



**OFFICE OF
INSPECTOR GENERAL**
UNITED STATES POSTAL SERVICE

**Compensation,
Benefit,
and Bonus
Authority
in Calendar
Year 2016**

Audit Report

Report Number
FT-AR-17-009

August 8, 2017





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Background

The Postal Accountability and Enhancement Act of 2006 (PAEA) amended 39 U.S.C. by revising the limits on salary and total compensation paid to U.S. Postal Service employees. For calendar year (CY) 2016, basic annual salary for each employee was limited to \$205,700. Under a bonus or reward program approved by the U.S. Postal Service Board of Governors, the Postal Service could compensate senior executive or equivalent positions up to \$237,700 in total compensation. For individuals designated as critical senior officers, total compensation could reach up to \$285,240.

Total compensation includes salary, federal annuity, merit lump sum, incentive, recruitment and executive detail bonus payments.

Our objective was to determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA in CY 2016, and related Postal Service policies and guidelines, and Internal Revenue Service (IRS) regulations.

What the OIG Found

The Postal Service complied with most provisions of the PAEA, related internal policies and guidelines and IRS regulations for CY 2016 compensation. We did not identify any officers that exceeded the maximum total compensation provisions of the PAEA.

However, we determined the Postal Service did not fully comply with a reporting provision of the PAEA. Specifically, the Postal Service did not include the amount of the bonus or other payment, one of three elements required, in its annual report of compensation because they were not fully aware of the requirement.

Our review also disclosed that, for two executives, the amount by which their total compensation exceeded the limit for CY 2015 was overstated in the annual report of compensation. The total of the two overstatements was less than \$1,100. The adjustments for one financial counseling session and the return of an award were not identified timely to remove them from the compensation report. We are not making a recommendation for the overstatement due to its insignificance. However, we did discuss this with management.

What the OIG Recommended

We recommended the Postal Service separately report the amount of bonus or other payment made to each individual identified in its annual report of compensation.

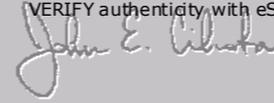
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 8, 2017

MEMORANDUM FOR: JEFFREY C. WILLIAMSON
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, Pricing and Investments

SUBJECT: Audit Report – Compensation, Benefit, and Bonus Authority
for Calendar Year 2016 (Report Number FT-AR-17-009)

This report presents the results of our audit of the Postal Service's Compensation, Benefit, and Bonus Authority for Calendar Year 2016 (Project Number 17BG009FT000).

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: Julie S. Moore
Corporate and Audit Response Management

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Findings

The PAEA amended 39 U.S.C. by revising the limits on salary and total compensation paid to Postal Service employees.

Introduction

This report presents the results of our audit of the U.S. Postal Service’s calendar year (CY) 2016 use of the compensation, benefit, and bonus authority granted through the Postal Accountability and Enhancement Act of 2006 (PAEA) (Project Number 17BG009FT000). The objective of this audit was to determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA in CY 2016, and related Postal Service policies and guidelines, and Internal Revenue Service (IRS) regulations. This audit has been conducted annually since the compensation provisions were established beginning with CY 2007 based on a request by the U.S. Postal Service Board of Governors (Board). See [Appendix A](#) for additional information about this audit.

The PAEA amended 39 U.S.C. by revising the limits on salary and total compensation paid to Postal Service employees. Table 1 explains the limits and authority provided to the Postal Service for CY 2016. Basic salary is limited to the cumulative portion of annual compensation received during the year that is attributable to salary alone. Total compensation includes salary, federal annuity, merit lump sum, incentive, recruitment bonus, and executive detail bonus payments, as well as the value of non-cash awards including taxes. The value of benefits such as financial or retirement counseling, annual leave exchange, health programs, and transportation services are excluded from total compensation for the purposes of these limits. In addition, payments due to grievance or Equal Employment Opportunity settlements are also excluded from total compensation.

Table 1. Statutory Limits for CY 2016

| Limit | Description (Authority) | Eligibility/Conditions | Limit for CY 2016 ¹ |
|---|---|--|--------------------------------|
| Annual basic salary.² | No officer or employee may be paid compensation at a rate in excess of the rate for level I of the Executive Schedule (39 U.S.C. § 1003 (a)). | Every officer and employee. | \$205,700 |
| Total compensation | 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(b)). | Any officer or employee in a senior executive or equivalent position. <ul style="list-style-type: none"> 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.³) Recipient’s name, amount of bonus or reward, and amount over limit as a result of bonus or reward must be included in annual <i>Comprehensive Statement</i> (39 U.S.C. § 3686(d)). | \$237,700 |

¹ Per Executive Order No. 13715, *Adjustments of Certain Rates of Pay*, which was effective on the first day of the first applicable pay period beginning on or after January 1, 2016.
² Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.
³ Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.

| Limit | Description (Authority) | Eligibility/Conditions | Limit for CY 2016 |
|----------------------------------|--|---|-------------------|
| Exception for Critical Positions | 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 payable to 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"> 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.⁴) Recipient's name, amount of compensation, and amount over limit as a result of the payment must be included in annual <i>Comprehensive Statement</i> (39 U.S.C. § 3686(d)). Recipient's name, nature of duties, and basis for payment must be reported by the Board within 30 days of payment. | \$285,240 |

Source: 39 U.S.C. § 1003(a) and 3686(a) through (d), and Executive Order No. 13715.

Chart 1 provides a visual representation of the compensation limits in place for CY 2016.

Chart 1. Statutory Compensation Limits for 2016



Source: 39 U.S.C. § 1003(a) and 3686(a) through (c), and Executive Order No. 13715.

⁴ Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.

The Postal Service continues to comply with most of the provisions relating to the applicable maximum total compensation provisions of PAEA in CY 2016. They also complied with related internal policies and guidelines and IRS regulations for CY 2016 compensation.

The PAEA also contains reporting requirements on executive and officer compensation. The Postal Service is to include specific information on the bonuses and rewards provided the previous calendar year in the annual *Comprehensive Statement on Postal Operations*⁵ (*Comprehensive Statement*). The Postal Service addresses this requirement in the Compensation and Benefits section, Executive Compensation table of the *Comprehensive Statement*.

Summary

The Postal Service continues to comply with most of the provisions relating to the applicable maximum total compensation provisions of PAEA in CY 2016. They also complied with related internal policies and guidelines and IRS regulations for CY 2016 compensation.

We identified a reporting provision of the PAEA with which the Postal Service has not fully complied. Although the Postal Service appropriately reported the name of the person and the amount by which the person exceeded the Executive Service Level 1 compensation limit, it did not separately report the specific amount of bonus paid to that person in the *Comprehensive Statements*. In addition, we also determined that the amount by which the total compensation for two executives exceeded Executive Service Level 1 compensation in CY 2015 was overstated in the FY 2016 *Comprehensive Statement*.

Incomplete Reporting of Compensation Data

While the Postal Service appropriately reported the individuals and amounts by which each exceeded the Executive Service Level 1 compensation limit in the annual report on compensation, it did not separately report the amount of bonuses paid to the individuals as required. This element was not included because the Postal Service group responsible for creating the annual table was not aware this element was required.

The annual *Comprehensive Statement* must include three elements of information regarding Postal Service's compensation and bonus authority:

1. The name of each person receiving a bonus or other payment during the period which would not have been allowable except for the provisions of the statute.
2. The amount of the bonus or other payment.
3. The amount by which Executive Service Level 1 was exceeded as a result of the bonus.⁶

We estimate the total amount of the bonus or other payments for CY 2016 be separately reported in the FY 2017 annual *Comprehensive Statement* as \$1,122,427.

⁵ This report provides a detailed description of the key organizational developments during the last fiscal year (FY) and the key initiatives underway that support the corporate goals for the next FY. Combined with the Annual Report to Congress, an Annual Performance Report, and an Annual Performance Plan, these reports satisfy the public reporting requirements contained in sections of Title 39 U.S.C. and PAEA § 3652.

⁶ 39 U.S.C. § 3686(d).

The Postal Service must include in the annual Comprehensive Statement the amount by which the Executive Schedule Level 1 limit is exceeded as a result of bonuses or other payments.

Report of Compensation Overstated

The Postal Service incorrectly reported the amount by which the total CY 2015 compensation for two executives exceeded Executive Schedule Level 1 in the FY 2016 *Comprehensive Statement*. As shown in Table 2, the report noted that two executives exceeded the limit by \$30,245 and \$12,425 rather than \$29,474 and \$12,147, respectively, for a total of \$1,049. In the first case, an executive returned a spot award valued at \$771, and the adjustment to remove the amount from the *Comprehensive Statement* was not made. In the second case, the total compensation for an executive included the value of financial counseling benefits,⁷ which are excluded from these calculations.

Table 2. CY 2015 Compensation Data

| Executive | Total Compensation | ES Level 1 for 2015 | Amount Over Executive Service Level 1 | Reported in <i>Comprehensive Statement</i> | Difference |
|-------------|--------------------|---------------------|---------------------------------------|--|------------|
| Executive A | \$233,174 | \$203,700 | \$29,474 | \$30,245 | \$771 |
| Executive B | 215,847 | 203,700 | 12,147 | 12,425 | 278 |

Source: U.S. Postal Service Office of Inspector General (OIG) analysis and FY 2016 *Comprehensive Statement*.

The Postal Service must include in the annual *Comprehensive Statement* the amount by which the Executive Schedule Level 1 limit is exceeded as a result of bonuses or other payments. The fiscal year-based *Comprehensive Statement* includes an Executive Compensation table reporting on compensation from the previous calendar year.

We did not identify any specific concerns with the compensation limits. However, we did determine that the adjustment processed for the return of the award and the documentation for one counseling session were not identified timely to incorporate in the Executive Compensation table.

We discussed these overstatements with management, who acknowledged the errors. Management stated that if something is missed, it is likely from a manual adjustment or an adjustment after the end of the calendar year. They are working closely with the staff responsible for processing payment adjustments to capture compensation information each quarter. We are not making a recommendation for the overstatement due to its insignificance.

⁷ This benefit may include review of current financial position, analysis of financial goals, investment advisory services, retirement planning, estate planning, tax planning, and risk management.

Recommendations

We recommend management separately report the amount of bonus or other payment made to each individual identified in its annual report of compensation.

We recommend the Chief Human Resources Officer and Executive Vice President direct the Director, Compensation and Benefits, to:

1. Separately report the amount of bonus or other payment, as appropriate, in the annual *Comprehensive Statements on Postal Operations*, along with the other elements it currently reports.

Management's Comments

Management agreed with the findings and recommendation to report the amount of bonus or other payments in the annual *Comprehensive Statements on Postal Operations* in future reports. In subsequent correspondence, management stated they plan to issue the FY 2017 report by January 31, 2018. Additionally, management commented that the OIG has conducted this audit annually since CY 2007 without any mention of separately reporting the amount of bonus or other payments.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report. In response to the OIG not mentioning the additional compensation reporting requirements, as disclosed in footnote 13, this is the first year the OIG included this particular reporting requirement in our audit. The requirement, however, was established in 2006 as part of the compensation provisions of the PAEA.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

The PAEA amended portions of 39 U.S.C. regarding maximum salary and total compensation limits for employees, executives, and officers. For CY 2016, the dollar values and limits were as follows:

- The first limit provides that no officer or employee may be paid compensation at a rate in excess of the rate for Executive Schedule Level 1. In 2013, a legal interpretation clarified that this rate limit applies to the individual's basic annual salary.⁸ The limit was set at \$205,700 for CY 2016.
- With Board approval, however, the Postal Service may develop a program to award a bonus or other reward over the compensation limit, as long as the total annual compensation paid to the officer is not above the total annual compensation payable to the vice president of the U.S. In approving any such program, the Board must determine that the performance appraisal system for affected officers makes meaningful distinctions based on relative performance. The total annual compensation for the vice president of the U.S. was set at \$237,700 for CY 2016.
- In addition, the Board may allow the Postal Service to pay up to 12 of its officers or employees in critical senior executive or equivalent positions total annual compensation up to 120 percent of the total annual compensation for the vice president of the U.S. In CY 2016, this maximum limit was \$285,240.

For purposes of these limits, total compensation includes salary, federal annuity, merit lump sum, incentive, recruitment bonus, and executive detail bonus payments, as well as the value of non-cash awards including taxes. 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.

For CY 2016, the Board designated the following eight individuals in critical, senior executive positions and exercised the total compensation exception accordingly:

- Postmaster General and Chief Executive Officer
- Deputy Postmaster General
- Chief Operating Officer and Executive Vice President
- Chief Financial Officer and Executive Vice President
- Chief Marketing and Sales Officer and Executive Vice President
- Chief Human Resources Officer and Executive Vice President
- Chief Information Officer and Executive Vice President
- General Counsel and Executive Vice President

⁸ Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.

In addition to the limits established in 39 U.S.C., the Postal Service has internal policies and procedures regarding compensation, benefits, and bonuses.⁹ The Postal Service also must comply with IRS regulations regarding deferred compensation and the Medicare tax rate for wages over \$200,000.

Occasionally, certain elements of total compensation for senior officers take the form of deferred compensation. Table 3 provides the amount of compensation deferred during CY 2016.

Table 3. Compensation Deferred During CY 2016

| Officer | Amount Deferred | Status |
|-----------------------|----------------------|----------|
| Megan Brennan | \$50,445 | Active |
| Joseph Corbett | 44,538 | Active |
| Ross Philo | 15,762 ¹⁰ | Inactive |
| John Potter | 23,947 ¹¹ | Inactive |
| Total Deferred | \$134,692 | |

Source: Pay Journals, National Accounting Oracle Financial Application, and Eagan Accounts Payable System.¹²

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service is compliant with applicable maximum total compensation provisions of the PAEA for CY 2016, and related Postal Service policies and guidelines and IRS regulations. To achieve this objective we:

- Reviewed provisions of the PAEA and 39 U.S.C. related to compensation.
- Reviewed the FY 2016 *Comprehensive Statement* for compliance with the PAEA and 39 U.S.C. §3686(d) reporting requirements.¹³
- Reviewed resolutions, decisions, and meeting minutes of the Board and its Compensation and Management Resources Committee.
- Reviewed related Postal Service policies, procedures, and guidelines.
- Reviewed IRS regulations and guidelines for wage and tax reporting.
- Interviewed various Postal Service personnel.

⁹ *Employee Labor Relations Manual*, dated September 2016, and Handbook EL-380, *Postal Career Executive Service*, dated January 2014.

¹⁰ Interest on Mr. Philo's deferred balance.

¹¹ Interest on Mr. Potter's deferred balance.

¹² The National Accounting Oracle Financial Application is the financial accounting system for the Postal Service and includes the general ledger. The Eagan Accounts Payable System provides non-traditional accounts payable payments such as those for awards, court settlements, and deferred compensation.

¹³ This is the first year the OIG has included these reporting requirements in our audit.

- Reviewed Postal Service compensation data from payroll systems.
- Reviewed associated bonuses, awards, and annual leave exchange records.
- Reviewed adjustments to payroll to establish the underlying activity.
- Reviewed deferred compensation records and related general ledger balances.
- Reviewed applicable Postal Service employment, recruitment, reassignment, grievance, and settlement agreements.
- Examined Postal Service reports regarding compensation to the Office of Personnel Management and the Congress.

We conducted this performance audit from March through August 2017 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 objectives. We discussed our observations and conclusions with management on July 13, 2017, and included their comments where appropriate.

During this audit, we analyzed computer-generated data from the Payroll System, Enterprise Data Warehouse – Accounting Data Mart,¹⁴ National Accounting Oracle Financial Application, and Eagan Accounts Payable System. We reviewed tests and assessments performed in other audits to establish the reliability of this data. The audit team traced these systems' data to testing performed by the OIG and Postal Service's independent public accounting firm to support the firm's opinions on the Postal Service's FY 2016 financial statements internal controls over financial reporting. In other audits, the OIG performed additional reviews on payroll and benefits to support its opinion on the Postal Service's closing package financial statements. Through these measures, we determined that the data were sufficiently reliable for the purposes of this report.

¹⁴ The Accounting Data Mart is an area of the data warehouse providing the repository of all accounting and finance related data.

Prior Audit Coverage

| Report Title | Objective | Report Number | Final Report Date | Monetary Impact |
|--|---|------------------------------|-------------------|-----------------|
| <i>Executive Officer Compensation for Calendar Year 2015</i> | Determine whether the Postal Service complied with applicable provisions of the PAEA, Postal Service policies and guidelines, and IRS regulations for CY 2015 executive officer compensation. | FT-AR-16-008 | 08/01/2016 | None |
| <i>Officer Compensation for Calendar Year 2014</i> | Determine whether the Postal Service complied with applicable provisions of the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for CY 2014 officer compensation. | FT-AR-15-009 | 07/22/2015 | None |
| <i>Officer Compensation for Calendar Year 2013</i> | Determine whether the Postal Service complied with the compensation cap, Postal Service policies and guidelines, and IRS regulations for CY 2013 compensation of officers. | FT-AR-14-011 | 05/28/2014 | None |

Appendix B: Management's Comments

JEFFREY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER
AND EXECUTIVE VICE PRESIDENT



July 24, 2017

DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Compensation, Benefit, and Bonus Authority in Calendar Year 2016
(FT-AR-17-DRAFT)

Thank you for the opportunity to respond to the above mentioned draft audit report. We agree with the conclusions of the report that the Postal Service complied with the provisions relating to the applicable maximum total compensation provisions of PAEA in CY2016; and we also complied with related internal policies and guidelines and IRS regulations for CY2016 compensation.

Management agrees with the recommendation to separately report the amount of bonus or other payments, as appropriate, in the annual Comprehensive Statements on Postal Operations, along with the other elements we currently report. As noted in the report, this audit has been conducted annually since the compensation provisions were established beginning in CY 2007 without any mention of separately reporting the amount of bonus or other payments. As agreed, Postal Service will separately report the amount of bonus or other payment in future reports.

A handwritten signature in blue ink, appearing to read "J. Williamson", with a long horizontal flourish extending to the right.

Jeffrey C. Williamson

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-4000
www.usps.com



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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100