



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

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**Officer Compensation for  
Calendar Year 2012**

**Audit Report**

February 4, 2014

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Report Number FT-AR-14-005



# HIGHLIGHTS

## **BACKGROUND:**

The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) amended 39 U.S.C. and revised the cap on total compensation payable to U.S. Postal Service employees. Postal Service employees generally could not be paid more than \$199,700 for calendar year (CY) 2012. Exceptions under the law allowed some employees' annual compensation to total up to \$230,700 with a Board of Governors (Board) approved bonus or reward program, or \$276,840 for critical positions. Compensation includes annual salary, merit lump sum payments, bonuses, awards, and annuity payments. Our objective was to determine whether the Postal Service complied with the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for CY 2012 officer compensation.

## **WHAT THE OIG FOUND:**

Although the Postal Service complied with IRS regulations for CY 2012, it did not always comply with annual officer compensation caps as required by the Postal Act of 2006 or its own internal policies and guidelines for leave approval. This occurred because management previously misinterpreted the Postal Act of 2006. We identified three officers whose compensation exceeded the caps.

- The Postal Service asserted that two officers who received base salaries above the pay cap of \$199,700 were approved as critical employees by the Board, but their names were not submitted to the Office of Personnel Management and Congress.
- One officer's annuity was not included in the compensation cap computation. With annuity, this officer's total compensation exceeded the second cap of \$230,700 and the officer was not on the list of critical positions.

As a result, during CY 2012 the Postal Service paid \$142,075 above the compensation caps.

According to the Postal Service's 2012 annual report, officers' salaries were to remain frozen; however, we identified seven officers who received salary increases while maintaining vice president positions. Also, one officer's leave request was modified and processed without proper approval.

## **WHAT THE OIG RECOMMENDED:**

Management agreed to follow new criteria that addressed the issues discussed in our report. Since these criteria were developed in CY 2013, subsequent to the compensation period reviewed, we are not making any recommendations.

[Link to review the entire report](#)



February 4, 2014

**MEMORANDUM FOR:** PATRICK R. DONAHOE  
POSTMASTER GENERAL

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is located in the top right corner of the box.

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Financial and Systems Accountability

**SUBJECT:** Audit Report – Officer Compensation for  
Calendar Year 2012 (Report Number FT-AR-14-005)

This report presents the results of our audit of Officer Compensation for Calendar Year 2012 (Project Number 13BG016FT000).

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

Attachment

cc: Julie S. Moore  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of calendar year (CY) 2012 compensation paid to or deferred<sup>1</sup> by officers<sup>2</sup> of the U.S. Postal Service (Project Number 13BG016FT000). The objective of the audit was to determine whether the Postal Service complied with the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006), Postal Service policies and guidelines, and IRS regulations for CY 2012 compensation paid to officers. We will continue to provide annual reports as part of our ongoing financial statement audit work. See [Appendix A](#) for additional information about this audit.

The Postal Act of 2006 amended Title 39 of the U.S. Code and revised the cap imposed on total compensation payable to Postal Service employees. Compensation includes annual salary, merit lump sum payments,<sup>3</sup> bonuses, awards, and annuity payments. Table 1 explains the three compensation levels for CY 2012.<sup>4</sup>

**Table 1. CY 2012 Compensation Levels**

Level	Description	Dollar Limit
I	No officer or employee shall be paid compensation at a rate in excess of the rate for Level I of the Executive Schedule under §5312 of Title 5 [39 U.S.C. §1003(a)].	\$199,700
II	The Postal Service may establish one or more programs to provide bonuses or other rewards to officers and employees of the Postal Service in senior executive or equivalent positions. Under any such program, the Postal Service may award a bonus or other reward in excess of the limitation set forth in the last sentence of §1003(a), if such program has been approved. Any such award or bonus may not cause the total compensation of such officer or employee to exceed the total annual compensation payable to the vice president under §104 of Title 3 as of the end of the calendar year in which the bonus or award is paid. If the Postal Service wishes to have the authority to award bonuses or other rewards in excess of the limitation set forth in the last sentence of §1003(a), the Postal Service shall make an appropriate request to the Board of Governors (Board), and the Board shall approve any such request if the Board certifies, for the annual appraisal period involved, that the performance appraisal system for affected officers and employees of the Postal Service (as designed and applied) makes meaningful distinctions based on relative performance [39 U.S.C. §3686(a) & (b)].	\$230,700

<sup>1</sup> Compensation credited but not disbursed in CY 2012.

<sup>2</sup> Defined in this report as Postal Career Executive Schedule (PCES) II employees.

<sup>3</sup> The performance-based lump sum payment is included as part of the Postal Service's National Performance Assessment Program (or its annual pay-for-performance incentive program).

<sup>4</sup> In CY 2012, five Postal Service employees were paid at PCES Level II, five were paid at PCES Level III, and one was paid above PCES Level III.

Level	Description	Dollar Limit
III	Notwithstanding any other provision of law, the Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to receive total compensation in an amount not to exceed 120 percent of the total annual compensation payable to the vice president under §104 of Title 3 as of the end of the calendar year in which such payment is received. For each exception made under this subsection, the Board shall provide written notification to the director of the Office of Personnel Management (OPM) and the Congress within 30 days after the payment is made setting forth the name of the officer or employee involved, the critical nature of his or her duties and responsibilities, and the basis for determining that such payment is warranted [39 U.S.C. §3686(c)].	\$276,840

Source: 39 U.S.C. §§1003(a) and 3686(a) (b) and (c).

Postal Service officers may appropriately receive additional benefits not subject to the compensation cap, including increased annual leave exchange hours, free financial counseling, parking, life insurance, health benefits, and other perquisites.<sup>5</sup>

In discussions subsequent to our CY 2011 officer compensation report,<sup>6</sup> management contacted the Department of Justice (DOJ), Office of Legal Counsel (OLC), for its interpretation of compensation laws. As a result, management agreed to the interpretation in [Table 2](#).

<sup>5</sup> The Postal Service offers driver and personal security services through the U.S. Postal Inspection Service to the postmaster general.

<sup>6</sup> *Officer Compensation for Calendar Year 2011* (Report Number FT-AR-13-001, dated October 19, 2012).

**Table 2. Postal Service Bonus Authority  
CY 2012 Salary Ceilings**

<b>Based on \$ received</b>		
Level I	Level II	Level III
Executive Schedule Level I \$199,700 (Salary or salary plus bonus, etc.), Compensation to include federal annuity payments	Up to VP Salary \$230,700: Compensation to include federal annuity payments	Up to 120% of VP Salary: \$276,840. Compensation to include federal annuity payments
	Salary up to \$199,700 plus bonus, award or other payment	Salary or salary plus bonus, award or other payment
	Must be included in comprehensive statement	Must be included in comprehensive statement
		Designated as one of 12 critical senior executives

May 30, 2013

Sources: Developed by the OIG Office of General Counsel from information provided by the DOJ OLC, and agreed to by Postal Service management.

**Conclusion**

Although the Postal Service complied with IRS regulations for CY 2012, it did not always comply with annual officer compensation caps in the Postal Act of 2006. This occurred because management previously misinterpreted the relevant statutory authority in the Postal Act of 2006. Our finding is tied to this misinterpretation.

Of the 36 officers whose files we reviewed, we identified three whose compensation exceeded or otherwise failed to comply with the compensation caps imposed by the Postal Act of 2006. As shown in [Table 3](#), we identified one officer whose compensation exceeded or otherwise failed to comply with the compensation caps, as the Postal Service did not consider the officer’s annuity<sup>7</sup> to be part of the base salary for computing the compensation cap. We also identified two officers who, the Postal Service asserts,

<sup>7</sup> Annuity benefits received by re-employed annuitant from the OPM. A re-employed annuitant is a person who is receiving a Civil Service Retirement System or Federal Employee Retirement System retirement annuity and, at the same time, earning a paycheck as a federal employee.

were designated among the top 12 critical positions by the Board, but who were not included on a list submitted to the OPM and Congress.<sup>8</sup>

**Table 3. Compensation Data**

Officer	Base Salary	Incentive Payment	Total Compensation	Cap	Payment Above Cap
1	\$230,000	\$0	\$230,000	\$199,700	\$30,300
2	\$230,000	\$0	\$230,000	\$199,700	\$30,300
3	\$249,740 <sup>9</sup>	\$62,435 <sup>10</sup>	\$312,175	\$230,700 <sup>11</sup>	\$81,475
<b>Total Payment Above Cap</b>					<b>\$142,075</b>

Sources: Employee Master File application and Eagan Accounts Payable System (EAPS).

As a result, during CY 2012, the Postal Service paid a total of \$142,075 above the compensation cap imposed by the Postal Act of 2006. Since management agreed to new criteria and will follow them going forward, we will not make recommendations related to compensation cap violations.

In addition, although management expressly decided to freeze officers' salaries according to its 2012 annual report, we identified seven officers<sup>12</sup> who received nominal salary increases during CYs 2011 and 2012. Management informed us that they received salary increases for promotions or for assuming greater responsibilities; however, all seven officers remained vice presidents. In our judgment, a mere shifting of responsibilities does not equate to a promotion. We are reporting this for informational purposes only, as management has the discretion to provide pay increases.

Furthermore, we identified only one instance where the Postal Service did not comply with its own internal policies relating to the leave approval process. We identified one officer whose previously approved annual leave request was made on Postal Service (PS) Form 3971, Request for or Notification of Absence, improperly amended by the requester to leave without pay (LWOP), and processed without supervisory approval. Since we identified only one instance of non-compliance and the officer is separated from the Postal Service, we are not making any recommendations. However, in the future, we suggest management comply with internal policies and procedures regarding its own leave requests to avoid unauthorized changes.

<sup>8</sup> The Board meeting minutes during which these actions occurred do not explicitly state that the officers were designated as critical.

<sup>9</sup> Base salary of \$249,740 includes base salary of \$113,048 and an annuity payment of \$136,692.

<sup>10</sup> Performance incentive award of 25 percent of base salary.

<sup>11</sup> Officer number three received a \$62,435 bonus (25 percent of base salary); therefore, compensation Level II of \$230,700 applies, per 39 U.S.C. Sections 3686(a) and (b).

<sup>12</sup> Five officers received salary increases during CY 2011 and two received salary increases during CY 2012.

## Compensation Cap

Of the 36 officers whose files we reviewed, we identified three whose compensation exceeded or otherwise failed to comply with the compensation cap for CY 2012 imposed by the Postal Act of 2006.

Specifically:

- We identified two officers who, the Postal Service asserts, the Board approved as being among the 12 officers in senior critical positions, but did not include in the list of authorized exceptions reported to the OPM and Congress. This occurred because management did not think that officers with salaries under \$230,700 needed to appear on this report. The Postal Service may not pay its officers or employees base (basic) salaries in excess of Level I limits (currently \$199,700) unless the additional compensation is made in the form of a bonus or award or the position is designated as critical and is reported to the OPM and Congress.<sup>13</sup> As a result, two officers' base salaries exceeded their positions' applicable compensation caps by \$30,300 each.
- One officer's annuity was not included as part of the base salary for computing the compensation cap. The officer received total compensation of \$312,175, which included a base salary of \$113,048, an annuity payment of \$136,692, and a performance-related incentive payment of \$62,435. This exceeded all three compensation caps. This occurred because management did not understand that annuity payments to re-employed federal annuitants must be included in their compensation caps.<sup>14</sup> Since the Postal Service excluded this officer from the list provided to the OPM and Congress identifying critical employees or positions, the officer was paid \$81,475 above the Level II cap (currently \$230,700).

In discussions subsequent to our report on CY 2011 officer compensation, the Postal Service and the U.S. Postal Service Office of Inspector General (OIG) sought guidance from the DOJ OLC, and reached a common understanding that the law should be interpreted as outlined in [Table 2](#). This interpretation is based on the Postal Act of 2006 and does not allow the Postal Service to pay its officers or employees base salaries that exceed Executive Schedule Level I, with a few exceptions. Any payments that exceed Executive Schedule Level I must be in the form of a bonus or award and are subject to OPM and congressional notification, as applicable. In addition, the Postal Service must include a re-employed federal annuitant's annuity payments in the individual's total compensation calculation. Since the interpretation was developed in CY 2013 and will be followed going forward, we will not make any recommendations with respect to CY 2012. We will continue to monitor implementation of officer compensation limits as part of our ongoing officer compensation audit work.

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<sup>13</sup> 39 U.S.C. Sections 3686 (a), (b), and (c).

<sup>14</sup> See [Table 2](#) for criteria – Level III.

## Salary Increases

According to the Postal Service's 2012 annual report,<sup>15</sup> pay and bonuses for officers and executives remained frozen; however, we identified seven of 36 officers who received nominal salary increases during CYs 2011 and 2012 while they remained vice presidents. In addition, we identified two officers who received salary increases for their promotions from vice president to executive vice president. Management informed us that all nine officers received salary increases for promotions or for assuming significantly greater responsibilities due to restructuring. We agree that a move from vice president to executive vice president would be considered a promotion; however, while the other seven officers may have received additional or different responsibilities, they remained vice presidents. In our opinion, assuming additional or different responsibilities as a result of a restructuring and remaining at the same vice president level should not be considered a promotion. Therefore, the OIG does not agree that the officers were entitled to an increase, based on management's disclosure to the public that it was freezing salaries. Since management has the discretion to provide pay raises, we are reporting this for informational purposes only.

## Leave Approval Process

One officer's approved PS Form 3971 for 24 hours of annual leave was improperly revised by the officer to 16 hours of LWOP and processed accordingly, without supervisory approval. Postal Service policy<sup>16</sup> requires employees to obtain approval of PS Forms 3971 before taking leave. In addition, the policy<sup>17</sup> states that LWOP is granted at administrative discretion and not at an employee's demand, with a few exceptions.<sup>18</sup> However, per the officer's request to her executive assistant, the previously approved PS Form 3971 was revised without authorization, according to the officer's leave-approving authority, and processed. No cause for the change to LWOP was identified on the form nor could anyone recall why the form was changed. We did not identify any advantage the officer obtained by substituting LWOP for annual leave.

Since we identified only one instance of non-compliance and the officer is separated from the Postal Service, we are not making a recommendation. In the future, though, we suggest the Postal Service revisit its internal policies and procedures regarding officer leave requests to ensure that management follows appropriate controls to avoid unauthorized changes.

## Management's Comments

Management noted that all the compensation cap issues discussed in this report are the result of a disagreement between management and the OIG regarding the proper

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<sup>15</sup> *FY 2012 Annual Report to Congress*, page 56.

<sup>16</sup> *Employee and Labor Relations Manual 35*, Section 511.23, Postal Employees, dated April 2013.

<sup>17</sup> Handbook F-21, *Time & Attendance*, Section 343, Authorization and Supporting PS Forms, dated August 2009.

<sup>18</sup> Disabled veterans for medical reasons, reservists, and members of the National Guard to perform military training duties; and employees who sustain traumatic job-related injuries while on duty.

interpretation of the law. Both management and the OIG agreed to consult the DOJ OLC to resolve the dispute. The DOJ OLC provided its opinion after the end of CY 2012, so the Postal Service could not follow its guidance during CY 2012. The OIG and management have agreed to follow the DOJ OLC's opinion going forward.

Management disagreed that two officers' salaries exceeded the compensation cap by \$30,300 each. Management maintained that the Board identified these two officers as occupying critical senior executive positions and that they were eligible to receive compensation up to 120 percent of the total annual compensation paid to the vice president of the U.S. Management acknowledged these two officers were not on the list submitted to the OPM and Congress due to an incorrect interpretation of the law.

Management stated this report incorrectly included seven officers who received inappropriate salary increases. Management noted that five of the seven officers received salary increases during CY 2011 and should not be included in this report as they are outside the scope of the audit. Regarding the remaining two officers, management considered the salary increases warranted as both officers accepted significantly increased responsibilities during CY 2012.

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

### **Evaluation of Management's Comments**

Although this report does not contain any recommendations, the OIG considers management's comments responsive. The OIG agrees with management's observation that the compensation cap issues stem from a disagreement on the proper interpretation of the law governing Postal Service executive pay. We also agree that the DOJ OLC's opinion, as outlined in [Table 2](#) of this report, should preclude future compensation cap issues.

We maintain that the two officers exceeded the compensation cap by \$30,300 each. Management acknowledged that the officers were not on the list of critical employees submitted to the OPM and Congress. The Postal Service asserted that the Board designated both officers to be among two of the agency's top 12 critical positions. However, the OIG noted that the Board's meeting minutes did not explicitly state that the officers were designated as critical.

The OIG considers the salary increases for seven officers to be in direct contradiction to the Postal Service's public statement that officer pay remained frozen in CY 2012. Further, although the scope of our audit was CY 2012 compensation, when we evaluated the salaries for CY 2012 and noted the contradictory salary increases, we expanded our scope to evaluate pay increases to officers in CY 2011. Given the fact that the Postal Service publically stated that it would freeze officer pay (in both CY 2011 and 2012), we believe the officers were not entitled to pay increases while remaining at the same vice president level despite any increased responsibilities.

## Appendix A: Additional Information

### Background

The Postal Act of 2006 amended Title 39 of the U.S. Code and imposed guidelines on total compensation for the Postal Service. Compensation includes annual salary, merit lump sum payments, bonuses, awards, and annuity payments. Under this provision, the total compensation payable to any employee is established at three levels:

- The first cap provides that no officer or employee may be paid compensation at a rate in excess of the rate for Level I of the Executive Schedule. This limit was set at \$199,700 for CY 2012.
- With Board approval, however, the Postal Service may develop a program to award a bonus or other reward in excess of the above compensation cap, as long as it does not cause the total annual compensation paid to the officer to exceed the total annual compensation payable to the vice president of the U.S. at the end of the calendar year in which the bonus or award is paid. In approving any such program, the Board must determine that the bonus or award is based on a performance appraisal system that makes meaningful distinctions based on relative performance. This total compensation cap was \$230,700 for CY 2012. The Postal Service annually reports all officers whose total compensation exceeds Level I of the Executive Schedule in the *Comprehensive Statement on Postal Operations*.
- In addition, 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 of up to 120 percent of the total annual compensation payable to the vice president of the U.S. as of the end of the calendar year in which such payment is received. This compensation cap was \$276,840 for CY 2012.

The policy for officers' recruitment, relocation, retention, and separation benefits was last updated and approved by the Board on September 11, 2006.

The Postal Act of 2006 requires written notification to the OPM and Congress of each senior executive or equivalent position designated as critical. On January 28, 2013, the Board reported the following positions as critical for CY 2012:

- Postmaster general and chief executive officer.
- Deputy postmaster general.
- Chief financial officer and executive vice president.
- Chief operating officer and executive vice president.
- Chief Human Resources officer and executive vice president.

In addition, the Board identified the position of president, Digital Solutions, as critical but did not notify the OPM and Congress.

Postal Service officers may receive additional benefits that are appropriately not subject to the compensation cap, including increased annual leave exchange hours, free financial counseling, parking, life insurance, health benefits, and other perquisites. Also, in certain limited cases, officers have contractual incentive benefits that, when not tied to any performance goals or measures, are subject to the compensation cap in the year they are earned.

In certain limited cases, the Postal Service entered into agreements to provide executive retention bonuses that may take the form of deferred compensation. As shown in Table 4, three active and two inactive officers have outstanding deferred compensation balances.

**Table 4. Cumulative Deferred Compensation as of December 31, 2012**

Officer	Name	Cumulative Deferred Balance	Status
1	Anthony J. Vegliante	\$124,824	Active <sup>19</sup>
2	Joseph Corbett	102,021	Active
3	Patrick R. Donahoe	7,750	Active
4	John E. Potter	714,991	Inactive
5	Ross Philo	675,148	Inactive
<b>Total Deferred Balance</b>		<b>\$1,624,734</b>	

Source: EAPS.

### Objective, Scope, and Methodology

The objective of our audit was to determine whether the Postal Service complied with the compensation cap, Postal Service policies and guidelines, and IRS regulations for CY 2012 compensation for officers. To achieve our objective, we:

- Interviewed Postal Service personnel.
- Reviewed Postal Service policies and guidelines.
- Reviewed compensation information from payroll systems.
- Reviewed bonus, award, and deferred compensation information from EAPS.
- Reviewed IRS guidelines for reporting wages and taxes.
- Reviewed the employment agreements of three officers.

We conducted this portion of the audit from April 2013 through February 2014 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

<sup>19</sup> Mr. Vegliante retired March 1, 2013, but is listed as active because the scope of this report is CY 2012.

our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on December 16, 2013, and included its comments where appropriate.

We relied on computer-generated data from payroll systems and EAPS for testing compensation, awards, bonuses, and annual leave exchanges. We assessed the reliability of this data by reviewing existing information about the data and the system that produced them and using advanced data analysis techniques to test data gathered from these systems. We also performed specific internal control and transaction tests, including tracing selected information to supporting source records. As such, we determined this data to be sufficiently reliable for the purpose of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Officer Compensation for Calendar Year 2011</i>	FT-AR-13-001	10/19/2012	\$110,011
<p><b>Report Results:</b>                      We identified three officers whose compensation exceeded or otherwise failed to comply with the compensation caps imposed by the Postal Act of 2006. As a result, during CY 2011, the Postal Service paid \$110,011 above the caps. We recommended management coordinate with the Board to ensure the Postal Service reports to the OPM and Congress a complete list of critical senior executive or equivalent positions receiving total compensation in an amount not to exceed 120 percent of the total annual compensation payable to the vice president of the U.S. We also recommended management request an interpretation from the Government Accountability Office (GAO) on whether annuity payments are considered in an employee’s total compensation and subject to the Postal Act of 2006 compensation caps. While management did not agree to the monetary impact, it was responsive to both recommendations and acknowledged the fundamental disagreement with the interpretation of the law. As such, it agreed to contact the DOJ, Office of Legal Counsel, rather than the GAO to resolve all the issues identified. These divergent interpretations led us to agree that an advisory opinion from the Office of Legal Counsel would better resolve all of the issues and other matters than our original recommendations would.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Officer Compensation for Calendar Year 2010</i>	FT-AR-11-011	9/23/2011	\$59,174
<p><b>Report Results:</b>                      The Postal Service did not always comply with the cap and IRS regulations. An officer exceeded the cap because he received a retention bonus that was not tied to performance. The Postal Service also did not report Social Security wages or withhold and pay taxes on deferred compensation for one officer and did not timely report Medicare wages or timely withhold and pay taxes on deferred compensation for one prior and four current officers. We recommended management develop and implement policies and procedures to ensure adherence to the cap, report and pay the correct amount of Social Security and Medicare wages and taxes owed, establish accounts receivables for officers' portions of Social Security and Medicare taxes on deferred compensation, and modify the Postal Service's payroll system to calculate Social Security and Medicare taxes on deferred income. Management disagreed that the Postal Service exceeded the cap but agreed to link enhanced compensation to performance in current and future agreements. It also agreed to report and submit corrected wages and taxes, establish accounts receivables for the employees' portion of these taxes, and modify processes or systems to calculate appropriate taxes.</p>			

## Appendix B: Management's Comments

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



January 27, 2014

JUDITH LEONHARDT  
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Officer Compensation for Calendar Year 2012  
(Report No. FT-AR-14 –DRAFT)

Thank you for the opportunity to respond to your draft audit report on Officer Compensation for Calendar Year 2012.

The report does not recommend any changes to the system management uses to ensure that officer compensation complies with relevant laws. Management appreciates the OIG's determination that the Postal Service's officer compensation program is functioning as it should. However, the report does contain several inaccuracies. Our discussion of those inaccuracies is attached.

The audit report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

If you have any questions regarding our response, please contact Scott J. Davis, Director, Executive Compensation and Compliance, at 202-268-8008.

A handwritten signature in blue ink that reads "J. Williamson".

Jeffrey C. Williamson

Attachment

cc: Mr. Marshall  
Ms. Moore  
Mr. Davis  
Ms. Haring

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Audit Report – Officer Compensation for Calendar Year 2012

#### General Observation

While the OIG's draft audit report does not contain formal management recommendations, the report does include findings with which the Postal Service disagrees. For example, the OIG incorrectly asserts that the salaries of two Officers exceeded the compensation cap. As explained below, the Postal Service did in fact comply with the cap. As the OIG recognizes, all of the compensation cap matters discussed in the draft audit report are related to a fundamental and principled disagreement between management and the OIG in 2012 concerning the operation of the Postal Service's compensation cap statute which was not resolved until well after the pay year which is the subject of this audit. As the OIG further recognizes, the OIG and management ultimately agreed to trust the resolution of that dispute to the Department of Justice's Office of Legal Counsel (OLC). The OLC issued its opinion resolving that dispute in 2013, *after* the close of Calendar Year 2012, and *after* all of the compensation that is the subject of the draft audit report was paid. The OLC decided that the OIG was right about some issues relating to officer compensation, and that management was correct about others. The OIG and management have agreed, subsequent to receipt of the OLC's 2013 opinion, on a way forward as to how each of the compensation issues mentioned in the draft audit report will be handled in the future.

#### The OIG Incorrectly Identified Two Officers Whose Basic Salaries Purportedly Exceeded the Compensation Cap:

The OIG asserts that "two officers' base salaries exceeded their positions' applicable compensation caps by \$30,300 each." (Draft Audit Report, p. 4). This assertion is incorrect. Each of these two officers received salaries within the limit established by 39 U.S.C. § 3686(c), in that their salaries were above the cap for Executive Schedule Level I, but below the annual compensation of the Vice President of the United States. As the OIG observes, "the Board may allow up to 12 officers . . . in critical senior executive or equivalent positions, to be paid total compensation of up to 120 percent of the total annual compensation payable to the vice president . . ." (Draft Audit Report, p. 7). All of this compensation may be paid as salary. (Draft Audit Report, p. 2). The Board had identified these two officers as among the twelve officers in senior critical positions, and the Board approved their salaries. Therefore, the salary of these two officers did not exceed the compensation cap.

Management acknowledges that these two officers were not on the list it submitted to the Office of Personnel Management (OPM), pursuant to 39 U.S.C. § 3686(c). They were not included due to management's interpretation of the compensation cap statute as requiring a report to OPM only when an officer's salary exceeded that of the Vice President. After that list was submitted, and after the close of Calendar Year 2012, the Office of Legal Counsel (OLC) issued the above-described opinion on the operation of the Postal Service's salary cap. The OLC opinion, by which the Postal Service agreed to be bound, concluded that the Postal Service must report to OPM the identity of all officers receiving a salary above the cap for Executive Schedule Level I, even if that salary did not exceed the Vice President's. Prior to receiving that opinion after the close of Calendar Year 2012, management had believed it was not necessary to report to OPM the identity of an officer earning a salary above the limit for Executive Schedule Level I, but below the Vice President's. As management has acknowledged to the OIG, management intends to follow OLC's guidance, and starting in 2013, will report to OPM all officers who receive salary above Executive Schedule Level I.

#### The Audit Report Incorrectly Includes a Discussion of Seven Officers Who Purportedly Received Salary Increases

In the audit report, the OIG states, "we identified seven of 36 officers who received a nominal salary increase during CYs 2011 and 2012 while they remained vice presidents." (Draft Audit Report, p. 5). As its title reflects, the scope of this audit is officer compensation for Calendar Year 2012. However, only two of the seven officers identified by the OIG actually received salary increases in 2012. With regard to these two, the OIG correctly observed that "management has the discretion to provide pay raises." The OIG nonetheless took issue with those raises because it viewed them as contrary to management's public statements that officers' pay was frozen. As management explained to the OIG during the audit, these raises were warranted because these two officers agreed to assume significantly greater responsibilities during 2012 as a result of a restructuring of the Postal Service.