



May 2, 2000

WILLIAM J. HENDERSON
POSTMASTER GENERAL

SUBJECT: Relocation Benefits for Postal Service
Officers (Report Number FR-FA-00-010(R))

This is the first in a series of reports examining relocation and other benefits of Postal Service executives. The audit was conducted at the request of both the Chairman of the House Subcommittee on the Postal Service and the Board of Governors in response to an anonymous complaint. The complaint alleged two Postal Service officers obtained relocation benefits for changes in residence within the local commuting area. Our overall objective was to determine the validity of the allegations. We will address the overall relocation program and other officer benefits in subsequent reports.

The Postal Service allows the payment of relocation benefits to officers who change official duty stations. Deviations from the relocation policy can be approved if the move is in the best interest of the Postal Service. The postmaster general has authorized the chief financial officer to administer relocation benefits and approve deviations. During fiscal year 1998, there were 45 officers in the Postal Service.

On April 20, 2000, the OIG published this report without management's comments in order to ensure timely dissemination of information to interested parties. Subsequently, comments have been received from management. In addition, on May 1, 2000, the Governors passed a resolution addressing the second and third recommendations of the report. This report has been revised to incorporate the responses of management and the Governors. Also included (Appendix C) is a statement

made by the Chairman of the Board of Governors at the Governors May 2, 2000, meeting. Based on discussions with the Governors, we have also revised portions of the report to clarify the roles of the Governors and the Secretary to the Board.

Background

In 1998 the postmaster general extended an offer of promotion to the controller to become the chief financial officer. The controller requested three benefits, one of which was relocation within the local commuting area, as incentive to accept the promotion. The Compensation Committee of the Board of Governors reviewed two of the three requested benefits, but did not review the relocation benefit of about \$142,000 which was approved by the postmaster general. The Board of Governors did not approve two benefits that totaled less than the relocation benefits approved by the postmaster general.

The other move occurred because the promotion of the controller created a vacancy that was offered to another officer. The other officer requested two benefits before accepting the offer, one of which was relocation within the local commuting area. The new chief financial officer approved relocation benefits of about \$106,000 after consulting with the postmaster general. Second, the officer requested continued participation in the Shared Real Estate Appreciation Loan program, a program established in 1989 to offset increased mortgages when moving to high cost areas. As a result, this officer was able to purchase a home that cost about \$75,000 more than his prior residence without an increase in mortgage payment.

The new residence of the chief financial officer was about 15 miles from his previous residence, reducing the officer's daily one-way commute by about 2.5 miles. The new residence of the controller was about 22 miles from his previous residence, reducing his daily one-way commute by about 20 miles. Table 1 summarizes the distances moved by each officer.

**Table 1.
Distances Moved¹**

	Prior Address	Current Address	Difference	Distance Between Residences
CFO				
City	Fairfax	Vienna		15 Miles
State and Zip Code	VA 22032-3252	VA 22182-2101		
Miles to Duty Station from Residence	19.2	16.7	2.5 Miles	
Minutes to Duty Station from Residence	30	29	1 Minute	
Controller				
City	Fairfax	Alexandria		22.4 Miles
State and Zip Code	VA 22030-7254	VA 22314-6208		
Miles to Duty Station from Residence	26	6	20 Miles	
Minutes to Duty Station from Residence	40	10	30 Minutes	

Objective, Scope, and Methodology

To address the validity of the allegations, we determined whether: (1) relocation benefits were paid in accordance with applicable laws and regulations; (2) controls over relocation decisions were adequate; and (3) relocations were in the best interest of the Postal Service.

To accomplish our objectives we:

- Reviewed Postal Service relocation policies, procedures, and documentation associated with the two relocations.
- Interviewed appropriate Postal Service officials.
- Reviewed Internal Revenue Service guidelines for relocation.
- Compared the Postal Service relocation policy with those of selected Fortune 500 Corporations.
- Contacted independent relocation organizations.

We conducted the audit between January and April 2000 in accordance with generally accepted government auditing standards, and included tests of internal controls as were considered necessary under the circumstances.

¹ The miles and minutes were obtained from <http://www.mapquest.com> and may vary depending on traffic and road conditions.

Relocation Benefits Paid

The audit revealed that two officers, who were promoted but did not change duty stations, received relocation benefits of about \$248,000 for moves within the local commuting area. As shown in Table 2 below, these benefits included payment for the transportation and storage of household goods, sale of the old residence, purchase of the new residence, miscellaneous items, and related federal, state, and local taxes.

**Table 2.
Relocation Benefits Paid**

Expense Type	CFO	Controller	Total
Transportation of Household Goods/Storage Expense	\$12,075	\$7,256	\$19,331
Qualified Expenses – Selling/Buying/Leasing	37,275	31,573	68,848
Miscellaneous Expenses	25,000	25,000	50,000
Withholding Tax Allowance	28,961	24,455	53,416
Relocation Income Tax Allowance	39,000	17,533	56,533
Total	\$142,311	\$105,817	\$248,128

The relocations were paid as part of an incentive plan and approved as deviations from postal policy, in accordance with the PCES Relocation Policy (Handbook F-11). Although the relocations did not meet the 50-mile distance requirement of the relocation policy, the policy provides that deviations can be granted when it is in the best interest of the Postal Service. For example, postmasters are sometimes moved distances significantly less than 50 miles so that they can live in the same communities as they work.

Because one of the officers requesting relocation was normally the approving official, the issue was brought to the postmaster general for approval. In granting the deviations, the postmaster general consulted with the Law Department and the Secretary to the Board of Governors.

Controls Over Incentive Plans

Controls were in place to ensure that the Board of Governors approved significant provisions of incentive plans with the exception of relocation benefits. The Compensation Committee is a standing committee that is responsible for considering and making recommendations to the Board of Governors on salaries, incentive plans, and other compensation paid to officers.

Approval was generally not obtained from the Board of Governors for relocation of officers because the Law Department had determined that relocation benefits were not considered compensation. In addition, the Law Department also determined that several other benefits were not compensation subject to the statutory pay cap, such as:

- Life Insurance Premiums
- Annual Leave Buyback
- Thrift Savings Plan Contributions
- Severance Pay

However, it was clear from the interviews with the postmaster general and the officers involved that the relocation payments were made as part of an incentive plan to entice the officers to accept their new positions and to retain highly qualified executives. Both officers indicated they had no other job offers pending when the promotion offers were made and that their acceptance was based on approval of an incentive plan. Further, the postmaster general recognized the relocation requests were potentially controversial and referred the decision as to whether relocation benefits needed Board approval to the Secretary of the Board of Governors after a legal review.

The Compensation Committee reviewed the compensation of the chief financial officer. The Secretary believed management had the authority to approve the relocation benefit if it was beneficial to the Postal Service. As a result, he did not notify the Governors that relocation benefits were being considered for an officer moving less than 50 miles. In providing his opinion to Postal management, the Secretary advised that the relocation should not be based on an officer's desire to move; but should be based on the benefit to the Postal Service. Because both requests were initiated by the officers and did not meet the 50-mile criteria, the Secretary should have followed up to ensure that the conditions for granting deviations were met. However, the Secretary did not request written justification for why the relocations were in the best interest of the Postal Service.

The Board of Governors should also have been informed of the decision to authorize additional shared real estate appreciation for the controller. A shared appreciation loan

enables a qualified officer to offset increased mortgage costs on a residence. This is accomplished when the Postal Service officer agrees to roll over any equity from a prior residence to the purchase of a new residence, and the Postal Service agrees to absorb any increase in the overall cost of the home and hold the mortgage. When the home is sold, the Postal Service is entitled to a return of its equity interest and to share in any appreciation.

This benefit allows postal officers to relocate to high cost areas without changing their standard of living. The controller received a shared appreciation loan of \$333,000 from the Postal Service—an increase of \$37,000 over the previous loan. Consequently, the Postal Service owned about 36 percent of the controller’s home. As a result, the controller was able to purchase a home that cost about \$75,000 more than the prior residence while reducing his mortgage payment as shown in Table 3. In addition, the Postal Service paid for the move by incurring relocation costs of \$106,000, and assuming a shared equity in the real estate of \$154,000.

Table 3.
Shared Real Estate Appreciation Loan Program

	Former Shared Appreciation Loan	New Shared Appreciation Loan	Difference
Purchase Home Price	350,000	424,641	74,641
Down Payment	53,500	91,000	37,500
Amount To Be Financed	296,500	333,641	37,141
Fixed (Employee) Portion	179,400	179,400	0
Shared Appreciation Loan	117,100	154,241	37,141
Shared Percentage	33.46%	36.32%	2.86%
Monthly Principal and Interest Payment Based On Total Amount Financed	2,073	2,276	203
Employee Monthly Payment	1,254	1,224	-30
Difference	819	1,052	233
Sale Price	389,000		
Total Gain on Sale of Home	39,000		
Postal Service Gain	13,049		
Employee Gain	25,951		

While the Postal Service grants shared appreciation loans to its executives, a postal official told us that this was the first time it approved payment of this benefit for relocation within the same commuting area. For this reason, the decision to grant this benefit should have been approved by the Board of Governors and considered in conjunction with the incentive plan.

If the officer had not been approved for the shared equity program, his monthly payment would have been about \$2276 rather than \$1224, a monthly benefit of over \$1000 per month. Generally, this is an untaxed benefit until the house is either sold or refinanced; however, because the move did not meet the Internal Revenue Service's guidelines for a qualified relocation, this benefit is considered taxable income of over \$12,000 each year.

In discussing the relocations, neither the postmaster general nor the Secretary to the Board of Governors was aware of how much the relocations would cost or whether the individuals would, in fact, be moving closer to work. Controls need to be established to ensure that the Board of Governors is notified when significant payments are made to officers and that such actions are appropriate and in the best interest of the Postal Service. Further, a formal process should be established to assess the impact of incentive packages and officer compensation on public and employee perception. We could not locate any information that documented why the relocations were in the best interest of the Postal Service.

The postmaster general stated that he approved the relocation to ensure that the officers did not leave the Postal Service. The officers, however, stated they had no plans to leave at the time. They instead stated that the relocations were part of an incentive plan connected to their promotions and would enable them to spend more time at the office as opposed to commuting. But there was no evidence that the officers would not have accepted two of the most prominent and influential positions in the Postal Service without the relocations. There was also no evidence that they would be required to work longer hours than previously expected. Consequently, we could not substantiate the assertion that the relocations were in the best interest of the Postal Service.

Benchmarking

By allowing for deviations from its relocation policy, the Postal Service exceeded the relocation benefit packages offered to executives by private industry and other government agencies. We compared the Postal Service's relocation policy with that of four Fortune 500 companies and relocation agencies used by major corporations, and found that the decision to pay these relocation benefits was inconsistent with industry practices. For example, corporations we surveyed used Internal Revenue Service guidelines for allowing relocation expenses. These guidelines require the change in duty station be more than 50 miles.² During a period of cost cutting and rising postal rates, such payments may impact the public's confidence and trust in the Postal Service and employee confidence in management.

Pay Cap

Although the Postal Service's General Counsel determined that relocation benefits should be excluded from the calculation of the statutory pay cap, payment of these benefits could be perceived as a way to circumvent the statutory limits on compensation. The total compensation of all Postal Service executives and officers is subject to the statutory cap set forth in Title 5 of the U.S.C. that applies to most appropriated federal agencies. At the time the relocation benefits were paid, the salary cap was \$151,800.

Table 4.
Taxable Income Reported by the Postal Service

	CFO	Controller
Wages, Salaries and Other Compensation (W-2, Box 1)	\$148,274	\$158,567 ³
Relocation	103,311	88,284
Total Taxable Income	251,585	246,851

The Postal Service reported about \$247,000 of taxable income for the controller and about \$252,000 for the chief financial officer, including salary and relocation benefits.

² IRS Publication 521 describes the criteria for deductibility of relocation expenses. It states that for relocation expenses to be tax deductible, the relocation must be closely related to a new or changed job location. In addition, it must meet both the distance and the time test. The relocation will meet the distance test if the new main job location is at least 50 miles farther from the former home than the old job location was from the former home.

³ Amount includes taxable income not subject to the statutory pay cap.

The officers were also reimbursed for the additional taxes on relocation benefits, totaling \$39,000 and \$18,000, respectively.

Recommendation

1. Establish policies and procedures that require written justification that documents the reasons for relocations within the same commuting area. At a minimum, the justification should document why the move is in the best interest of the Postal Service.

Management's Comments

Management concurred with this recommendation and stated that by June 1, 2000, Finance would prepare appropriate changes to the officer relocation policy that would include a requirement for documenting any deviations proposed in the best interest of the Postal Service. Until this process is implemented, the postmaster general has instructed that no deviation of this kind would be considered when moving within the same city.

Recommendations

We recommend the postmaster general establish policies and procedures that require:

2. All components of officer incentive plans be submitted to the Board of Governors' for approval, including significant compensation that is not subject to the statutory pay cap.

Management's Comments

Management agreed with the intent of both recommendations and stated that the recommendations would be referred to the Board of Governors for consideration.

Board of Governor's Comments

The Board of Governors concurred with both recommendations two and three. On May 1, 2000, Resolution Number 00-6 was adopted that stated, in part, "each component of the compensation and benefits, including relocation benefits, to be provided to each officer of the Postal Service shall be submitted for the approval of the Board or the Governors." The resolution also stated that the Board "shall, as appropriate, establish standards for deviation from the benefits program." The full text of the resolution is at Appendix B.

The Chairman of the Board of Governors also issued a statement that the relocations in the report were not in the

best interest of the United States Postal Service, and the Board will undertake a review of all officer incentive plans, including compensation and other benefits. The Board encouraged the Inspector General to continue the review of all officer compensation and benefits, and to benchmark with other agencies and corporations. The Board will consider other policy changes once the review is complete. The full text of the Chairman's statement is at Appendix C.

**Evaluation of
Comments from the
Board of Governors
and Management**

The actions taken by the Board and Management satisfy the intent of all of our recommendations.

We will incorporate the results of this audit into our summary report on relocation benefits. We appreciated the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact John Seeba or me at (703) 248-2300.

//Signed//

Robert L. Emmons
Acting Assistant Inspector General
for Performance

cc: Governors
John M. Nolan
Mary Anne Gibbons
Deborah K. Willhite
William Johnstone

APPENDIX A. MANAGEMENT'S COMMENTS

PATRICK R. DONAHOE
SENIOR VICE PRESIDENT
HUMAN RESOURCES



April 26, 2000

MS. CORCORAN

SUBJECT: Report No. FR-FA-00-010

The following constitutes the Postal Service's response to and comments on the Inspector General's Report on "Relocation Benefits for Postal Service Officers," dated April 20, 2000.

1. General response. As the report shows, it is apparent that the Postal Service reacted to the two officers' requests for special deviations under the relocation policy in a compartmentalized way. The Postmaster General sought input from the Law Department on the limits of the Postal Service's legal authority, and through Finance, from the Office of the Board of Governors on the Board's practices. Consistent with prior opinions, the Law Department advised that benefits of this scope are within the boundaries of the Postal Service's legal discretion. The Secretary of the Board accurately described the Governors' past practice of not reviewing requests for relocation benefits. Finance staff rigorously applied Internal Revenue Service rules in the tax treatment of the benefits. At the same time, the Compensation Committee of the Board of Governors was in the process of establishing a formal policy that would govern officer benefit packages in the future.

The net result was a process in which many of the right questions were asked but the overall picture was not brought sufficiently into focus. There was inadequate overall review on the merits of what would amount to a precedent, granting relocation benefits to executives who, upon promotion, were not changing their duty station. While the occasion may arise where it will be in the interests of the Postal Service to provide benefits under such circumstances, sufficient controls must be in place to ensure that benefits are extended only after the value of doing so has been thoroughly explored and documented.

2. Response to Specific Recommendations. Accordingly, we have the following response to the specific recommendations in the report.

IG Recommendations:

"We recommend the postmaster general establish policies that require:

Recommendation #1.

"Written justification that documents the reasons for relocations within the same commuting area. At a minimum, the justification should document why the move is in the best interest of the Postal Service."

The Postal Service concurs in this recommendation. By June 1, 2000, Finance will prepare appropriate changes to the officer relocation policy that will include a requirement for written documentation that any deviation proposed for approval is in the best interest of the Postal Service. Until such a process can be put in place, the Postmaster General has directed that, effective immediately, no deviations of this kind will be considered when the move is within the same city.

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Recommendation #2.

"Deviations from the officers' relocation policy be submitted to the Board of Governors for approval, including moves that do not meet Internal Revenue Service deductibility criteria for relocation expenses."

Recommendation #3.

"All components of officer incentive plans be submitted to the Board of Governors for approval, including significant compensation that is not subject to the statutory pay cap."

These two recommendations address the role of the Board of Governors, and must be redirected to the Board for consideration. Management agrees that these issues should be reviewed and will be discussing the Inspector General's recommendations with the Board at the earliest opportunity.

3. Other comments. At page eight, the report states:

Although the Postal Service's General Counsel determined that relocation benefits should be excluded from the calculation of the statutory pay cap, payment of these benefits could be perceived as a way to circumvent the statutory limits on compensation. The rate of pay of all Postal Service executives and officers is subject to the statutory cap set forth in Title 5 of the U.S.C. that applies to most appropriated federal agencies.

It appears that some readers have taken this passage out of context in the report, to stand for the proposition that the relocation benefits at issue would violate or evade the law. From the remainder of the report, we understand that it was not your intention to imply that the requirement of 39 U.S.C. § 1003(a), that no officer or employee of the Postal Service be paid compensation in excess of the rate for level I of the Executive Schedule, applies the pay restrictions of 5 U.S.C. § 5312 to the Postal Service in the same manner as applied to other agencies.

As other language in the report recognizes, the Law Department has generally opined, since at least 1981, that the Postal Service has greater discretion under the law with respect to benefits and bonuses in that the statutory cap applies to the rate of pay.

The Law Department's position is based on these factors:

- The legislative history of § 1003(a): Congress used "compensation," "basic pay," and "rate of pay" interchangeably and synonymously. For example, an early version of the Senate postal reorganization bill, S. 3613, uses the words "rate of pay" in the context in which the word "compensation" is used in the current law. S. 3613, 91st Cong., 2d Sess., § 1104 (1970). In addition, the general pay increase enacted with the 1970 Act uses the phrase "rates of basic pay or compensation."
- The language of § 1003(a): Congress did not limit "compensation in excess of the rate for level I", but "compensation at a rate in excess of the rate for level I." [Emphasis supplied.] The use of the term "rate" suggests an ongoing payment over time, a salary rather than an award or bonus. Indeed, the second mention of the word "rate" in that sentence clearly refers to the "rate of basic pay" for level I as set forth in § 5312 of Title 5.
- Where Congress has intended that all forms of remuneration be subject to a cap, it has specifically so stated. For example, in 1978, in creating the Senior Executive Service,

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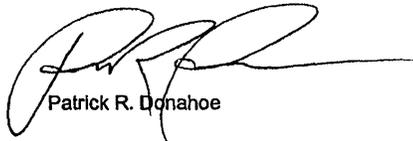
Congress not only specifically provided for bonuses to senior executives but stated that "the aggregate amount" paid to such executives could not exceed the "annual rate payable for positions at level I." 5 U.S.C. § 5383(h). The Federal Employees Pay Comparability Act of 1990 contains similar language, codified at 5 U.S.C. § 5307(a). In contrast, although nothing in the Postal Reorganization Act limits the ability of the Postal Service to pay bonuses to its employees, there was no similar restriction on an "aggregate amount."

- "Compensation," as used in § 1003(a), does not encompass benefits. This is plain from the language of § 1003(a), where the term "compensation and benefits" is used three times, but only the single word "compensation" is used when establishing the pay ceiling. Congress thus made a distinction between "compensation" on the one hand and "benefits" on the other.

The Law Department's conclusion that the application of the pay cap must be analyzed in terms of the provisions of the Act finds support in an exchange of correspondence between the General Counsels of the Postal Service and the Office of Personnel Management respecting the Postal Service's compensation programs. In a letter dated June 23, 1995, OPM General Counsel Lorraine Lewis stated that "although the pay cap itself applies to the Postal Service, the answers to your questions concerning incentive pay must be based on an analysis of any applicable Postal laws, rules, or regulations that we are not authorized to interpret."

Although one unfamiliar with this history might, perhaps, perceive the payment of certain benefits as circumventing the pay cap, the simple fact is that Postal Service management, on the long-standing advice of counsel, has not understood the pay cap to apply to such benefits.

We would be pleased to discuss any of our comments at your convenience.



Patrick R. Donahoe

APPENDIX B. RESOLUTION NUMBER 00-6

**RESOLUTION OF THE BOARD OF GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE**

Resolution No. 00-6

Compensation and Benefits for Officers of the Postal Service

Whereas section 3.3(n) of the Bylaws of the Board of Governors reserves for decision of the Board the compensation of officers of the Postal Service whose positions are included in Level II of the Postal Career Executive Service; and

Whereas section 3.4(a)-(b) of the Bylaws reserves for decision by the Governors the pay of the Postmaster General and the Deputy Postmaster General;

RESOLVED:

1. In administering the Board's reserved authority under Bylaws 3.3(n) and 3.4(a)-(b), each component of the compensation and benefits, including relocation benefits, to be provided to each officer of the Postal Service shall be submitted for the approval of the Board or the Governors pursuant to the Bylaws.
2. The Board shall review all officer benefits, including, but not limited to, the relocation benefits program and its administration, from 1997 forward, and shall as appropriate establish standards for deviations from the benefits program.

The foregoing Resolution was adopted by the Board of Governors on May 1, 2000.



Assistant Secretary

APPENDIX C. STATEMENT FROM THE CHAIRMAN, BOARD OF GOVERNERS

BOARD OF GOVERNORS



May 2, 2000

STATEMENT
EINAR V. DYHRKOPP
CHAIRMAN, BOARD OF GOVERNORS

The Board of Governors yesterday met in an extended closed session to review relocation policy for postal officers. For the better part of a day, the Board reviewed existing relocation policies and how they were applied to the Chief Financial Officer (CFO) and the Controller. The Board concluded that the exemptions granted in this circumstance were not in the best interests of the United States Postal Service.

The Board has adopted a resolution strengthening USPS policy on the approval and administration of relocation benefits. Specifically, the Board bylaws have been amended to require Board approval of all relocations for officers. The Board will also undertake a review of all officer incentive plans, including compensation and other benefits.

The Board met with the Inspector General and encouraged her to continue the review of all officer compensation policies and benefits, including benchmarking against other agencies and corporations. The Board will consider other policy changes once this review is complete.

The Board has thoroughly reviewed the actions of the Postmaster General and is satisfied with his immediate actions to suspend deviations from existing policy for moves not involving a change in work locations. However, the Board was disappointed in management's process for approving relocation expenses.

The Postmaster General informed the Board that he is considering replacement candidates for the CFO and the Controller. CFO Richard Porras earlier announced his retirement. Mr. Ward is being transferred to another position within the Postal Service.

The Board retains its confidence in the Postmaster General's overall stewardship of the Postal Service. The Board believes that its comprehensive actions will revitalize the trust and confidence of its customers and employees that may have been diminished.