

November 23, 1999

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MANAGER, ACCOUNTING SERVICE CENTER

SUBJECT: Back Pay Awards  
Report FR-FA-00-002

This report presents an interim finding identified during our audit of the United States Postal Service Financial Statements for fiscal year (FY) 1999, Eagan Accounting Service Center (Project No. 99PA009FR002).

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## Results in Brief

The Eagan Accounting Service Center disbursed back pay awards that frequently contained errors. Our review disclosed 17 of the 24 randomly selected back pay awards contained 58 errors totaling \$43,795. These errors occurred because:

- ◆ User-friendly guidelines and procedures were not established for processing back pay awards.
- ◆ Payroll personnel performed incorrect calculations.
- ◆ The awards were not reviewed prior to disbursement.
- ◆ Payroll personnel were not aware of the requirement to deduct union dues.

Incorrectly processing back pay awards results in increased costs associated with overpayments, processing adjustments to correct back pay errors, and increased workload to resolve contested back pay discrepancies.

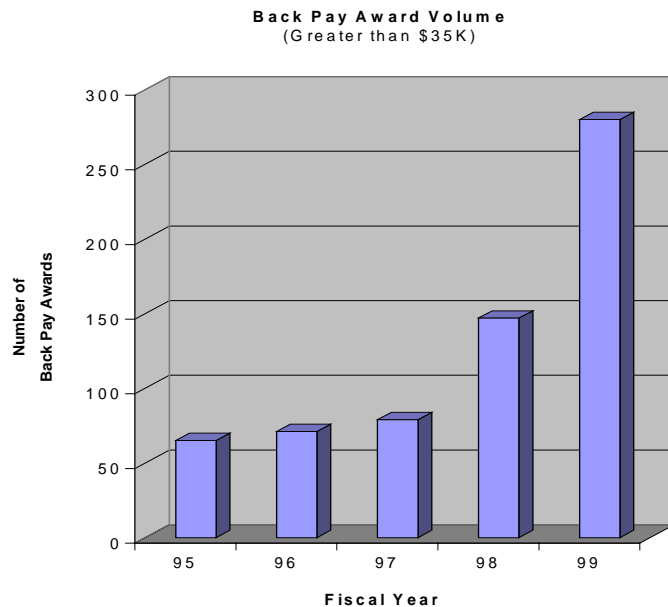
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## Background

By administrative order, current or former employees, who were unjustly terminated, are entitled to receive back pay for the period during which the unwarranted personnel action was in effect. The Employee and Labor Relations Manual, section 436, requires field units to provide hours certification, salary progression, and documentation supporting outside earnings for employees that were dismissed improperly. The Eagan Accounting Service

Center uses this information to calculate the amount of back pay, payroll deductions, and leave restoration as required by Payroll Processing Handbook F-24, section 471. Payroll personnel are provided initial training and supplied with numerous documents including instructions, directives, examples, etc. They rely on this reference material for guidance to process back pay awards.

The Payroll Processing Branch experienced a significant increase in the number of back-pay awards processed in the last several years. The number of back-pay awards (greater than \$35,000) increased 331 percent from 65 (\$4.2 million) in FY 1995, to 280 (\$16.6 million) in FY 1999, with the most dramatic increase experienced in the last two years.



The Eagan Accounting Service Center processed approximately 2700 back pay awards (greater than \$1500)<sup>1</sup> in FY 1999; reflecting a 152 percent increase from the 1071 processed in FY 1994.

<sup>1</sup> Back pay awards are not separately coded in the Adjustment Processing System and therefore, data to measure the entire magnitude of back pay awards is not accessible. However, the Eagan ASC maintains a spreadsheet that tracks all back pay awards greater than \$1,500.

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**Objective, Scope, and Methodology**

Our objective was to determine whether back pay awards were properly calculated and paid. We conducted this portion of the audit from December 1998 through August 1999 in accordance with generally accepted government auditing standards and included tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

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**Back Pay Awards**

The Eagan Accounting Service Center disbursed back pay awards that frequently contained errors. We randomly selected 30 back pay awards greater than \$35,000 which consisted of 6 lump sum awards and 24 awards requiring detailed calculations. Our review disclosed 17 of the 24 calculated back pay awards contained 58 errors totaling \$43,795. Specifically:

- ◆ 14 back pay awards contained 30 monetary errors.
- ◆ 11 contained 23 leave restoration errors.
- ◆ 5 did not have union dues collected.

These errors occurred because the Payroll Processing Branch performed incorrect calculations and did not review the awards prior to disbursement.<sup>2</sup> In addition, reference material provided during initial training is not user-friendly. Specifically, the reference material is not indexed and structured to facilitate efficient and accurate processing of back pay awards. Also, Payroll personnel did not deduct union dues for awards settled through the Merit Systems Protection Board and the Equal Employment Opportunity Commission because they were not aware of the deduction requirements.

These errors resulted in:

- ◆ Overpayments totaling \$5146.
- ◆ Underpayments totaling \$11,944.
- ◆ Under-restoration of 865 leave hours (\$16,406).
- ◆ Over-restoration of 114 leave hours (\$2812).
- ◆ Uncollected union dues of \$7487.

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<sup>2</sup> Four of the 58 errors originated in field offices. However, ASC payroll technicians did not follow developed guidelines to identify and correct the back pay awards prior to disbursement.

Moreover, the Payroll Processing Branch experienced a dramatic increase in the volume of back-pay awards. This heightens the need for effective controls and procedures to avoid costs associated with overpayments, processing adjustments to correct back pay errors, and increased workload to resolve contested back pay discrepancies.

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**Recommendations**

We offer the following recommendations:

The manager, Eagan Accounting Service Center, should require the Payroll Processing Branch to:

1. Correct the errors identified during the audit. We provided the Payroll Processing Branch a list of all errors identified during the audit.
2. Develop structured guidelines that detail the procedures to compute back pay awards. We suggest incorporating a checklist and provide referenced examples to facilitate the computation of back pay awards.
3. Implement detailed supervisory review procedures prior to disbursement of back pay awards.
4. Issue policy guidance to collect union dues from all applicable awards settled through the Merit Systems Protection Board and the Equal Employment Opportunity Commission.

Please furnish a reply within 20 days describing the corrective action planned or taken, including the timeframes, on our recommendations. This finding will be included in a consolidated report for the Eagan Accounting Service Center at the conclusion of the FY 1999 financial statement audit. The report will include your comments and any planned corrective actions. If you have any questions, please contact me at (703) 248-2207 or [REDACTED]

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