



AUDIT REPORT

Officer Compensation for Calendar Year 2013

May 28, 2014



Report Number FT- AR-14-011



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Calendar Year 2013**
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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 \$199,700 for calendar year 2013. Exceptions allow some employees annual compensation of up to \$230,700 with a Board of Governors approved bonus or reward program and allow employees in critical positions to have annual compensation of up to \$276,840.

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 compensating officers in calendar year 2013.

WHAT THE OIG FOUND:

Although the Postal Service complied with the Postal Act of 2006 and calendar year 2013 IRS regulations, it did not comply with policies requiring an officer who accepts a relocation incentive bonus to sign an employment agreement.

Specifically, management did not obtain signed 12-month employment agreements for both officers who

accepted relocation incentive bonuses totaling \$39,000 in calendar year 2013.

Officials were not initially aware of the requirement and acknowledged they should have obtained the agreements, which ensures officers reimburse the Postal Service if they separate after receiving a relocation bonus and before completing a minimum of 12 months of employment. Because of our audit, management took the appropriate corrective action to address the issue.

WHAT THE OIG RECOMMENDED:

Because management took corrective action, we are not making any recommendations. We will continue to monitor management's compliance with Postal Service policy.

[*Link to review the entire report*](#)



May 28, 2014

MEMORANDUM FOR: JEFFERY C. WILLIAMSON
CHIEF HUMAN RESOURCES OFFICER AND EXECUTIVE
VICE PRESIDENT

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". There is a small black dot in the upper 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 2013 (Report Number FT-AR-14-011)

This report presents the results of our audit of Officer Compensation for Calendar Year 2013 (Project Number 14BG005FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michelle V. Lindquist, acting 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) 2013 compensation paid or deferred¹ to officers² of the U.S. Postal Service (Project Number 14BG005FT000). 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 2013 compensation paid to officers. 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. Table 1 explains the three compensation levels for CY 2013.⁴

Table 1. CY 2013 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

¹ Compensation credited but not distributed in CY 2013.

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 2013, all seven officers who received compensation in excess of Level I were designated as critical employees, meaning that Level III is the applicable cap. No officer exceeded the Level III cap.

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 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 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

Although the Postal Service complied with the Postal Act of 2006 and IRS regulations, it did not always comply with approved officer benefits policies⁶ requiring an officer to sign an employment agreement when accepting a relocation incentive bonus.⁷

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 of our audit, management took appropriate corrective action to address the issue.

Relocation Incentive Bonus

Management did not obtain a signed employment agreement from either officer who received a relocation incentive bonus.⁸ The CY 2013 bonuses totaled \$39,000. Postal Service officials told us they were not aware of the requirement. The policy allows the Postal Service to authorize a relocation incentive bonus in addition to other

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

⁶ *Officer Recruitment, Relocation, Retention and Separation Benefit*, dated September 11, 2006.

⁷ This bonus is designated for officer candidates or incumbents who relocate to accept a position in a different commuting area due to difficulty filling the position.

⁸ Thirty-four officers were active as of December 13, 2013.

relocation benefits⁹ provided the officer signs a 12-month service agreement before receiving the bonus. Service agreements ensure officers reimburse the Postal Service if they separate after receiving the bonus and before completing a minimum of 12 months of employment.

During our audit, we communicated these two instances of non-compliance to management. As a result, management obtained a signed employee agreement for one officer¹⁰ still within 12 months of the reassignment effective date. However, management did not obtain a signed agreement for the second officer¹¹ who had already served 12 months in the new position. In the future, management agreed to ensure officers sign 12-month service agreements before they receive relocation incentives.

We are not making any recommendations in this report since management took corrective action during our audit; however, we will continue to monitor compliance with Postal Service policy.

Because we are not making any recommendations, management chose not to formally respond to this report.

⁹ Relocation benefits include advance house hunting, temporary quarters, move to new location, shipment of household goods, storage, real estate expenses, miscellaneous expense relocation allowance, mortgage interest differential, loss of equity on sale of old residence, tax assistance, and shared appreciation loan.

¹⁰ Reassignment was effective October 19, 2013.

¹¹ Reassignment was effective January 12, 2013.

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 \$199,700 for CY 2013.
- 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 bonus or award is based on a performance appraisal system that makes meaningful distinctions based on relative performance. This compensation cap was \$230,700 for CY 2013. 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 \$276,840 for CY 2013.

The policy for officers' recruitment, relocation, retention, and separation benefits was last updated and approved by the Board on September 11, 2006. This policy authorizes relocation incentive bonuses of up to 50 percent of the annual rate of basic pay per year of the agreement, up to 100 percent of basic pay, for officers who must relocate to accept a position in a different commuting area. To offer this type of bonus, the Postal Service must determine that it would be difficult to fill the position without it. Additionally, an employee must sign a 12-month service agreement in order to receive a relocation bonus.

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 30, 2014, the Board reported the following positions as critical for CY 2013:

- 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.
- Chief Marketing and Sales officer and executive vice president.
- Chief information officer and executive vice president.
- General counsel and executive vice president.
- President of Digital Solutions.

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 four former officers have outstanding deferred compensation balances.

Table 2. Cumulative Deferred Compensation as of December 31, 2013

Officer	Name	Cumulative Deferred Balance	Status
1	Joseph Corbett	\$140,667	Active
2	Patrick R. Donahoe	8,134	Active
3	John E. Potter	640,116	Inactive
4	Ross Philo	571,851	Inactive
5	Anthony J. Vegliante	67,400 ¹²	Inactive
6	Paul E. Vogel	62,627 ¹³	Inactive
Total Deferred Balance		\$1,490,795	

Source: Eagan Accounts Payable System (EAPS).

¹² Cumulative deferred balance is zero, as of this report date.

¹³ Cumulative deferred balance is zero, as of this report date.

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 2013 compensation of 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 agreement of one officer.

We conducted this performance audit from December 2013 through May 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 finding 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 May 14, 2014, and because we did not make recommendations, management did not provide comments.

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 2012</i>	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. Further, 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>			
<i>Officer Compensation for Calendar Year 2011</i>	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>			

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>Report Results: 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 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. Management agreed to the remaining recommendations.</p>			