



March 17, 2010

VINCENT H. DEVITO, JR  
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Evaluation of Locally Issued Salary Advances  
(Report Number FF-AR-10-122)

This report presents the results of our evaluation of locally issued salary advances (Project Number 09BO002FF004). The U.S. Postal Service Office of Inspector General (OIG) performed this self-initiated audit to test selected transactions, address financial risk, and provide feedback to management to improve financial operations nationwide. The objectives of this audit were to determine whether salary advances were properly authorized and if funds due to the Postal Service were promptly collected. See [Appendix A](#) for additional information about this audit.

## **Conclusion**

The salary advances we reviewed generally were properly authorized and promptly collected. However, our audit disclosed that some advances did not meet the criteria to be issued and others could have been avoided. Further, some advances we reviewed were not always promptly collected. Collection of certain salary advances is a manual process. Specifically, over 7,000 advances totaling \$5.9 million issued from October 2008 through May 2009, representing almost one-fourth of the total number of salary advances issued, had to be collected manually from employees. While we noted a nearly \$3 million reduction in the number of salary advances issued nationally from 2008 to 2009 and increased collection efforts, we believe risk continues to exist in the issuance and collection processes.<sup>1</sup>

## **Some Salary Advances Were Avoidable or Should Not Have Been Issued**

Based on our testing of 688 salary advances (totaling \$463,826 and issued at 50 retail units), we identified 64 salary advances<sup>2</sup> totaling \$33,026 the Postal Service should not have issued or could have avoided. Our audit disclosed, in some instances, supervisors knowingly violated policy in issuing these advances and, in other instances, issued advances because timekeeping and grievance information was not input timely. It is important for local supervisory personnel to adhere to policy and place greater

---

<sup>1</sup> From October 1, 2008, through May 31, 2009, there were 5,072 units that had issued 15,840 advances totaling \$9,195,442.

<sup>2</sup> These instances occurred at three retail units.

emphasis on timely input of data to mitigate the cost of unnecessary or avoidable salary advances. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, controller:

1. Re-emphasize the policy and requirements for issuing salary advances.

### **Management's Comments**

Management agreed with our finding and recommendation and stated that *Retail Digest* published an article on March 6, 2010, which reiterated the current policy and provided a table for an intuitive decision process. Management also stated they will publish a *Postal Bulletin* article by June 30, 2010, that will provide a detailed outline of the process for collecting locally issued salary advances. See [Appendix D](#) for management's comments in their entirety.

### **Outstanding Advances Were Not Always Promptly Collected**

Management did not always monitor and employees did not always promptly clear salary advances.<sup>3</sup> Of the 50 units we sampled, personnel at 33 units had not collected 507 salary advances totaling \$333,816. These advances were issued between October 2000 and June 2009. As a result of our audit, of the \$333,816 outstanding, management took action to collect or eliminate \$146,765, leaving \$187,051 outstanding.<sup>4</sup> Employees provided various reasons as to why they did not always promptly collect advances, including supervisors being unaware that advances were outstanding and collection not being a priority. In addition, we noted Postal Service personnel had differing opinions as to which manager was responsible for collecting those advances issued at retail units for processing and distribution plant employees.

Specifically, Handbook F-101 states that the office issuing the advance is responsible for collecting it. However, the *Employee and Labor Relations Manual* states the postmaster or installation head is responsible for collecting any debt an employee owes to the Postal Service.

Advances issued in Account Identifier Code (AIC) 554, Payroll Adjustment Payment Issued, are collected automatically through the payroll process. However, salary advances issued in AIC 754, Authorized Emergency Salary Issued, are collected manually by local officials. The risk of not collecting advances due to a manual collection process could potentially be mitigated through an automated collection process similar to the process performed for advances issued in AIC 554.

---

<sup>3</sup> Handbook F-101, *Field Accounting Procedures*, Section 15-1.3, January 2009, states that, at least once a month, the postmaster, manager, supervisor or designated employee must reconcile, research, and resolve differences for employee items in the Accounting Data Mart or the Customer Trust and Employee Narrowcast Report.

<sup>4</sup> Eliminating or writing off the outstanding salary advance occurred due to a variety of reasons, including the fact there was no longer any supporting documentation for the debt.

As discussed with Postal Service personnel, the use of AIC 754 was intended to be infrequent; thus, local collection efforts were expected to be minimal. However, our audit disclosed that advances issued in this AIC required local collection and were rather extensive. Specifically, there were over 7,000 advances totaling \$5.9 million issued in AIC 754 in fiscal year 2009, representing almost one-fourth of the total number of salary advances issued. While some of these advances may have been erroneously entered into AIC 754 (rather than AIC 554), the result is that those advances require manual collection efforts rather than the automated process provided through the payroll system. See [Appendix B](#) for our detailed analysis of this topic.

We consider all \$333,816 to be questioned costs, with \$254,916 considered recoverable questioned costs<sup>5</sup> and \$78,900 considered unrecoverable unsupported questioned costs.<sup>6</sup> See [Appendix C](#) for a breakdown of the monetary impact.

We recommend the vice president, controller:

2. Evaluate the feasibility of establishing an automated process for the collection of salary advances issued in Account Identifier Code 754, Authorized Emergency Salary Issued, and provide best practices to field units for tracking and collection of advances until an automated process is established.

### **Management's Comments**

Management agreed with our finding and recommendation and stated they will explore and evaluate the possibility of automating the salary advance collection process. They will provide the results of this study to the OIG by June 30, 2010. Further, management will also analyze salary advance data by area and district to identify best practices for managing salary advances and will provide those results to all field units by June 30, 2010.

We recommend the vice president, controller:

3. Clarify Postal Service policy as to who is responsible for collecting efforts for advances that are issued at retail units for processing and distribution center employees.

### **Management's Comments**

Management agreed with our recommendation and stated they will clarify Postal Service policy as to who is responsible for collecting salary advances issued at retail

---

<sup>5</sup> Recoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.

<sup>6</sup> Unrecoverable cost that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

units for processing and distribution center employees. Management will publish this revised policy in the *Postal Bulletin* by June 30, 2010.

We recommend the vice president, controller:

4. Develop an action plan to collect the \$187,051 in outstanding salary advances.

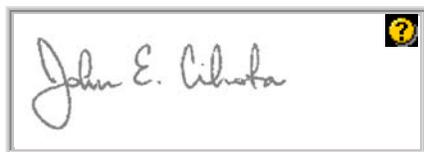
### Management's Comments

Management agreed with our recommendation and stated they will provide the list of outstanding salary advances to area accounting managers, who will be required to develop action plans by June 30, 2010, for collecting the outstanding amounts.

### Evaluation of Management's Comments

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

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Wiethop, director, Field Financial Central, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small black square icon with a white question mark.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

cc: Joseph Corbett  
Susan M. Brownell  
Dean J. Granholm  
Jack L. Meyer  
Stephen J. Nickerson  
Richard W. Rudez  
Susan A. Witt  
Sally K. Haring

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service issues emergency salary advances to employees in the form of no-fee money orders if an employee's check is substantially less than the amount due or if an employee did not receive a salary check. Postmasters should use AIC 754, Authorized Emergency Salary Issued, if the employee does not receive a salary check or AIC 554, Payroll Adjustment Payment Issued, if the check is less than the amount due. Salary advances issued in AIC 754 are collected by local units. Salary advances issued in AIC 554 are collected through payroll adjustments. It is the responsibility of the unit's postmaster, manager or supervisor to prepare a file documenting each employee item,<sup>7</sup> maintain a log for all unresolved employee salary advances, and pursue collection of employee debt while adhering to the National Agreement and the *Employee and Labor Relations Manual*. Immediately upon receipt of the original or replacement check, the employee must repay the emergency salary issued. If unresolved within 2 pay periods, the postmaster, manager or supervisor must initiate the collections process by issuing the employee a letter of demand. The postmaster or unit manager is responsible for ensuring appropriate collections of outstanding debt for active employees under their jurisdiction.

In November 2005,<sup>8</sup> Post Offices™ and retail units were required to follow new procedures for issuing emergency salary advances. This process included a new AIC, AIC 554, Payroll Adjustment Payment Issued, that automatically collected salary advances in subsequent pay periods. Previously, all advances were processed by inputting them into AIC 754.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to determine whether salary advances were properly authorized and whether funds due to the Postal Service were promptly collected.

To accomplish the objectives, we issued letters to unit personnel requesting information and documentation to support the high-risk transactions we identified. We judgmentally selected our sample based on risk from a universe of 5,072 units that had issued 15,840 advances totaling \$9,195,442 as of May 31, 2009. We deemed those units with the highest amounts of salary advances and those with the longest outstanding advances as having the most risk. Of that 5,072, we selected 50 units that had issued 688 advances totaling \$463,826.

We traced recorded financial transactions to and from supporting documentation and assessed the reliability of computerized data by verifying the computer records to

---

<sup>7</sup> Employee items are any unresolved emergency salary issued, advance travel issued, and employee stamp stock and/or cash credit overages or shortages.

<sup>8</sup> *Postal Bulletin* 22168, page 11, November 24, 2005.

source documents. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed appropriate supervisors and employees as needed at selected units.

We conducted this performance audit from June 2009 through March 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on February 3, 2010, and included their comments where appropriate. We assessed the reliability of computerized data by verifying the computer records to source documents.

**PRIOR AUDIT COVERAGE**

As part of its annual financial statement support work, the OIG completed annual installation audits of post offices, stations, and branches and summarized the results in capping reports. The report results listed in the table below only address the monitoring and clearing of employee items. In addition, the monetary impact column represents the combined total of all issues identified in the capping report. Management agreed with the findings and recommendations.

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact</b>	<b>Report Results</b>
<i>Audit Report – Fiscal Year 2006 Financial Installation Audit – Post Offices, Stations, and Branches</i>	FF-AR-07-094	2/20/2007	\$0	We identified 39 of 108 units that did not always comply with procedures for monitoring employee items.
<i>Audit Report – Fiscal Year 2007 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-08-122	3/5/2008	\$2.1 million	We identified 34 of 105 units that did not monitor employee items or promptly clear them.

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact</b>	<b>Report Results</b>
<i>Audit Report – Fiscal Year 2008 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-09-055	12/26/2008	\$819,602	We identified 18 of 105 units that did not monitor employee items or promptly clear them.
<i>Audit Report – Fiscal Year 2009 Financial Installation Audits – Post Offices, Stations, and Branches</i>	FF-AR-10-045	12/14/2009	\$1.5 million	We identified 17 of 105 units that did not monitor employee items or promptly clear them.

## APPENDIX B: DETAILED ANALYSIS

### Some Salary Advances Were Avoidable or Should Not Have Been Issued

We found 64 salary advances totaling \$33,026 the Postal Service should not have issued or could have avoided.<sup>9</sup> Specifically:

- Seventeen advances totaling \$19,200 were issued to rural carrier associates at one unit because the supervisor forgot to enter their workhours in the Rural Time and Attendance Collection System (RTACS), leaving carriers without their salary check. The supervisor was subsequently issued a letter of discipline. Additionally, while the district Time and Attendance Collection System (TACS) coordinator manually obtains the *Pay Period Status Report* from TACS, she did not obtain the *Missing Certificates Report* from RTACS.<sup>10</sup> The *Pay Period Status Report* provides the status of clock ring data and helps identify employees who do not have any clock rings for that pay period. While this report is only available in TACS, obtaining a *Missing Certificates Report* from RTACS would provide similar information. The TACS coordinator stated she has incorporated the procedure to also obtain the *Missing Certificates Report* in the future to help detect non-submission of rural carrier time.
- Forty-six grievance settlement prepayments<sup>11</sup> totaling \$11,226 were issued at one unit because supervisors took more than 60 days to enter settlement information into the Grievance Arbitration Tracking System (GATS).<sup>12</sup> In this unit, only one supervisor had access to the GATS system and could only enter data if the other supervisors relayed the grievance settlement information to her timely. Because the other supervisors did not do this, the unit was obligated to issue advances.
- One advance for \$2,600 was improperly issued to a Highway Contract Route (HCR) contractor in January 2005.<sup>13</sup> The instruction to issue advances was given by a former area finance manager because of delays in processing HCR contractor payments. The district finance manager indicated this was an isolated incident and the advance was repaid through a reduction in subsequent contract payments.<sup>14</sup> As a result of our audit, the district finance manager issued instructions that under no

---

<sup>9</sup> Handbook F-101, Section 23-3.1.1, details the circumstances under which a salary advance can be authorized. These include when an employee receives a salary check that is substantially less than the amount due, an employee does not receive a salary check when the check is listed in the payroll register as being issued, or new employees (including casuals) who do not receive a salary check due to a late Postal Service Form 50, Notification of Personnel Action.

<sup>10</sup> City carriers' time is entered in TACS and rural carriers' time is entered in RTACS.

<sup>11</sup> If an employee is not paid within 60 days after submitting all the necessary grievance settlement documentation, then an interim emergency salary advance equal to 65 percent of the gross amount due may be issued.

<sup>12</sup> Management uses the Grievance and Arbitration Tracking System to locally authorize and process informal and grievance payments.

<sup>13</sup> A highway contract route service provides for the transport of mail between post offices or other designated points where mail is received or dispatched.

<sup>14</sup> We verified during the audit that the advance was repaid.

circumstances should an HCR be paid from local funds and to contact his office in the event that units are directed to do so.

In many of these instances, salary advances and grievance settlement prepayments were issued because workloads were not effectively managed. In another case, management knowingly violated Postal Service policy in issuing the advances, but this does not appear to be widespread. When controls are not functioning as prescribed, the Postal Service has an increased risk of financial losses.

### **Outstanding Advances Were Not Promptly Collected**

Salary advances were not always monitored or promptly cleared.<sup>15</sup> Of the 50 units we sampled, personnel at 33 units needed to collect \$333,816 in outstanding salary advances. These advances were issued between October 2000 and June 2009. As a result of our audit, of the \$333,816 outstanding, management took action to collect or eliminate \$146,765, leaving \$187,051 outstanding.<sup>16</sup> Furthermore, of the \$187,051, there was \$78,900 in advances that were unsupported. Specifically, 18 units could not provide supporting documentation for 79 salary advances. According to records retention requirements, documents need only be kept for 2 years.<sup>17</sup> In most cases, these advances were more than 2 years old and have been, or will likely be, written off as uncollectible. Had supervisors been actively monitoring employee items, they may have been able to collect these advances and avoided a bad debt expense. We consider all \$333,816 to be questioned costs, with \$78,900 of that being unrecoverable unsupported questioned costs. See [Appendix C](#) for a break-out of the monetary impact.

Personnel provided various reasons as to why they did not promptly collect advances. These included:

- Supervisors were unaware of the outstanding advances because they were issued prior to their assignment at that unit.
- Supervisors did not always make clearing outstanding advances a priority.
- Employees were detailed into supervisory positions without prior knowledge of financial activities and were not aware of the requirement to identify and monitor salary advances.
- Supervisors did not always know who was responsible for collecting advances for employees located at processing and distribution centers. In these instances, there

---

<sup>15</sup> Handbook F-101, Section 15-1.3, states that, at least once a month, the postmaster, manager, supervisor or designated employee must reconcile, research, and resolve differences for employee items in the Accounting Data Mart or the Customer Trust and Employee Narrowcast Report.

<sup>16</sup> Eliminating or writing off the outstanding salary advance occurred due to a variety of reasons, including the fact there was no longer any supporting documentation for the debt.

<sup>17</sup> According to Electronic Records and Information Management System (eRIMS), Postal Service (PS) Form 1412, Daily Financial Report, and PS Form 1608, Emergency Salary Authorization, are to be retained for 2 years.

was sometimes confusion as to whether the retail unit issuing the salary advance should collect the advance or the plant employee's supervisor who approved the salary advance should collect it.

In addition, finance officials in various districts have given differing answers as to whom they believe had the responsibility for collecting these advances. Some said the retail unit was responsible, regardless of who approved the advance, and others have stated the supervisor approving the advance was responsible. Further, two officials believe it should be the shared responsibility of both the retail unit and plant supervisors. We believe a key component of effectively managing salary advances is having a clear understanding of who is responsible for collecting advances.

Specifically, Handbook F-101 states that the office issuing the advance is responsible for collecting the advance.<sup>18</sup> However, the *Employee and Labor Relations Manual* states the postmaster or installation head is responsible for collecting any debt owed to the Postal Service by an employee.<sup>19</sup> In our opinion, the application of this policy is unclear for advances to employees who do not report to retail unit management. For example, an advance may be issued to a plant employee. According to postal policy, the appropriate forms are filled out by the employee and approved by his or her supervisor, which is then presented to the retail unit for the issuance of the advance. On one hand, policy identifies the unit issuing the advance — in this case, the retail unit — as being responsible for collection. On the other hand, postal policy states the installation head — which would be plant management — is responsible for collection. This circumstance occurs more frequently at retail units co-located with processing and distribution centers.

Unlike advances issued in AIC 554, Payroll Adjustment Payment Issued, which are collected automatically through the payroll process, salary advances issued when entire checks are missing using AIC 754, Authorized Emergency Salary Issued, are collected manually by the local supervisor. The prevailing difficulty of collecting advances locally could potentially be mitigated through an automated collection process similar to that performed for advances issued in AIC 554. Further, the unit's use of either AIC 754 or AIC 554 was optional at first, which created confusion.

As discussed with Postal Service personnel, the use of AIC 754 was intended to be infrequent and, thus, local collection efforts were expected to be minimal. There were over 7,000 advances totaling \$5.9 million issued in AIC 754 in fiscal year 2009, representing almost one-fourth of the total number of salary advances issued. Although some of these advances may have been erroneously entered into AIC 754, the result is that supervisors must collect them locally, a process that has consistently proven more difficult than an automated collection process.

---

<sup>18</sup> Handbook F-101, Section 23-3.2.3 revised the language to state that the supervisor of the unit reporting the emergency salary issued is responsible for local collection.

<sup>19</sup> *Employee and Labor Relations Manual* Issue 20, November 2009, updated with *Postal Bulletin* revisions through October 22, 2009.

The local collection procedures for AIC 754 advances sometimes put undue strain on supervisors to devote time and energy to tracking down employees to repay their advances. It seems the longer the advance remains outstanding, the more resources it takes to collect. Two Postal Service finance officials told us they recognize the importance of controlling costs and, as a result, are taking steps to better monitor and clear advances. One district finance manager stated he requires all salary advance supporting documentation to be submitted to his office for review. Another district financial control and support manager implemented a procedure at a retail unit co-located with a plant where plant management receives the daily *Point-of-Service (POS) One<sup>20</sup> Unresolved Employee Items* report. This report is part of the closeout documents printed daily and is filed at the retail unit and not normally distributed. This financial control and support manager felt that providing this report to plant management would help ensure that management could monitor outstanding advances issued to plant employees and take action to clear them promptly.

Another Postal Service official told us that management discussed the idea of automating the AIC 754 collection process in the past. We believe that, in light of the serious financial situation of the Postal Service, any opportunity management can take to revisit process changes that can help reduce costs and better utilize human capital resources should be seriously considered. Until such an automated process is implemented, though, we believe the Postal Service should issue clarifying instructions regarding advances issued to non-retail employees.

---

<sup>20</sup> POS is the electronic system used at retail facilities to record sales and payment transactions.

**APPENDIX C: MONETARY IMPACTS**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
2	Recoverable Questioned Costs <sup>21</sup>	\$254,916
2	Unrecoverable Unsupported Questioned Costs <sup>22</sup>	78,900
	<b>TOTAL</b>	<b>\$333,816</b>

---

<sup>21</sup> Recoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.

<sup>22</sup> Unrecoverable cost that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation.

**APPENDIX D: MANAGEMENT'S COMMENTS**

VINCENT DEVITO  
VICE PRESIDENT, CONTROLLER



March 10, 2010

LUCINE WILLIS, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report for Project Number DRBO002FF004—Evaluation of Locally Issued Salary Advances (Report Number FF-AR 10 DRAFT)

Attached please find the management response to each of the recommendations cited in the above subject audit report issued February 24. Finance management agrees with the findings and recommendations in the report, and will take the necessary steps to implement them.

The audit report and management's responses do not contain information that may be exempt from disclosure under the FOIA.

If you have any questions regarding our responses, please contact Jack Meyer, Manager, Field and International Accounting at 202-268-5227.

A handwritten signature in black ink, appearing to read "Vincent DeVito".

Vincent DeVito

Attachment

- cc: Joseph Corbett
- Susan M. Brownell
- Dean J. Granholm
- Sally K. Haring
- Jack L. Meyer
- Stephen J. Nickerson
- Richard W. Rudez
- Susan A. Witt

475 L'ENFANT PLAZA SW Room 8016  
WASHINGTON, DC 20260-5200  
202-268-8201  
Fax: 202-268-8104  
www.usps.com

**Recommendation 1:**

We recommend the Vice President, Controller:

Re-emphasize the policy and requirements for issuing salary advances.

**Response:**

Management agrees with the finding. A Retail Digest article was published on March 6 that reiterated the current policy and provided a table for an intuitive decision process.

In addition, a Postal Bulletin article will be published by June 30 that will provide a detailed outline of the process for collection of Locally Issued Salary Advances.

**Recommendation 2:**

Evaluate the feasibility of establishing an automated process for the collection of salary advances issued in Account Identifier Code 754, Authorized Emergency Salary Issued, and provide best practices to field units for tracking and collection of advances until an automated process is established.

**Response:**

Management agrees with the finding. Field and International Accounting will explore and evaluate the possibility of automating the salary advance collection process. The results of the evaluation will be provided to the Office of the Inspector General by June 30. Further, Field and International Accounting will analyze current AIC 754 activity in the field and determine which Areas and Districts have been most effective in managing salary advances. A summary of those best practices will be sent to all field units by June 30.

**Recommendation 3:**

Clarify Postal Service policy as to who is responsible for collecting efforts for advances that are issued at retail units for processing and distribution center employees.

**Response:**

Management agrees to clarify the policy outlining responsibility for collection of salary advances. This will be included in the Postal Bulletin noted in the response to Recommendation 1.

**Recommendation 4:**

Develop an action plan to collect the \$187,051 in outstanding salary advances.

**Response:**

Management agrees with the finding. Field and International Accounting will distribute the list provided by the Office of the Inspector General supporting the \$187,051 in salary advances to the Area Accounting Managers. They will each be requested to outline their action plans for collecting their respective outstanding salary advances, and to provide their plans to Field and International Accounting by June 30.