



Office of Inspector General | United States Postal Service

## Audit Report

# Compensation, Benefit, and Bonus Authority in Calendar Year 2017

Report Number FT-AR-18-008 | July 23, 2018

Payments

Salary  
Bonus

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# Highlights

## Objective

Our objective was to determine whether the U.S. Postal Service complied with the applicable maximum total compensation provisions of the Postal Accountability and Enhancement Act of 2006 (PAEA), related Postal Service policies and guidelines, and IRS regulations in calendar year (CY) 2017. The PAEA amended portions of 39 U.S.C. by revising the limits on salary and total compensation paid to Postal Service employees, executives, and officers.

For CY 2017, the annual salary of each Postal Service employee was limited to \$207,800. Under a bonus or reward program approved by the U.S. Postal Service Board of Governors, the Postal Service could compensate employees up to \$240,100 in total compensation. For individuals designated as critical senior executives, total compensation could reach up to \$288,120.

For purposes of the first limit above, total compensation includes only an employee's salary and federal annuity. The second and third limits also include merit lump sum, incentive, recruitment and executive detail bonuses, and the value of non-cash awards. The value of benefits such as financial or retirement counseling, annual leave exchange, health programs, and transportation

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***“The Postal Service complied with the provisions relating to the applicable maximum total compensation provisions of PAEA in CY 2017.”***

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services are excluded from total compensation, as are payments due to grievance settlements.

## What the OIG Found

The Postal Service complied with the provisions relating to the applicable maximum total compensation provisions of PAEA in CY 2017. They also complied with related internal policies and guidelines and IRS regulations for CY 2017 compensation.

However, the Postal Service overstated in the fiscal year 2017 *Comprehensive Statement on Postal Operations* the amount by which two executives exceeded the CY 2016 compensation limit. This occurred because the value of financial counseling was improperly identified as a reportable benefit. The overstatements are related only to reporting in the *Comprehensive Statement on Postal Operations*. We did not identify concerns with Postal Service personnel exceeding appropriate compensation limits.

Because of our audit, management implemented new procedures and quality controls to ensure the value of financial planning benefits is properly documented and excluded from the compensation reported in the *Comprehensive Statement on Postal Operations*.

## What the OIG Recommended

Management corrected the issue identified. Therefore, we are not making a recommendation.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

July 23, 2018

**MEMORANDUM FOR:** JEFFREY WILLIAMSON  
CHIEF HUMAN RESOURCES OFFICER AND  
EXECUTIVE VICE PRESIDENT

A rectangular box containing a handwritten signature in cursive, which appears to read "John E. Cihota".

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report – Compensation, Benefit, and Bonus  
Authority in Calendar Year 2017  
(Report Number FT-AR-18-008)

This report presents the results of our audit of Postal Service's Compensation, Benefit, and Bonus Authority for Calendar Year 2017 (Project Number 18BG006FT000).

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: Postmaster General  
Corporate Audit Response Management  
Secretary, U.S. Postal Service Board of Governors

# Results

## Introduction/Objective

This report presents the results of our audit of the U.S. Postal Service's calendar year (CY) 2017 use of the compensation, benefit, and bonus authority granted through the Postal Accountability and Enhancement Act of 2006 (PAEA) (Project Number 18BG006FT000). The objective of this audit was to determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA, related Postal Service policies and guidelines, and Internal Revenue Service (IRS) regulations in CY 2017. We have conducted this audit annually based on a CY 2007 request by the U.S. Postal Service Board of Governors (Board). See [Appendix A](#) for additional information about this audit.

## Background

The PAEA amended 39 U.S.C by revising the limits on salary and total compensation paid to Postal Service employees. Table 1 explains the limits and authority provided to the Postal Service for CY 2017. Basic salary is limited to the cumulative portion of annual compensation received during the year that is attributable to salary alone. Total compensation includes salary, federal annuity, merit lump sum, incentive, recruitment and executive detail bonuses, as well as the value of non-cash awards including taxes. The value of benefits such as financial or retirement counseling, annual leave exchange, health programs, and transportation services are excluded from total compensation for the purposes of these limits. In addition, payments due to grievance settlements are also excluded from total compensation.

**Table 1. Statutory Limits for CY 2017**

Limit	Description (Authority)	Eligibility/Conditions	Limit for CY 2017 <sup>1</sup>
1. Annual basic salary <sup>2</sup>	No officer or employee may be paid compensation at a rate in excess of the rate for level I of the Executive Schedule (39 U.S.C. § 1003(a)).	Every officer and employee.	\$207,800
2. Total compensation	The Postal Service may establish a program to award an officer or employee in senior executive or equivalent positions a bonus or other reward up to the total annual compensation payable to the Vice President of the U.S. (39 U.S.C. § 3686(a) and (b)).	<p>Any officer or employee in a senior executive or equivalent position.</p> <ul style="list-style-type: none"> <li>The Board must approve and certify for the annual period that the bonus and reward program makes meaningful distinctions based on relative performance. (However, the bonus or reward itself may be for purposes other than performance, such as recruitment or retention.<sup>3</sup>)</li> <li>Recipient's name, amount of bonus or reward, and amount over limit as a result of bonus or reward must be included in annual <i>Comprehensive Statement on Postal Operations</i> (39 U.S.C. § 3686(d)).</li> </ul>	\$240,100

<sup>1</sup> Per Executive Order No. 13756, *Adjustments of Certain Rates of Pay*, which was effective on the first day of the first applicable pay period beginning on or after January 1, 2017.

<sup>2</sup> Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.


<sup>3</sup> Per guidance from U.S. Department of Justice, Office of Legal Counsel, dated May 15, 2013.



Limit	Description (Authority)	Eligibility/Conditions	Limit for CY 2017 <sup>1</sup>
3. Exception for critical positions	The Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to 120 percent of the total annual compensation payable to the Vice President of the U.S. (39 U.S.C. § 3686(c)).	<p>Any officer or employee in one of no more than 12 critical senior executive or equivalent positions.</p> <ul style="list-style-type: none"> <li>The Board must approve and certify for the annual period that the bonus and reward program makes meaningful distinctions based on relative performance. (However, the bonus or reward itself may be for purposes other than performance, such as recruitment or retention.)</li> <li>Recipient's name, amount of compensation, and amount over limit as a result of the payment must be included in annual <i>Comprehensive Statement on Postal Operations</i> (39 U.S.C. § 3686(d)).</li> <li>Recipient's name, nature of duties, and basis for payment must be reported by the Board within 30 days of payment.</li> </ul>	\$288,120

Source: 39 U.S.C. § 1003(a) and 3686(a) through (d), and Executive Order No. 13756.

**The Postal Service has internal policies and procedures regarding compensation, benefits, and bonuses.**

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**The Postal Service also must comply with IRS regulations regarding deferred compensation and the Medicare tax rate for wages over \$200,000.**



In addition to the limits established in the PAEA, the Postal Service has internal policies and procedures regarding compensation, benefits, and bonuses. The Postal Service also must comply with IRS regulations regarding deferred compensation and the Medicare tax rate for wages over \$200,000.

### Finding #1: Employee Compensation Reporting

In the fiscal year (FY) 2017 *Comprehensive Statement on Postal Operations* (Comprehensive Statement)<sup>4</sup> the Postal Service overstated the amount by which the total CY 2016 compensation for two executives exceeded Executive Schedule Level 1.<sup>5</sup> As shown in [Table 2](#), the Postal Service overstated two executives' compensation by \$13,254. The difference represents the value of financial counseling benefits<sup>6</sup> which should have been excluded from these calculations.

<sup>4</sup> This report's purpose is to provide information to stakeholders. Combined with the *Annual Report*, *Annual Performance Report*, and *Annual Performance Plan*, these reports satisfy the public reporting requirements contained in Title 39 U.S.C and PAEA.

<sup>5</sup> The Executive Schedule contains federal executive salaries; Level 1 is the highest level and was set at \$205,700 for CY 2016.

<sup>6</sup> This benefit may include review of an employee's current financial position, analysis of financial goals, investment advisory services, retirement planning, estate planning, tax planning, and risk management.

**Table 2. CY 2016 Compensation Data**

Executive	Total Compensation Determined by OIG	Executive Schedule Level 1 for CY 2016	Amount Over Executive Schedule Level 1	Amount Reported in the <i>Comprehensive Statement</i>	Difference
Executive A	\$207,385	\$205,700	\$1,685	\$8,385	\$6,700
Executive B	254,838	205,700	49,138	55,692	6,554
<b>Total Difference</b>					<b>\$13,254</b>

Source: U.S. Postal Service Office of Inspector General (OIG) analysis and FY 2017 Comprehensive Statement.

The PAEA contains reporting requirements on executive and officer compensation. The Postal Service must include specific information in the Comprehensive Statement on the bonuses and rewards provided the previous calendar year, including the amount by which the Executive Schedule Level 1 limit is exceeded because of bonuses or other payments.<sup>7</sup> The cash value of financial counseling benefits is excluded from this requirement.

The overstatements we identified are related only to the Comprehensive Statement reporting requirements. We did not identify concerns with Postal Service personnel exceeding appropriate compensation limits.

We discussed these overstatements with management, who acknowledged the errors. Management stated that the value of the two executives' financial counseling benefits was properly included in CY 2016 gross compensation but was not removed for reporting purposes. This occurred because the financial counseling amounts were not properly identified in the data provided to employees responsible for preparing the compensation portion of the Comprehensive Statement.

Because of our audit, management implemented new procedures for documenting and excluding the value of Financial Planning benefits from the amount of compensation reported in the Comprehensive Statement. The procedures include obtaining financial planning invoices, validating them against payroll earnings reports, and coding them for exclusion. In addition, the Postal Service implemented quarterly and annual quality control reviews. We reviewed the new procedures and determined that they adequately addressed the finding. Therefore, we are not making a recommendation.

### Management's Comments

Management agreed with our finding and reiterated their new procedures and internal controls to ensure the value of the financial planning benefit is properly documented and excluded from the compensation reported in the Comprehensive Statement on Postal Operations.

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

### Evaluation of Management's Comments

The OIG considers management's comments responsive to the conclusions in the report.

<sup>7</sup> 39 U.S.C. § 3686 (d).

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

The scope of this project is compensation paid or deferred to Postal Service employees for CY 2017. Occasionally, certain elements of total compensation for senior officers take the form of deferred compensation. Table 3 provides the amount of compensation including interest deferred during CY 2017.

**Table 3. CY 2017 Deferred Compensation and Interest**

Officer	Amount Deferred <sup>8</sup>	Deferred Balance <sup>9</sup>	Status
Megan Brennan	\$12,172	\$77,338	Active
Joseph Corbett	46,793	314,739	Active
Ross Philo	8,275	0	Inactive
John Potter	19,613	301,257	Inactive
<b>Total</b>	<b>\$86,854<sup>10</sup></b>	<b>\$693,334</b>	

Source: Enterprise Data Warehouse (EDW)<sup>11</sup> and Eagan Accounts Payable System.<sup>12</sup>

Some in-scope employees are eligible for increased compensation because they were designated as occupying critical, senior executive positions. For CY 2017, the Board designated the following eight individuals as critical:

- Postmaster General and Chief Executive Officer
- Deputy Postmaster General
- Chief Operating Officer and Executive Vice President
- Chief Financial Officer and Executive Vice President
- Chief Customer and Marketing Officer and Executive Vice President

- Chief Human Resources Officer and Executive Vice President
- Chief Information Officer and Executive Vice President
- General Counsel and Executive Vice President

To achieve our objective, we:

- Reviewed provisions of the PAEA and 39 U.S.C. related to compensation.
- Reviewed the FY 2017 Comprehensive Statement for compliance with the PAEA and 39 U.S.C. §3686(d) reporting requirements.
- Reviewed resolutions, decisions, and meeting minutes of the Temporary Emergency Committee of the Board.
- Reviewed related Postal Service policies, procedures, and guidelines.
- Reviewed IRS regulations and guidelines for wage and tax reporting.
- Reviewed Postal Service compensation data from payroll systems.
- Reviewed associated bonuses, awards, and annual leave exchange records.
- Reviewed payroll adjustments.
- Reviewed deferred compensation records and related general ledger balances.
- Reviewed applicable Postal Service employment agreements.
- Examined Postal Service reports regarding compensation to the Office of Personnel Management and the Congress.

We conducted this performance audit from February through July 2018 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the

<sup>8</sup> This column includes deferred compensation awarded during CY 2017 and interest on deferred balances. The amounts for Mr. Philo and Mr. Potter are entirely interest.

<sup>9</sup> As of December 31, 2017.

<sup>10</sup> Difference due to rounding.

<sup>11</sup> The EDW is the Postal Service's repository for all retail, financial, and operational performance data.

<sup>12</sup> The Eagan Accounts Payable System is used for non-traditional payments, including deferred income.

circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We provided a copy of this report to management on June 20, 2018. Management had no concerns and declined a meeting to

discuss our observations and conclusions; however, they will provide formal written comments.

We assessed the reliability of Payroll Systems,<sup>13</sup> EDW, Eagan Accounts Payable System, and eAwards<sup>14</sup> system data by tracing a sample of data to source documents and applying logical tests to electronic data files. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Compensation, Benefit and Bonus Authority in Calendar Year 2016</i>	Determine whether the Postal Service complied with applicable maximum total compensation provisions of the PAEA for CY 2016, and related Postal Service policies and guidelines and IRS regulations.	<a href="#">FT-AR-17-009</a>	8/8/2017	None
<i>Executive Officer Compensation for Calendar Year 2015</i>	Determine whether the Postal Service complied with applicable provisions of the PAEA, Postal Service policies and guidelines, and IRS regulations for CY 2015 executive officer compensation.	<a href="#">FT-AR-16-008</a>	8/1/2016	None
<i>Officer Compensation for Calendar Year 2014</i>	Determine whether the Postal Service complied with applicable provisions of the PAEA of 2006, Postal Service policies and guidelines, and IRS regulations for CY 2014 officer compensation.	<a href="#">FT-AR-15-009</a>	7/22/2015	None

<sup>13</sup> Payroll Systems processes employee's bi-weekly compensation and maintains salary histories and all necessary data for W-2 reporting.

<sup>14</sup> eAwards allows employees to complete and submit awards online.

# Appendix B: Management's Comments

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



July 10, 2018

TO: DIRECTOR, AUDIT OPERATIONS  
OFFICE OF INSPECTOR GENERAL

SUBJECT: Compensation, Benefit, and Bonus Authority in Calendar Year 2017  
(FT-AR-18-DRAFT)

Thank you for the opportunity to respond to the above mentioned draft audit report. We agree with the conclusions of the report that the Postal Service complied with the provisions relating to the applicable maximum total compensation provisions of PAEA in CY2016; and we also complied with related internal policies and guidelines and IRS regulations for CY2016 compensation.

Management agrees we had overstated financial planning benefit amounts for two executives in the Fiscal Year 2017 Comprehensive Statement on Postal Operations. As noted in the report we have implemented new procedures and quality controls to ensure the value of the financial planning benefit is properly documented and excluded from the compensation reported in the Comprehensive Statement on Postal Operations.

We would welcome the opportunity to discuss with you if you have any further questions.

A handwritten signature in blue ink, appearing to read "J. Williamson", written over the printed name.

Jeffrey C. Williamson

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