

September 28, 2000

RICHARD J. STRASSER, JR.
ACTING CHIEF FINANCIAL OFFICER
AND EXECUTIVE VICE PRESIDENT

PATRICK R. DONAHOE
SENIOR VICE PRESIDENT, HUMAN RESOURCES

SUBJECT: Miscellaneous Relocation Expense Payments
(Report Number FT-AR-00-001)

This report addresses the reasonableness of and controls over miscellaneous relocation expense payments made to Postal Service executives.¹ This audit was requested by the Board of Governors, and is the second in a series of reports² examining relocation benefits for Postal Service executives. Our relocation work is continuing and future reports will address other aspects of relocation benefits for Postal Service executives.

Results in Brief

Our audit disclosed that executives received miscellaneous relocation expense³ payments of \$10,000 or \$25,000 without having to document expenses incurred. In some instances officials were provided these payments while at the same time maintaining their former residence and staying in a hotel or renting an apartment at their new duty station. Through benchmarking, we determined that miscellaneous expense relocation payments made to Postal Service executives significantly exceeded amounts paid by private industry and other government agencies.

¹ Executives include Postal Career Executive Service II employees (officers) and Postal Career Executive Service I employees (other executives).

² The first report in this series was published on May 2, 2000, "Relocation Benefits for Postal Service Officers" (Report Number FR-FA-00-010(R)).

³ Payments for other expenses such as equity losses on residences and other items were included in the miscellaneous expense allowance account, but are not addressed in this report. Instead they will be addressed in subsequent reports.

We were unable to identify a clear correlation between the amounts paid to executives and the types of miscellaneous expenses intended to be covered by this type of allowance. Consequently, we believe that the payments of \$10,000 for executives and \$25,000 for officers could be perceived as a way to exceed the statutory limits on compensation, which according to the Postal Service does not include relocation benefits. We offer management four recommendations to address the issues discussed in the report. Management agreed with two recommendations to use benchmarking information for determining the appropriate payments and to update and publish criteria used for requesting payments. However, management disagreed with our recommendations concerning implementing controls to ensure payments are not received until relocation has commenced and to classify payments exceeding the miscellaneous expense amount as relocation bonuses. We view the disagreement on this recommendation as unresolved and plan to pursue it through the audit resolution process. Management's comments, in their entirety, are included in the appendix.

Background

The Postal Service allows miscellaneous relocation expense payments to employees who change official duty stations. The payments are intended to cover assorted expenses not provided for elsewhere, such as:

- Vehicle registration
- New driver's licenses
- Transportation and/or care of pets
- Nonrefundable utility fees
- Rental cars and/or local transportation while in temporary quarters
- Curtains, drapes, and carpeting
- Forfeiture losses on nontransferable medical, dental, and food locker contracts

Miscellaneous relocation expense payments are provided to employees as follows:

Employee Level ⁴	Benefit Amount
Executive and Administrative Schedule	\$2,500
Postal Career Executive Service I	\$10,000
Postal Career Executive Service II	\$25,000

The following table shows the number of employees who received miscellaneous relocation expense payments and the total amounts paid from fiscal year 1997 to May of fiscal year 2000.

Table 1. Miscellaneous Relocation Expense Payments⁵

Allowance Amount	Number of Employees	Total Allowance Paid
\$2,500	3,002	\$8,075,000
\$10,000	391	\$4,380,000
\$25,000 or more	22	\$625,000
Total	3,415	\$13,080,000 ⁶

Objective, Scope, and Methodology

Our audit objectives were to determine whether miscellaneous relocation expense payments were reasonable and whether controls over the payments were adequate.

To accomplish our objectives we:

- Reviewed Postal Service relocation policies and procedures.
- Used computer analysis to identify miscellaneous relocation expense payments of \$10,000 or \$25,000.

⁴ Bargaining Unit employees with no immediate family receive \$150, while Bargaining Unit employees with immediate family receive \$300. Further, if the Bargaining Unit employee chooses to itemize their expenses, they may receive up to one week's pay with no immediate family or two weeks' pay with an immediate family.

⁵ Sixty-one Bargaining Unit employees received relocation expense payments totaling \$15,450.

⁶ The total allowance paid exceeds allowance amounts multiplied by the number of employees because 269 employees received more than one payment for more than one move.

- Reviewed supporting documents for 22 officers who received miscellaneous relocation expense payments of \$25,000 from fiscal year 1997 to May of fiscal year 2000.⁷
- Reviewed supporting documents for a judgmental sample of 72 other executives who received miscellaneous relocation expense payments of \$10,000 from fiscal year 1997 to May of fiscal year 2000.
- Reviewed Internal Revenue Service and Office of Personnel Management relocation guidelines.
- Interviewed appropriate Postal Service officials.
- Reviewed federal statutes related to relocation.
- Benchmarked in accordance with the American Productivity & Quality Center Code of Conduct that establishes criteria for benchmarking:
 - Contacted 43 entities, including 35 Fortune 500 companies and 8 nontaxpayer-funded government agencies. We received responses back from 29 entities.
 - Obtained benchmarking data for taxpayer-funded federal agencies from the Federal Employees Almanac 2000.

We conducted the audit from May through September 2000 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings and conclusions with appropriate management officials and included their comments, where appropriate.

Documentation for Payments

Our audit disclosed that executives received payments of \$10,000 or \$25,000 for miscellaneous relocation expenses without having to document expenses incurred, if any.

⁷ The Inspector General is the only employee of the Office of Inspector General (OIG) eligible for the \$25,000 payment, but the Inspector General has not requested or been paid any relocation expenses, including miscellaneous expenses.

Postal Service policy did not require executives to submit supporting documentation for miscellaneous expenses, and instead allowed a lump sum payment to executives to spend at their discretion. Consequently, we could not determine what expenses executives incurred, if any, to justify the miscellaneous relocation expense payments to them.

In contrast to executives, Bargaining Unit employees were required to submit documentation to receive reimbursement for miscellaneous relocation expenses that exceeded the authorized minimum allowance for miscellaneous expenses. For example, a letter carrier without a family is authorized miscellaneous expenses of \$150, or he/she can submit receipts for expenses to receive reimbursement for up to one week's salary.

We understand that some expenses may vary based on the income of the employee. However, expenses such as registration fees, cost of transporting pets, and utility fees do not typically vary in proportion to incomes of executives and other employees. For executives to incur expenses of \$10,000 or \$25,000, major expenditures for items such as decks, window treatments, and fences would have to be made. Because documentation is not required to justify the miscellaneous expenses for executives, we were unable to determine the validity of the authorized amount or the rationale for paying executives miscellaneous expenses of \$10,000 or \$25,000.

Change of Former Residence

Postal Service employees can claim a miscellaneous relocation expense payment as soon as they change official duty stations. In essence, executives can receive a payment before incurring relocation expenses and can keep the payment even if they do not incur relocation expenses. For example, if an employee changed duty stations but did not move his/her permanent residence (e.g. stayed in a hotel or rented an apartment) the employee would still be eligible to receive the full amount of the miscellaneous relocation expense payments, regardless of the actual expenses incurred. When the employee has not moved from his/her former residence, actual miscellaneous expenses incurred should typically be less. We identified at least six executives who received miscellaneous relocation expense payments when they reported to new duty stations.

These executives secured new residences, but maintained their former residences.⁸

Benchmarking

We determined that miscellaneous relocation expense payments made to Postal Service executives significantly exceeded the amounts paid by private industry and other government agencies. Specifically, we compared miscellaneous relocation expense payments of the Postal Service to those paid by several judgmentally selected Fortune 500 companies. We also compared payments made to Postal Service executives to those paid by comparable government agencies, whose primary funding was not through federal tax dollars, and to other government agencies funded primarily through federal taxes.

The following table shows that miscellaneous relocation expense allowances or similar allowances of other entities ranged from \$0 to \$5,000. Within the Postal Service, the allowance ranges from \$150 to \$25,000.

⁸ Because the OIG followed Postal Service policy, one OIG executive in this category received a miscellaneous relocation expense payment.

Table 2. Benchmarking Results

	Postal Service	Nontaxpayer-funded Government Agencies	Fortune 500 Corporations	Taxpayer-funded Government Agencies ⁹
Contacted	N/A	8	35	N/A
Responded	N/A	6	23	N/A
Types of Allowance:				
Percentage of Salary		1	4	N/A
Weeks of Salary		3	8	N/A
Flat Allowance		2	11	N/A
Range of Miscellaneous Flat Allowance	\$150-\$25,000	\$350-\$4,000	\$0-\$5,000	\$350-\$700
Range of Miscellaneous Allowance by % of Base Salary*	<1%-16%	3%	4%-7%	N/A
Average Miscellaneous Allowance by % of Base Salary	N/A	3%	5.3%	N/A

* The Postal Service does not use the percentage of base salary method to compute miscellaneous expense allowances. The "Range of Miscellaneous Allowance by % of Base Salary" depicted in Table 2 for the Postal Service was calculated by dividing the miscellaneous expense allowances by the maximum base salary for each employee level.

Postal Service officers receive \$25,000 and other executives receive \$10,000 for miscellaneous relocation expenses. However, applying the Fortune 500 average allowance, from four Fortune 500 Corporations, of 5.3 percent to the Postal Service's current salary cap of \$157,000 would result in an executive receiving a payment of \$8,321. Applying the three percent used by the nontaxpayer-funded government agencies would result in an executive receiving a \$4,710 payment.

The Postal Service had previously performed comparisons with other federal agencies and private sector entities regarding miscellaneous expenses and other relocation benefits. Postal Service personnel did not have documentation that explained how the comparisons were considered in determining the miscellaneous relocation expense payments of \$10,000 or \$25,000 for executives.

⁹ The source of this information was the Federal Employees Almanac 2000.

Table 3 summarizes the Postal Service's comparison results and shows that its miscellaneous relocation expense payments significantly exceeded amounts paid by other federal agencies and private sector entities.

Table 3. Postal Service Comparison Results

Postal Service versus Other Federal Agencies				
	Postal Service	Agency		
		A	B	C
Miscellaneous Expense Allowance	\$150-\$25,000 ¹⁰	2 Weeks' Salary	2 Weeks' Salary or 4 Weeks' Salary	2 Weeks' Salary
Postal Service versus Private Sector Entities				
	Postal Service	Company		
		D	E	F
Miscellaneous Expense Allowance	\$150-\$25,000	\$3,000-\$5,000	\$3,000	\$1,200-\$2,500

Pay Cap

Miscellaneous relocation expense payments of \$10,000 or \$25,000 for executives could be perceived as a way to exceed the statutory limits on compensation¹¹ considering:

- Executives were not required to document expenses incurred.
- Miscellaneous relocation expense payments were made when executives maintained former residence and obtained housing at their new duty station.
- Miscellaneous relocation expense payments exceeded the amounts paid by private industry and other government agencies.
- The Postal Service Law Department has determined that relocation benefits are not considered compensation.

¹⁰ The \$25,000 for an officer at \$157,000 represents about 8 weeks' salary.

¹¹ The total compensation of Postal Service employees is subject to the statutory cap in Title 5 of the U.S.C., which at the time of the audit was \$157,000.

Because we were unable to identify a clear correlation between miscellaneous relocation expense payments and the actual expenses paid, we believe these payments are, in part, incentive payments rather than reimbursement for actual expenses. If any portion of these payments is in fact an incentive, the Postal Service should classify them as relocation bonuses subject to its compensation limits.

Recommendation

We make the following recommendations.

The Postal Service should:

1. Use the benchmarking information in this report, as well as other relevant information, to determine the appropriate miscellaneous relocation expense payments for employees who relocate:
 - a. Their former family residence.
 - b. Their official duty station, and not their primary residence.

**Management's
Comments**

Management concurred with this recommendation and stated that by December 31, 2000, the vice president, Finance, Controller, in coordination with the vice president, Employee Resource Management, would use benchmarking and other relevant information to update the appropriate level of the miscellaneous relocation allowance.

**Evaluation of
Management's
Comments**

Management's comments were responsive to our recommendation; however, after the release of the draft report, Postal Service management presented updated miscellaneous relocation expense benchmarking data to the Compensation Committee of the Board of Governors.¹² Table 4 summarizes the Postal Service's most recent benchmarking results.

¹² Presented at the July 10, 2000, Compensation Committee meeting.

Table 4.
Officer Miscellaneous Relocation Expense Benchmarking

Postal Service versus Other Federal Agencies				
	Postal Service	Federal Government	Quasi-Governmental Agencies	
			G	H
Miscellaneous Expense Allowance	\$25,000	2 Weeks' Salary \$5,435	10 % of Salary \$16,000	Flat Amount \$3,000
Postal Service versus Private Sector Entities				
	Postal Service	Company		
		J	K	
Miscellaneous Expense Allowance	\$25,000	7% of Salary \$40,530 ¹³	Up to 1 Month of Salary- \$133,000 ¹⁴	

The miscellaneous relocation expense benchmarking information for federal agencies presented to the Compensation Committee was comparable to the information that we obtained in our benchmarking work. (See Table 2.) The only major difference was that one quasi-government agency used 10 percent of base salary when determining its miscellaneous relocation expense allowance. Still, the miscellaneous relocation expense amount paid by the Postal Service exceeded amounts paid by the government agencies surveyed.

However, the salary information used for the private sector comparison in Table 4 was not comparable to the information we obtained in our benchmarking. The salaries used for companies J and K were 3.5 to 10 times higher than the maximum salary that a Postal Service executive can earn. Limiting the salary of companies J and K to the current Postal Service maximum salary would reduce the miscellaneous relocation expense allowance to \$10,990 and \$13,083 respectively.

¹³ The amount shown in table 4 is based on an average salary of \$579,000 for the five top executives of company J. The salary used in this example is about 3.5 times the maximum salary (\$157,000) that can be earned by a Postal Service executive.

¹⁴ The amount shown in table 4 is based on an average salary of \$1,600,000 for the five top executives of company K. The salary used in this example is salary is about 10 times the maximum salary (\$157,000) that can be earned by a Postal Service executive.

We believe that this benchmarking information, when placed in the correct context, confirms our conclusion that miscellaneous relocation expense payments made to Postal Service executives significantly exceeded the amounts paid by private industry and other government agencies.

Recommendation

2. Implement controls to ensure that employees do not receive miscellaneous relocation expense payments until relocation of their residence has commenced.

Management's Comments

Management disagreed with our recommendation that employees be paid miscellaneous relocation expense payments after relocation of the residence has begun. Management stated that the miscellaneous allowance is paid when authorized by the approving official after the effective date of the transfer to eliminate the uncertainty of when a payment is made to the employee. Further, many unspecified expenses are incurred or required prior to the time when the new residence is ready.

Evaluation of Management's Comments

We disagree with management's assertion that the miscellaneous relocation expense payments must be paid prior to the employee relocating their residence to eliminate the uncertainty of when a payment is made to the employee. The Postal Service pays other relocation benefits (e.g. real estate settlements, temporary quarters, and house-hunting trips) after the employee incurs the expense. The intent of our recommendation was to ensure that miscellaneous expense payments were not made until actual relocation expenses (e.g. temporary quarters, house-hunting trips, moving or storing household effects) were incurred. Once qualified relocation expenses are incurred, the employee could apply for and be paid the miscellaneous relocation expense payment.

We view the disagreement on this recommendation as unresolved and plan to pursue it through the audit resolution process.

Recommendation

3. Classify any amounts paid to executives that exceed the miscellaneous expense amount determined in recommendation 1 as relocation bonuses.

Management's Comments	Management disagreed with our recommendation to classify miscellaneous expense benefits in excess of the miscellaneous expense amount determined in recommendation 1 as a relocation bonus. Management stated that the amounts paid by the Postal Service are appropriate, and that the amounts given do not exceed miscellaneous expenses. However, management indicated it would review the miscellaneous expense allowance and, if necessary, adjust the program.
Evaluation of Management's Comments	Although management disagreed with our recommendation, the actions planned to modify the miscellaneous relocation expense allowance, based on benchmarking by December 31, 2000, are responsive to our recommendation. We will continue to monitor this area to ensure that the revised miscellaneous relocation expense allowance amounts are appropriate, based on benchmarking and other relevant information.
Recommendation	4. Update and publish specific criteria used to request miscellaneous relocation expense payments.
Management's Comments	Management concurred with this recommendation and stated that by early 2001 by the vice president, Finance, Controller will update the relocation handbook to include the general kinds of expenses that the miscellaneous expense allowance is intended to cover.
Evaluation of Management's Comments	Management's comments were responsive to our recommendation.

We appreciated the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact John Seeba, acting deputy assistant inspector general for Business Operations, or me at (703) 248-2300.

Debra S. Ritt
Acting Assistant Inspector General
for Business Operations

cc: William J. Henderson
John M. Nolan
Mary Anne Gibbons
Deborah K. Willhite
William T. Johnstone
John R. Gunnels

APPENDIX. MANAGEMENT'S COMMENTS



July 21, 2000

KARLA CORCORAN

SUBJECT: Management's Response to Draft Audit Report—Miscellaneous Relocation Expense Allowance

We have reviewed your draft subject audit report and offer the following perspective on the genesis, purpose, and effectiveness of the relocation program.

Relocation in the Postal Service is an integral and a carefully designed part of the entire employee work program and is intended to meet the organization's need for leadership, flexibility, and outstanding customer service. It would be a mistake to consider it as a stand-alone program, out of context. We hire employees, we train employees, and we offer employees growth through promotional opportunities and other varied experiences during their careers, while expecting our professional executives to deliver for our customers and us. Providing congressionally mandated universal service requires our executives to develop a broad national perspective, and to have varied experiences in different parts of the organization, so that they can competently fill increasingly responsible leadership positions. As with many large companies whose organizations are spread across this country, this means that postal executives are frequently required to move from one location to another. Our employees make such moves because they appreciate that the move—and the next move, and the one after that—are in the Postal Service's best interests, and perhaps, but not always, a means of personal advancement. Often such moves require considerable sacrifice on the part of our executives: uprooting their families or commuting longer distances to be with their families, leaving good friends, dealing with higher costs of living, adapting to new environments, schools, communities.

The burden this places on our executives—and their families—is aggravated by the fact that our executives are not compensated at the market rate considering the size and scope of their responsibilities. We do not have the private sector salaries and cannot offer stock incentives. Postal salaries (but not benefits) are capped by statute, currently at \$157,000. In fact, many of our executives have lower salaries than their counterparts in the federal government when one considers federal locality pay, which is not available to postal employees. It is our intent, through our various compensation and benefit programs, to ensure that employees maintain a reasonable standard of living while we drive hard for success. Unless we do so, we run the risk of not being able to fill key positions from among the pool of current executives, or to recruit new executives from the private sector.

It is in this context that our relocation program needs to be considered. As frequently discussed and written about, changing jobs and relocating creates one of the most stressful periods for an employee. The Postal Service makes every effort to ensure that, when our executives are required to relocate to a new job, they are treated with the same concern and efficiency that we expect them to show our customers. Our relocation program includes house hunting; movement and storage of household goods; having the relocation firm buy the employee's home in order that they may quickly move to the new assignment; and shared appreciation loans in those high cost areas where employee housing assistance is needed in order to maintain a standard of living. We also have the miscellaneous expense allowance.

-2-

Our miscellaneous expense allowance was established to cover such basic specified items as: security deposits, utility hook-ups, driver's licenses, and sales taxes on the car moved into the new state. It may also cover moving the family pet; replacing old carpeting and drapes; renting a vehicle; buying household goods because the family's belongings have not yet arrived; making needed repairs to the new house, such as paving the driveway, replacing the roof, or treating a wet basement. It may cover personal travel costs of the executive during the period that the executive's family has not yet relocated with him. All of these are relocation expenses; expenses directly and necessarily connected to the move.

It is our understanding that private sector employers generally cover these non-specified costs of moving indirectly, through salary increase and bonuses, if not directly through relocation benefits. In any event, executive's salaries in the private sector are such that they can easily absorb these miscellaneous costs if their employer does not cover them. Put another way, the absence of a benefit program to cover these miscellaneous costs is not likely to deter a private sector executive from relocating to a new position at the request of the company; nor is it likely to have a negative impact on that company's ability to recruit an executive. The Postal Service, however, cannot assume that its executives can simply absorb these miscellaneous costs of moving. As noted above, postal salaries are capped, and they fall well below the private sector and even below the compensation of many federal executives. Moving to a higher cost-of-living area presents a particularly difficult problem, as there is no locality pay. As a matter of good business judgment, therefore, the Postal Service must and does ensure that the executives who are asked to move to take on new, usually increased, job responsibilities, do not have to absorb personally any of these costs of the relocation. We believe it is critical and fair to provide our professional executives and their families a means to maintain their standard of living, particularly when the organization is undergoing such change.

Now, moving to your report, we see nothing in the report that is subject to a FOI exception. We do, however, request all of the detailed benchmark data used in tabulating your results. In response to your specific recommendations, we offer the following:

Recommendation 1- Use the benchmarking information in this report as well as other relevant information to determine the appropriate miscellaneous relocation expense payments for employees who relocate: (a) their former family residence; (b) their official duty station and not their primary residence.

- We concur with the recommendation to use benchmarking and other relevant information to update the appropriate level of the miscellaneous relocation. As noted above, please provide the detailed benchmark questions and results to us. We will then determine if a range is needed for the relocation benefit. This will be completed by the vice president, Finance, Controller in coordination with the vice president, Employee Resource Management by December 31, 2000.

Recommendation 2- Implement controls to ensure that employees do not receive miscellaneous relocation expense payments until relocation of their residence has commenced.

- We disagree that the miscellaneous payment should not be paid until relocation of the residence has begun. We currently pay the miscellaneous allowance upon the authorization of the approving official and after the effective date of the transfer. This eliminates the uncertainty of when a payment is made and ensures non-discrimination to our employees. The miscellaneous relocation payment intentionally covers many unspecified expenses that are incurred during relocation. Depending upon availability for housing and the family situation, many expenses and down payments are required before the new residence is ready.

Recommendation 3-Classify any amounts paid to executives that exceed the miscellaneous expense amount determined in recommendation 1 as a relocation bonus.

- We disagree. We believe our miscellaneous expense benefits are appropriate, and that the amounts given do not exceed miscellaneous expenses. As noted above, we will review the miscellaneous expense allowance and will, if necessary, adjust the program.

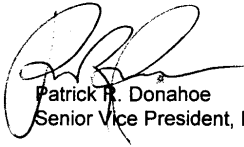
Recommendation 4-Update and publish specific criteria used to request miscellaneous relocation expense payments.

- We concur that we will update the general kinds of expenses that the miscellaneous expense allowance is intended to cover. The purpose of miscellaneous expense allowance is to cover the variety of expenses not specifically covered under other individual program elements, and is intended to be a fair amount.

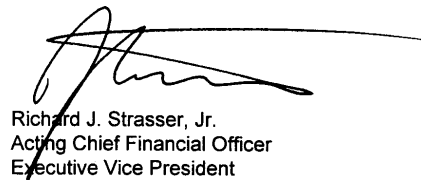
While not specifically enumerated on the report, only bargaining unit employees have the option of itemizing expenses. Requiring itemization for payment for bargaining unit employees is a matter of negotiations with the unions. The vice president, Finance, Controller will take this under advisement and work with the vice president, Labor Relations.

Updated general kinds of expenses will be recorded in the relocation handbook. This activity is targeted for early 2001 by the vice president, Finance, Controller.

If you wish to discuss these comments, please coordinate your requests through the manager, Corporate Accounting.



Patrick B. Donahoe
Senior Vice President, Human Resources



Richard J. Strasser, Jr.
Acting Chief Financial Officer
Executive Vice President