In addition to the limits established in Title 39 of the U.S. Code, the Postal Service has internal policies and procedures regarding compensation, benefits, and bonuses. The Postal Service also must comply with IRS regulations regarding deferred compensation and the Medicare tax rate for wages over \$200,000.

In certain circumstances, the Postal Service enters into agreements that may include deferred compensation. As shown in Table 2, two active and one former officer had outstanding deferred compensation balances at the end of 2018.

**Table 2. CY 2018 Deferred Compensation and Interest**

Officer	Name	Amount Deferred <sup>4</sup>	Cumulative Deferred Balance <sup>5</sup>	Status
1.	Megan Brennan	\$2,713	\$80,051	Active
2.	Joseph Corbett	\$14,162	\$328,901	Active
3.	John Potter	\$15,063	\$205,695	Inactive
<b>Total</b>		<b>\$31,938</b>	<b>\$614,647</b>	

Source: Eagan Accounts Payable System<sup>6</sup> and Enterprise Data Warehouse (EDW).<sup>7</sup>

### Finding #1: Reporting Calendar Year 2017 Employee Compensation in the Fiscal Year 2018 Comprehensive Statement

The Postal Service did not accurately report in its Fiscal Year (FY) 2018 Comprehensive Statement the compensation of 25 of 30 employees receiving in excess of established limits during CY 2017.<sup>8</sup> As shown in Table 3, the Postal Service incorrectly reported, or failed to report, (1) the amount of bonuses or other payments to 25 employees, and (2) the amount by which 16 employees exceeded the ES Level 1 compensation limit. This includes seven employees who were not but should have been identified as receiving bonuses or other payments and who exceeded the CY 2017 compensation limit.

<sup>4</sup> There was no deferred compensation recorded during CY 2018. All new deferrals were for interest on deferred balances.

<sup>5</sup> As of December 31, 2018.

<sup>6</sup> The Eagan Accounts Payable System is used for non-traditional payments, including deferred income.

<sup>7</sup> EDW is the Postal Service's repository for all retail, financial, and operational performance data.

<sup>8</sup> The Postal Service reports employee compensation as part of its Annual Report, released several months after the end of the compensation year. Because of this timing, we reviewed the report of CY 2017 employee compensation with the ES Level 1 compensation limit of \$207,800 as contained in the FY 2018 Comprehensive Statement.

**Table 3. Errors in the Report of Compensation for CY 2017**

Employee	Not Reported	Over or (Under) Reported in FY 2018 Comprehensive Statement	
		Bonus or Other Payment	Amount Over ES Level 1
1. Calamoneri, Kevin A.	✓	\$(19,344)	\$(5,099)
2. Castellano, Lorraine G.	✓	\$(20,482)	\$(4,367)
3. Cintron, Robert		\$(81)	—
4. Colin, Joshua D.		\$(81)	—
5. Corbett, Joseph		\$843	\$843
6. Cottrell, Guy J.		\$(149)	\$219
7. Graves, Gregory G.		\$682	\$763
8. Gupta, Vinay K.	✓	\$(19,481)	\$(3,238)
9. Hernandez, Steven	✓	\$(20,480)	\$(964)
10. ██████████	✓	\$(19,657)	\$(277)
11. Malone, Linda M.		\$(81)	—
12. Marshall, Thomas J.		\$842	\$842
13. McAdams, Kevin L.		\$(155)	—
14. McDevitt, Maura A.		\$434	\$572
15. Mendonca, Pat A.	✓	\$(20,229)	\$(713)
16. Moore, Julie S.		\$627	\$708

Employee	Not Reported	Over or (Under) Reported in FY 2018 Comprehensive Statement	
		Bonus or Other Payment	Amount Over ES Level 1
17. Mossman, Shaun E.		\$(81)	—
18. Phelan Jr., Edward F.		\$(81)	—
19. Raymond, Scott P.	✓	\$(27,322)	\$(7,806)
20. Reblin, Gary C.		\$(152)	—
21. Rucker III, William C.		\$653	\$734
22. Samra, Tom A.		\$690	\$843
23. Strako, Jacqueline K.		\$(81)	—
24. Tulino, Douglas A.		\$(155)	—
25. Williamson, Jeffery C.		\$842	\$842
<b>Gross Total</b>		<b>\$153,710</b>	<b>\$28,833</b>

Source: U.S. Postal Service Office of Inspector General (OIG) analysis of payroll journals, Eagan Accounts Payable System, Electronic Awards System,<sup>9</sup> compensation documentation, and the FY 2018 Comprehensive Statement.

These 25 employees were subject to Title 39 of the U.S. Code which requires that certain elements of compensation be reported whenever bonus or critical position exceptions are used to compensate employees in excess of established limits.

The elements are:

- The name of each person receiving a bonus or other payment which would not be allowable but for the exception.
- The amount of the bonus or other payment.

<sup>9</sup> The Electronic Awards System is used to submit, track, and approve awards.

- The amount by which ES Level 1 was exceeded as a result of such bonus or other payment.

In the FY 2018 Comprehensive Statement, the Postal Service identified 23 employees who received bonuses and other payments which caused their total compensation to exceed ES Level 1 in CY 2017. We identified errors in 25 of 30 employees that appeared or should have appeared in this statement, and, as a result, \$153,710 (gross) was excluded from the Bonuses and Other Payments column and \$28,833 (gross) was excluded from the Amount in Excess of ES Level 1 column of the Comprehensive Statement.

Postal Service management explained that they did not include seven employees in the Comprehensive Statement because the staff responsible was new to the process and incorrectly believed they were to review only employees with a basic annual salary above the ES Level 1 rate. In the remaining 18 cases that were inaccurately reported, staff made errors in determining the amount of the employees' annual salaries, did not include all gift card award amounts (with gross up), and/or mistakenly included Postal Career Executive Service (PCES) Wellness Benefit<sup>10</sup> reimbursements in the calculations.

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***We identified errors in 25 of 30 employees that appeared or should have appeared in the FY 2018 Comprehensive Statement.***

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The OIG reviewed the desk instructions and reference materials used to create the compensation table for the annual Comprehensive Statement and found them inadequate to produce accurate total compensation information. In particular, in some areas, the guidance suggests only officers and executives are to be analyzed and does not clearly state the compensation limits are applicable to all Postal Service employees. Further, notations on the number of individuals with deferred compensation accounts

are outdated. Other references indicate that payroll adjustments processed under certain codes are automatically included in the compensation calculations without determining what the payment represents or the relevant pay period or year. For example, PCES Wellness Benefit reimbursements are processed by the Electronic Awards System and typed as 'Incentive' awards within the system and when processed as adjustments to payroll. However, as noted previously, these reimbursements are benefits (not awards) and should not be considered compensation under this reporting requirement.

#### **Recommendation #1**

We recommend the **Chief Human Resources Officer and Executive Vice President** instruct the **Director, Compensation and Benefits**, to establish comprehensive procedures for preparing the compensation data necessary to comply with annual reporting requirements under the Postal Accountability and Enhancement Act of 2006.

#### **Finding #2: Compensation Matters for Clarification**

Total compensation calculations for PAEA compliance in CY 2018 included consideration of two types of payments or awards to employees that are not clearly described within the exceptions provided by law: spot awards and overtime pay. We identified circumstances in which both types of payments contributed to employees receiving total compensation in excess of the ES Level 1 limit.

- Twenty-one PCES employees received spot awards (including gross up) ranging from \$703 to \$767. For 11 of these PCES employees, the value of the spot award combined with their salary caused their CY 2018 compensation to exceed the ES Level 1 limit.

Postal Service Handbook EL-380, *Postal Career Executive Service*, describes seven executive recognition awards but does not mention or discuss spot awards or similar rewards.<sup>11</sup> Further, the *Employee and Labor Relations*

<sup>10</sup> The PCES Wellness Benefit program reimburses PCES employees up to \$500 each calendar year for wellness services promoting health, financial planning, and career development. Employee benefits are excluded from compensation calculations since they are not awards or bonuses.

<sup>11</sup> Handbook EL-380, *Postal Career Executive Service*, Section 54: PCES Executive Performance Pay Program, January 2014.

*Manual*, where spot awards are discussed, specifically states that it excludes executives and officers in PCES.<sup>12</sup>

The PAEA allows the Postal Service to establish a bonus or reward program for officers or employees based on criteria other than specific performance (for example, recruitment and retention bonuses for highly qualified employees), so long as any such bonus or award is recognized under a Board approved program. Under 39 U.S.C. § 3686 (b) (2), if the Postal Service wishes to have this bonus authority, it must make an appropriate request to the Board for approval. The current Board bylaws state that decisions related to the compensation and benefits of these PCES employees are reserved for the Board of Governors.<sup>13</sup>

The Board secretary stated that the Board's approval of the bonus program allowing the PMG to grant spot awards to executives and officers was probably done some time ago. Since the bonus program is not required to be annually re-certified by the Board, a comprehensive description of the current approved program may be difficult to locate at this time. The secretary provided an example of a 2010 confirmation of the delegation of authority by the Board to the PMG for approving bonuses and allowances. However, the delegation did not include a description of the types of payments or awards considered a bonus or allowance for purposes of the delegation. In addition, the delegation did not define the types of employees eligible under the delegated authority (for example, all, career, executive, and/or officer). We determined this particular delegation was in the context of a retention award granted in 2009 and does not clarify whether spot awards are part of the approved bonus program.

In its May 15, 2013, binding opinion, the Department of Justice Office of Legal Counsel stated that "once section 3686(b)'s conditions for paying compensation in excess of [the ES Level 1] cap are met, then [the Postal Service] has authority to make such payments under any bonus program authorized by subsection (a) ... which ... would include programs that award bonuses based not on performance but instead to further some

other "objective"[]" of [the Act]." Given this opinion, we believe PCES employees may receive spot awards only if the awards are defined within the Postal Service's request for a bonus program and the program is properly approved by the Board. In addition, the Postal Service policy on executive awards and recognition must be updated accordingly.

- One mail handler worked 4,287 regular, overtime, holiday, and premium hours throughout CY 2018, which resulted in compensation nearly four times his \$60,148 basic annual salary (\$223,504). Generally there are 2,080 workhours in one compensation year, averaging 40 hours per week. This individual worked over 100 hours in 33 of the 52 weeks of the year.

In earning over \$223,000 in CY 2018, the mail handler's circumstances contradicted 39 U.S.C. § 1003(a) which states that no employee shall be paid compensation at a rate in excess of the rate for ES Level 1. While the PAEA provides two exceptions through which an employee can be compensated above the level for a given year, neither exception applies in this case. Overtime or premium pay are not bonus payments, and the employee was not designated a critical senior executive. At the same time, the OIG's Office of General Counsel advised that no laws applicable to the Postal Service indicate that overtime pay would be included in total compensation calculations. It is not clear whether the possibility of substantial overtime or premium pay was considered by Congress when enacting the PAEA.

Title 5, *Government Organization and Employees*, defines limits on the total amount of allowances, differentials, bonuses, awards, or other similar payments an employee may receive in a year when combined with the employee's basic pay. It describes aggregations of pay and compensation. Some types of premium pay are included in aggregate compensation while overtime pay under the Fair Labor Standards Act of 1938 is excluded. Since Title 5 does not apply to the Postal Service, it is important the Postal Service obtain an interpretation of the treatment of overtime and premium pay in determining total compensation for PAEA compliance.

<sup>12</sup> *Employee and Labor Relations Manual*, Issue 45, Section 490: Recognition and Awards, September 2018.

<sup>13</sup> 39 CFR § 3.3(j).

Without a defined Board-approved bonus program that addresses spot awards and clarification on the treatment of overtime and premium pay, the CY 2018 total compensation for these 22 employees could be interpreted as violations of the PAEA. As has been the approach in prior audits, the OIG's compensation calculations for CY 2017 and CY 2018 reporting requirements included spot awards and gross ups. The FY 2018 audit is the first time we identified an employee who exceeded the ES Level 1 limit due to overtime or premium pay. The OIG is conducting additional work in both audit and investigations related to excessive overtime.

### Recommendation #2

We recommend the **Chief Human Resources Officer and Executive Vice President** develop and submit for certification by the U.S. Postal Service Board of Governors an updated description of the bonus or reward program allowed under 39 U.S.C. § 3686(a). The description should specifically define all types of cash and non-cash awards, including spot awards, for which executives and officers are eligible.

### Recommendation #3

We recommend the **Chief Human Resources Officer and Executive Vice President** instruct the **Director, Compensation and Benefits**, to revise Postal Service policy and handbooks on executive awards and recognition to include clear descriptions of the revised bonus or reward programs certified by the U.S. Postal Service Board of Governors.

### Recommendation #4

We recommend the **Chief Human Resources Officer and Executive Vice President**, in coordination with the **General Counsel and Executive Vice President**, request an interpretation from a third-party legal counsel on the treatment of overtime and premium pay as part of an employee's compensation under 39 U.S.C. § 1003(a).

## Finding #3: Timely and Accurate Compensation for Senior Officers

The Postal Service did not accurately compensate the PMG and Deputy PMG in CY 2018. This occurred because procedures did not exist to ensure authorized compensation was accurately and timely processed. As a result, over \$10,700 in salary and award compensation was not timely paid to senior officers.

- The Postal Service awarded the Deputy PMG a performance-based merit lump sum award totaling \$10,668 for FY 2017 performance. Postal Service policy states that these types of awards are paid in November or December after the end of the relevant fiscal year.<sup>14</sup> However, the award had not been paid to the Deputy PMG as of the time of our audit.
- The Board determined CY 2018 compensation for the PMG at \$500 below the statutory salary cap (120 percent of the total annual compensation payable to the U.S. Vice President) beginning January 2, 2018. Therefore, the PMG's salary for CY 2018 should have been \$291,700 (\$292,200 less 500). According to Postal Service payroll records, the PMG's annual salary was \$291,650 or \$50 below the amount established by the Board. This difference has an ongoing impact since the Board determined the PMG's salary for 2019 would remain as it was in 2018.

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*“Procedures did not exist to ensure authorized compensation was accurately and timely processed.”*

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Until we advised them of the issue, the Postal Service was not aware that the Deputy PMG did not receive his merit lump sum award amount. Merit lump sum payments for FY 2017 performance were processed by individuals no longer working in that area, so current management was not able to determine the cause of the oversight. Once it was brought to their attention, current management paid the Deputy PMG's FY 2017 merit lump sum in July 2019. Since the payment

<sup>14</sup> Postal Service Policy on Deferred Compensation, dated March 24, 2011. The referenced section of the policy discusses performance-based incentives.

was processed as a prior period adjustment for January 2018, it was included in our analysis of total compensation for CY 2018. The payment did not adversely impact the Deputy PMG's compliance with the compensation limits for the year.

Further, management explained that at the time the PMG's salary was established, the Executive Order outlining the rates of pay for CY 2018 had not been published. The team estimated the salary of the U.S. Vice President to determine the PMG's salary. Once the Executive Order was published, the U.S. Vice President's salary was slightly different than the Postal Service's estimate. As a result, the PMG's salary was below the amount established by the Board. Postal Service management did not initiate an adjustment to the salary to align it with the Board's direction.

#### **Recommendation #5**

We recommend the **Chief Human Resources Officer and Executive Vice President** instruct the **Director, Compensation and Benefits**, to establish procedures for a management review of the accuracy and timely processing of authorized awards and salaries.

### **Finding #4: Notification to Congress and U.S. Office of Personnel Management**

The Board did not timely notify Congress and the U.S. Office of Personnel Management (OPM) of the eight individuals receiving compensation in CY 2018 in excess of the compensation of the U.S. Vice President. Instead of notifying Congress and the OPM by January 27 and January 30, 2019, the Board notified them on February 21, 2019. Under 39 U.S.C. § 3686(c), when the critical positions exception is used, the Board must report information to OPM and Congress within 30 days of the payment. The information includes the name of the individuals, the critical nature of their responsibilities, and the basis for the payments.

We determined that when the basic salary paid to the individual places the employee at a compensation level above the Vice President of the U.S., the Board should provide notification within 30 days of the end of the calendar year. Seven of the eight individuals exceeded the compensation level due to their basic salaries, so the required reporting date was January 30, 2019. If the payment is due to an award or bonus other than salary, the Board should provide notice within 30 days of the payment of the award or bonus. One individual received a recruitment incentive on December 28, 2018, so the required reporting date for this payment was January 27, 2019.

Management transitions at the Board and within the Postal Service contributed to the delayed notifications. As a result, the attachment to the notification which specifies the individuals, nature of their responsibilities, and basis for the payments was not provided to the Board by the Compensation and Benefits group until February.

While this is a violation of statutory requirements, there is no penalty or other impact to the Postal Service.

#### **Recommendation #6**

We recommend the **Chief Human Resources Officer and Executive Vice President** instruct the **Director, Compensation and Benefits**, to implement procedures to provide the Board of Governors the information necessary to meet the reporting requirements of 39 U.S.C. § 3686(c) for timely notification to Congress and the U.S. Office of Personnel Management for those employees designated in critical senior executive positions.

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***The Board must report critical positions to OPM and Congress within 30 days of the payment.***

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## Management's Comments

Management generally agreed with the findings and recommendations. While management acknowledged compliance issues in CY 2018, they stated they have procedures in place for complying with statutory requirements regarding compensation and reporting and minor improvements will correct the concerns noted. Management also commented that issues with spot awards, overtime and premium pay have not been raised by the OIG in prior annual audits despite their existence for several years.

Regarding recommendations 1, 5, and 6, management will update desk instructions, reference materials, and guidance on preparing compensation data for the annual reporting requirements, ensuring the PMG and Deputy PMG salaries and merit lump sum awards are validated to Board resolutions by February 1st of each year, and providing the Board's office with a preliminary copy of the annual notifications to Congress and OPM by the first week in December each year. Management plans to implement these updates by December 20, 2019.

Regarding recommendations 2 and 3, management will update the Postal Service handbook on executive awards and recognition to clearly include spot awards and will submit the updated policy to the Board for approval under 39 U.S.C. § 3686. Management plans to update the policy by March 31, 2020, with review and approval by the Board by December 31, 2020.

Regarding recommendation 4, although management does not believe there is a meaningful dispute regarding overtime and premium pay included as compensation, based on 39 U.S.C. § 1003(a), they will seek a third-party legal counsel opinion on the treatment of overtime and premium pay by January 31, 2020.

See [Appendix B](#) 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. Regarding the issues not previously raised, on the overtime and premium pay issue, we have evaluated this in the past and have not identified any employee exceeding the compensation limit due to overtime or premium pay. Regarding the inclusion of the spot awards, we acknowledge that this was the first year we reviewed whether spot awards were part of the Board-approved bonus or reward program.

In management's comments on recommendation 5, we noted the planned corrective action only addresses the review of authorized awards and salaries for the PMG and Deputy PMG. We suggest this review be expanded for all officers.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. 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.

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

The scope of this audit was total annual compensation paid or deferred to employees of the Postal Service for CY 2018. The three statutory limits established by the PAEA include one or more of the following in determining an individual's compensation – basic annual salary, federal annuity, merit lump sum payment, incentive payment, other cash awards, and the value of non-cash awards distributed to the individual during the calendar year. Each year the Postal Service is required to report on compensation in their annual Comprehensive Statement. Since this report is published in the year following the end of the compensation calendar year, our audit included an assessment of the Postal Service's compliance with these reporting requirements for CY 2017 compensation as it appeared in the *FY 2018 Comprehensive Statement of Postal Operations*.

Our scope excluded certain additional payments such as grievance payments, settlement payments, or the cash value of benefits like financial counseling, parking, life insurance, health benefits, increased annual leave exchange hours and other perquisites that are not subject to the compensation guidelines defined in the PAEA. In addition, compensation for employees of the OIG is designated under the Inspector General Act of 1978 and, therefore, OIG employees were excluded from this review.

To meet the audit objective, we:

- Reviewed Postal Service policies, procedures, and guidelines.
- Reviewed IRS guidelines for reporting wages and taxes.

- Reviewed payroll, bonus, award, perquisite, and annual leave exchange records from Postal Service systems.
- Reviewed deferred compensation records from Postal Service systems, including taxes on deferred income.
- Reviewed employment agreements as applicable to the compensation limits for the project scope.
- Conducted interviews with members of the Board staff, Postal Service representatives in the Compensation and Benefits area, and accounting specialists in the Accounting Services area.

We conducted this performance audit from May through December 2019 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 28, 2019, and included their comments where appropriate.

We assessed the reliability of Payroll Systems, EDW, Eagan Accounts Payable System, and Electronic Awards System data by tracing a sample of data to source documents and applying logical tests to electronic data files. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Compensation, Benefit, and Bonus Authority in Calendar Year 2017</i>	Determine whether the U.S Postal Service complied with the applicable maximum total compensation provisions of the PAEA, related Postal Service policies and guidelines, and IRS regulations in CY 2017.	FT-AR-18-008	7/23/2018	None
<i>Compensation, Benefit, and Bonus Authority in Calendar Year 2016</i>	Determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA in CY 2016, related Postal Service policies and guidelines, and IRS regulations.	FT-AR-17-009	8/8/2017	None
<i>Executive Officer Compensation for Calendar Year 2015</i>	Determine whether the Postal Service complied with the applicable provisions of the PAEA, Postal Service policies and guidelines, and IRS regulations for CY 2015 executive officer compensation.	FT-AR-16-008	8/1/2016	None

# Appendix B: Management's Comments

ISAAC S. CRONKHITE  
CHIEF HUMAN RESOURCES OFFICER  
AND EXECUTIVE VICE PRESIDENT



December 2, 2019

LAZERICK POLAND  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Compensation, Benefit, and Bonus Authority in Calendar Year 2018  
(Report Number 19BG009FT000)

Thank you for the opportunity to respond to the subject draft audit report prepared by the Office of Inspector General (OIG) and to address the findings and recommendations contained therein.

The United States Postal Service (Postal Service) takes seriously its statutory compensation limitations and requirements and strives to comply with them. The Postal Service's Compensation function has always had procedures in place for complying with those statutory compensation limitations and requirements, as well as to ensure timely reporting of the same. While the Postal Service acknowledges there were some areas during calendar year 2018 in which it fell short of full compliance, which were largely caused by significant staffing changes, the Postal Service believes minor improvements to its existing procedures—informed by the OIG's report—will correct those concerns moving forward.

The Postal Service also notes that some of the draft audit report's findings and recommendations are based on issues not previously raised by the OIG following its prior annual audits, despite their existence for several years. For example, the OIG report takes issue with what it references throughout the report as "spot awards" to executives. These awards are actually Postal Career Executive Service (PCES) Non-Cash Awards, gift certificates, or stamp yearbooks that the Postal Service has elected to include as compensation as well as the tax impact of those awards on employees (commonly referred to as the gross up of such awards). The provision of these non-cash awards and their treatment for compensation purposes are not new practices or unfamiliar to the Board of Governors (Board). The Postal Service believes the Board's annual resolutions granting bonus authority and certifying that the performance appraisal system made meaningful distinctions based on performance were sufficient to allow for the issuance of PCES Non-Cash Awards and other award and bonus types for calendar year 2018 to the eleven PCES employees whose total compensation then exceeded Level 1 of the Executive Schedule. However, the Postal Service will follow the OIG's recommendation to update Handbook EL-380, *Postal Career Executive Service*, to clearly include this type of award. Additionally, the Postal Service will include Handbook EL-380, section 54, with its next request to the Board for bonus authority under 39 U.S.C. § 3686.

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The Postal Service will indicate to the Board that it understands all award types included in that handbook will be covered by the Board's approval of the Postal Service's bonus-authority request based on the Board's certification that the performance appraisal system makes meaningful distinctions based on performance, unless the Board states otherwise or requires a different manner or form for the request.

Finally, the Postal Service has long held and acted on its position that overtime and premium pay—as well as other forms of compensation outside an employee's base rate of pay—are excluded from the definition of "compensation rate of pay" in § 1003(a). As the OIG noted, the Postal Service's interpretation of its own statutory compensation cap is consistent with Title 5 regulations, which often serve as guidance to the Postal Service. Nonetheless, the Postal Service will seek a third-party legal counsel opinion to confirm the Postal Service's long-standing position on this exclusion.

Against this backdrop, Management responds to the specific recommendations contained in the Draft Report as follows:

Recommendation #1:

We recommend the Chief Human Resources Officer and Executive Vice President instruct the Director, Compensation and Benefits, to establish comprehensive procedures for preparing the compensation data necessary to comply with annual reporting requirements under the Postal Accountability and Enhancement Act of 2006.

Management Response/Action Plan:

The Postal Service generally agrees with Recommendation #1. The Postal Service has desk instructions and reference materials to help prepare the compensation data necessary to comply with annual reporting requirements. The Postal Service agrees that these desk instructions and reference materials should be updated, including revising guidance (a) to confirm that all employees should be analyzed for inclusion in the annual report; (b) on what items should be included vs. excluded for reporting purposes (e.g., PCES Wellness Benefit); and (c) on how to identify different types of payroll adjustments.

Target Implementation Date:

December 20, 2019

Responsible Official:

Vinay Gupta, Director, Compensation and Benefits

Recommendation #2:

We recommend the Chief Human Resources Officer and Executive Vice President develop and submit for certification by the U.S. Postal Service Board of Governors an updated description of the bonus or reward program allowed under 39 U.S.C. § 3686(a). The description should specifically define all types of cash and non-cash awards, including spot awards, for which executives and officers are eligible.

Management Response/Action Plan:

The Postal Service agrees to submit the updated Handbook EL-380 to the Board for review as a description of the award types the Postal Service understands to be included in its bonus-authority program as part of its annual request that the Board grant the Postal Service bonus authority under 39 U.S.C. § 3686 to award bonuses and other awards in excess of the § 1003(a) limitation. Nevertheless, the Postal Service believes that the Board had appropriately authorized the Postal Service to issue PCES Non-Cash Awards and other types of bonuses or awards under § 3686 for calendar year 2018. Due to the need to update Handbook EL-380 and the timing of the annual request submission, this change will not be effective until fiscal year 2021.

Target Implementation Date:

December 31, 2020

Responsible Official:

Vinay Gupta, Director, Compensation and Benefits

Recommendation #3:

We recommend the Chief Human Resources Officer and Executive Vice President instruct the Director, Compensation and Benefits, to revise Postal Service policy and handbooks on executive awards and recognition to include clear descriptions of the revised bonus or reward programs certified by the U.S. Postal Service Board of Governors.

Management Response/Action Plan:

The Postal Service agrees with the recommendation to update Postal Service Handbook EL-380, *Postal Career Executive Service*, to clarify that executives and officers are eligible for PCES Non-Cash Awards in addition to the other awards currently listed in the handbook.

Target Implementation Date:

March 2020

Responsible Official:

Vinay Gupta, Director, Compensation and Benefits

Recommendation #4:

We recommend the Chief Human Resources Officer and Executive Vice President, in coordination with the General Counsel and Executive Vice President, request an interpretation from a third-party legal counsel on the treatment of overtime and premium pay as part of an employee's compensation under 39 U.S.C. § 1003(a).

Management Response/Action Plan:

The Postal Service agrees with this recommendation, although we do not believe there is any meaningful dispute regarding exclusion of overtime and premium pay from the definition of "compensation rate of pay" in § 1003(a).

Target Implementation Date:

January 31, 2020

Responsible Official:

Thomas Marshall, General Counsel and Executive Vice President

Recommendation #5:

We recommend the Chief Human Resources Officer and Executive Vice President instruct the Director, Compensation and Benefits, to establish procedures for a management review of the accuracy and timely processing of authorized awards and salaries.

Management Response/Action Plan:

The Postal Service agrees with this recommendation. As noted in response to Recommendation #1, the Postal Service already has procedures for a management review of the accuracy and timely processing of authorized awards and salaries. However, management agrees that it needs to update its desk instructions and reference materials. This update should include that by February 1<sup>st</sup> each year a member of the Compensation team will validate the Postmaster General (PMG) and Deputy Postmaster General (DPMG) salaries and performance-based merit lump sum awards based on Pay Period 02 payroll data against the most recent Board resolution on the compensation of the PMG and DPMG.

Target Implementation Date:

December 20, 2019

Responsible Official:

Vinay Gupta, Director, Compensation and Benefits

Recommendation #6:

We recommend the Chief Human Resources Officer and Executive Vice President instruct the Director, Compensation and Benefits, to implement procedures to provide the Board of Governors the information necessary to meet the reporting requirements of 39 U.S.C. § 3686(c) for timely notification to Congress and the U.S. Office of Personnel Management for those employees designated in critical senior executive positions.

Management Response/Action Plan:

The Postal Service agrees with this recommendation. As noted in response to Recommendations #1 and #5, the Postal Service already has desk instructions and reference materials to meet the reporting requirements of 39 U.S.C. § 3686(c) for timely notification to Congress and the U.S. Office of Personnel Management (OPM). However, management agrees to update its desk instructions and reference materials to ensure that by the first week in December it will provide to the Board's office a preliminary copy of the notification to Congress and OPM for those employees designated in critical senior executive positions.

- 5 -

Target Implementation Date:  
December 20, 2019

Responsible Official:  
Vinay Gupta, Director, Compensation and Benefits



Isaac S. Cronkhite  
Chief Human Resources Officer and Executive Vice President

cc: Mr. Marshall  
Mr. Gupta  
Mr. Meyer  
Corporate Audit Response Management



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