



December 5, 2008

KATHERINE C. TOBIN  
CHAIRMAN, AUDIT & FINANCE COMMITTEE

SUBJECT: Executive Compensation (Report Number FT-WP-09-001)

This report presents the results of our audit of compensation and annual leave exchange paid and/or deferred to executives<sup>1</sup> based on the limits established in the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) and Postal Service policies and guidelines (Project Number 08BM003FT002). The report responds to an inquiry from the Board of Governors regarding the audit coverage we provide for executive compensation. See Appendix A for additional information about this portion of the audit.

### **Conclusion**

The Postal Service generally complied with the compensation limits stated in the Postal Act of 2006. However, one executive received \$670 over the compensation limit<sup>2</sup> in calendar year (CY) 2007.<sup>3</sup> The executive received an award at the end of the calendar year after existing tests for compensation caps were performed. The Postal Service has subsequently implemented strict monitoring of biweekly compensation, including awards, during the last calendar quarter to prevent future compensation cap issues. We believe this action will address the issue identified. Consequently, we are not making any recommendations to management.

In addition, we found that executives exchanged annual leave in accordance with internal guidelines detailed in the listings of executive benefits provided to them by Headquarters Compensation.

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<sup>1</sup> Defined in this report as Postal Career Executive Schedule (PCES) II employees (i.e., Postal Service officers).

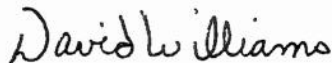
<sup>2</sup> The compensation limit was \$215,700.

<sup>3</sup> We analyzed compensation limits for CY 2007, as CY 2008 has not yet concluded.

Further, while we reviewed deferred compensation as a part of the overall scope, it does not apply to compensation caps. We noted that one of 39 executives was allocated \$44,686 in deferred compensation during CY 2007, and as of September 30, 2008, five executives have been allocated a total of \$336,235 in deferred compensation during CY 2008. Executives may be granted deferred compensation, which is only distributed after resignation or retirement. Title 39 does not limit the Postal Service from devising and implementing deferred compensation provided it does not conflict with either the Federal Employees' Retirement System or the Civil Service Retirement System.

We did note that annual leave exchange and deferred compensation prerequisites for executives are not documented in Postal Service policy manuals; Postal Service personnel stated this is due to their sensitivity. However, the Postal Service provides transparency for these payments for key executives as part of its annual Form 10-K financial report disclosure.

If you have any questions or need additional information, please contact Gordon C. Milbourn III, Assistant Inspector General for Audit, or me at (703) 248-2100.



David C. Williams  
Inspector General

Attachment

cc: M. Gibbons  
H. G. Walker  
L. Malcolm  
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## **APPENDIX A: ADDITIONAL INFORMATION**

### **BACKGROUND**

The passage of the Postal Act of 2006 amended Title 39, imposing a new limit on total compensation for the Postal Service. Under this provision, the total compensation payable to any employee is established at three levels.

- No officer or employee may be paid compensation at a rate in excess of the rate for level I of the Executive Schedule. This compensation cap was set at \$186,600 for CY 2007.
- With the approval of the Board, the Postal Service may develop a program to award a bonus or other reward up to the total annual compensation payable to the Vice President of the U.S., or \$215,700 for calendar year 2007.
- The Board may designate 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., or \$258,840 in calendar year 2007.

Compensation includes annual salary, merit lump sum payments,<sup>4</sup> bonuses, and awards.

Postal Service executives receive additional benefits, including financial planning, parking, life insurance, health benefits, annual leave exchange and other perquisites. In certain limited cases, executives have contractual benefits in the form of deferred compensation. These items are not generally subject to the compensation limits defined in the Postal Act of 2006.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of this portion of the fiscal year (FY) 2008 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center – were to determine whether the Postal Service complied with (1) the Postal Act of 2006 limits on annual compensation for executives, (2) annual leave exchange program limits set forth in Postal Service policy, and (3) deferred compensation rules for executives.

We conducted this audit from April through December 2008 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 findings and conclusions based on our audit

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<sup>4</sup> The performance-based lump sum payment included as part of the Postal Service's National Performance Assessment program (or its annual pay-for-performance incentive program).

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We relied on computer-generated data from payroll systems, the Eagan Accounts Payable System, and the e-Awards System for testing compensation, awards, bonuses, annual leave exchange, and deferred compensation. We used advanced data analysis techniques to test data gathered from these systems and performed specific internal control and transaction tests, to include tracing selected information to supporting source records.

### PRIOR AUDIT COVERAGE

We issued three reports since FY 2005 in this issue area, none of which identified any concerns related to executive compensation.

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact</b>
<i>Fiscal Year 2007 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-08-007	2/8/08	\$2,706,979
<i>Fiscal Year 2006 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-07-007	12/29/06	\$0
<i>Fiscal Year 2005 Postal Service Financial Statements Audit – Eagan Information Technology and Accounting Service Center</i>	FT-AR-06-009	1/10/06	\$0