



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Officer Compensation for Calendar Year 2014

Audit Report

Report Number
FT-AR-15-009

July 22, 2015

PAYCHECK

EMPLOYEE NAME
JOHN SMITH

PAYMENTS

BASIC SALARY

OVERTIME

BONUSES

EXPENSES

NUMBER

6430

238
1



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service complied with the applicable provisions of the Postal Act of 2006, its own policies and guidelines, and IRS regulations for calendar year 2014 officer compensation.

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. As a result of this revision, the Postal Service could not pay an employee more than \$201,700 for calendar year 2014; however, there are two exceptions. Some employees may have annual compensation of up to \$233,000 with a bonus or reward program approved by the U.S. Postal Service Board of Governors and employees in critical positions may have annual compensation of up to \$279,600.

Compensation includes annual salary, merit lump sum payments, bonuses, awards, and annuity payments.

Our objective was to determine whether the Postal Service complied with applicable provisions of the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for calendar year 2014 officer compensation.

What The OIG Found

The Postal Service complied with the applicable provisions of the Postal Act of 2006, its own policies and guidelines, and IRS regulations for calendar year 2014 officer compensation.

Additionally, we noted that one officer was included in the list of employees with compensation in excess of Executive Level I in the fiscal year 2014 *Comprehensive Statement on Postal Operations* even though the compensation was less than the Executive Level I limit. The officer was unnecessarily included on the list because the Postal Service mistakenly included financial counseling services worth about \$2,000 in the officer's total compensation. Management agreed that the value of non-cash taxable benefits, such as financial counseling services, should not be included as compensation for salary cap purposes.

What The OIG Recommended

Because the Postal Service complied with the applicable provisions of the Postal Act of 2006, its own policies and guidelines, and IRS regulations, we are not making any recommendations. We will continue to monitor management's compliance with applicable laws, regulations, and policies.

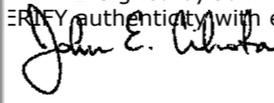
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

July 22, 2015

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 and Supply Management

SUBJECT: Audit Report – Officer Compensation for Calendar Year 2014
(Report Number FT-AR-15-009)

This report presents the results of our audit of Officer Compensation for Calendar Year 2014 (Project Number 15BD005FT000).

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 Audit and Response Management

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Findings

In the fiscal year 2014 comprehensive report, we found one officer was included even though the officer's compensation was less than Executive Level I (\$199,700 in CY 2013).

Introduction

This report presents the results of our audit of calendar year (CY) 2014 compensation paid or deferred¹ to officers² of the U.S. Postal Service (Project Number 15BD005FT000). The objective of the audit was to determine whether the Postal Service complied with applicable provisions of the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006), Postal Service policies and guidelines, and IRS regulations for CY 2014 officer compensation. See [Appendix A](#) for additional information about this audit.

The Postal Act of 2006 amended 39 U.S.C. and revised the cap imposed on total compensation payable to Postal Service employees. Compensation includes annual salary, merit lump sum payments,³ bonuses, awards, and annuity payments. [Figure 1](#) explains the three compensation levels for CY 2014.⁴

Postal Service officers may 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.⁵

Conclusion

The Postal Service complied with the applicable provisions of the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for CY 2014 officer compensation.

We are not making any recommendations in this report; however, we will continue to monitor compliance with the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for compensation paid to officers.

Comprehensive Statement on Postal Operations

The Postal Service is required to report officers who received compensation exceeding Executive Level I during the most recent calendar year in the annual *Comprehensive Statement on Postal Operations*.⁶ In the fiscal year 2014 comprehensive report,⁷ we found one officer was included even though the officer's compensation was less than Executive Level I (\$199,700 in CY 2013). This occurred because the Postal Service mistakenly included financial counseling services worth about \$2,000 in the officer's total compensation. The cash value of these non-cash taxable benefits should not be included as compensation for salary cap purposes.⁸ We discussed this observation with Postal Service management, who agreed the officer should not have been included in the comprehensive report.

¹ Compensation credited but not distributed in CY 2014.

² Defined in this report as Postal Career Executive Schedule II employees.

³ 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).

⁴ In CY 2014, 20 officers exceeded the Level I cap. Twelve officers exceeded Level I by virtue of bonuses or awards, making Level II the applicable cap. The remaining eight were designated critical, making Level III the applicable cap. No officer exceeded his/her applicable cap.

⁵ The Postal Service offers to the postmaster general a driver and personal security services through the U.S. Postal Inspection Service.

⁶ 39 U.S.C §3686 (d).

⁷ Includes CY 2013 compensation data.

⁸ Per 39 U.S.C. §1003 (a), the Postal Service is authorized to establish compensation *and* benefits for its officers. We consider compensation *and* benefits mutually exclusive categories. The law limits *paid* compensation (see [Figure 1](#)) and the use of the word *paid* suggests that compensation refers to cash payments for services provided versus non-cash benefits received by an officer.

Figure 1.

Calendar Year 2014 Compensation Levels

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

Recommendations

We are not making any recommendations.

We will continue to monitor management's compliance with applicable laws, regulations, and policies.

Management's Comments

Management was pleased with the U.S. Postal Service Office of Inspector General's (OIG) determination that the Postal Service complied with the applicable provisions of the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for CY 2014 officer compensation.

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

Evaluation of Management's Comments

Although the report does not contain any recommendations, the OIG considers management's comments responsive.

Appendices

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Appendix A: Additional Information

Background

The Postal Act of 2006 amended 39 U.S.C. 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 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 \$201,700 for CY 2014.
- With Board approval, however, the Postal Service may develop a program to award a bonus or other reward over the compensation cap, 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. 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 performance appraisal system for affected officers makes meaningful distinctions based on relative performance. This compensation cap was \$233,000 for CY 2014. The Postal Service annually reports total compensation for any officer that exceeds Level I of the Executive Schedule in the *Comprehensive Statement on Postal Operations*.
- 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 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 \$279,600 for CY 2014.

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 29, 2015, the Board reported the following positions as critical for CY 2014:

- 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 information officer and executive vice president.
- Chief human resources officer and executive vice president.
- General counsel and executive vice president.

Postal Service officers may receive additional benefits that are 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 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 cases, the Postal Service entered into agreements to provide executive retention bonuses that could take the form of deferred compensation. As shown in Table 2, two active and two former officers have outstanding deferred compensation balances.

Table 2. Cumulative Deferred Compensation, as of December 31, 2014

Officer Name	Cumulative Deferred Balance	Status
Joseph Corbett	\$181,016	Active
Patrick R. Donahoe	8,479	Active ⁹
John E. Potter	561,497 ¹⁰	Inactive
Ross Philo	450,333 ¹¹	Inactive
Total Deferred Balance	\$1,201,325	

Source: Eagan Accounts Payable System (EAPS).

Objective, Scope, and Methodology

The objective of our audit was to 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. 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 officers' employment agreements.

We conducted this performance audit from March through July 2015 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

⁹ Mr. Donahoe retired February 1, 2015.

¹⁰ Mr. Potter received a payment of \$110,625 in January 2014 from his deferred compensation account.

¹¹ Mr. Philo received a payment of \$150,111 in February 2014 from his deferred compensation account.

findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on June 26, 2015, and included their comments where appropriate.

We relied on computer-generated data from Payroll Systems, Accounting Enterprise Data Warehouse Reporting, and EAPS for reviewing salaries, deferred compensation, awards, bonuses, and annual leave exchanges. We assessed the reliability of this data by performing electronic testing of required data elements to include reconciling data elements between systems and to published information. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Officer Compensation for Calendar Year 2013	FT-AR-14-011	5/28/2014	None
<p>Report Results: Although the Postal Service complied with the Postal Act of 2006 and IRS regulations, it did not always comply with approved officer benefits policies requiring an officer to sign an employment agreement when accepting a relocation incentive bonus. Specifically, management did not obtain signed, 12-month employment agreements for both officers who accepted relocation incentive bonuses totaling \$39,000 in CY 2013. Management was not initially aware of the requirement and acknowledged these agreements should have been signed to ensure officers reimburse the Postal Service if they separate after receiving a relocation bonus and before completing a minimum of 12 months of employment. Because management took appropriate corrective action to address the issue we did not make any recommendations.</p>			
Officer Compensation for Calendar Year 2012	FT-AR-14-005	2/4/2014	None
<p>Report Results: 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 by \$142,075. 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 did not make any recommendations.</p>			
Officer Compensation for Calendar Year 2011	FT-AR-13-001	10/19/2012	\$110,011
<p>Report Results: We identified three officers whose compensation exceeded or otherwise did not 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. 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. Management was responsive to both recommendations and acknowledged the fundamental disagreement with the interpretation of the law. It agreed to contact the Department of Justice, Office of Legal Counsel, rather than the GAO, to resolve the issues identified. We agreed that an advisory opinion from the Office of Legal Counsel would better resolve all the issues.</p>			

Appendix B: Management's Comments

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



July 8, 2015

LORI LAU DILLARD
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report—Officer Compensation for Calendar Year 2014
(Report No. FT-AR-15-DRAFT)

Thank you for the opportunity to respond to your draft audit report on Officer Compensation for Calendar Year 2014.

As stated in your report, the objective of your audit was to determine whether the Postal Service complied with the applicable provisions of the Postal Act of 2006, Postal Service policies and guidelines, and IRS regulations for calendar year 2014 officer compensation. Having had a chance to review your draft report and to meet with you to discuss your findings, we are very pleased with the OIG's determination that the Postal Service did comply with the applicable provisions of the Postal Act of 2006, its own policies and guidelines, and IRS regulations for calendar year 2014 officer compensation.

If you have any questions regarding our response, please contact Pamela S. Grooman, Manager, Pay & Performance Programs, at 202-268-8008.

A handwritten signature in black ink, appearing to read "J. Williamson".

Jeffrey C. Williamson

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

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