



Office of Inspector General | United States Postal Service

Audit Report

Compensation, Benefit, and Bonus Authority in Calendar Year 2020

Report Number 21-183-R21 | September 23, 2021



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Highlights

Objective

Our objective was to determine whether the U.S. Postal Service complied with applicable maximum total compensation provisions of the Postal Accountability and Enhancement Act of 2006 (PAEA) and related Postal Service policies and guidelines for calendar year (CY) 2020.

For CY 2020, the annual salary of each Postal Service employee was limited to Executive Schedule Level 1, or \$219,200. For this salary limit, compensation includes any federal annuity received. Two exceptions granted under PAEA allow the Postal Service to exceed this limit. The first exception provides for bonuses or other rewards such that the employee's total compensation does not exceed \$253,300 (the salary of the U.S. Vice President). The second exception allows

“Each year the Postal Service is required to report on compensation in an annual comprehensive statement.”

the Postal Service to exceed the salary of the U.S. Vice President by 20 percent (\$303,960) for up to 12 critical senior executives.

Under the two exceptions, total compensation includes merit lump sum, incentive and recruitment bonuses, and executive detail bonus payments, as well as the value of non-cash awards such as gift certificates or stamp yearbooks.

Excluded from total compensation is the value of benefits such as grievance payments, overtime, premium pay, or the cash value of benefits like

health benefits, life insurance, increased annual leave exchange hours, free financial counseling, wellness benefit, parking, and other perquisites that are not subject to PAEA compensation guidelines.

Each year the Postal Service is required to report on compensation in an annual comprehensive statement. Since we did not perform this audit in fiscal year

2020, we did not have the CY 2019 data necessary to assess the accuracy of the Postal Service's report on compensation as it appeared in the *Fiscal Year 2020 Comprehensive Statement of Postal Operations*. However, we reviewed the Postal Service's compliance with these reporting requirements for CY 2018 compensation as it appeared in the *Fiscal Year 2019 Comprehensive Statement of Postal Operations*.

Findings

The Postal Service complied with the applicable maximum total compensation provisions of PAEA in CY 2020 based on recent practices, with one exception. The Postal Service paid one employee a basic annual salary that exceeded the basic annual salary limit. Management did not designate the employee's position in the annual report to Congress and the Office of Personnel Management as a critical, senior executive in order to pay basic salary compensation in excess of the salary limit.

Management stated that they did not identify the employee as required in the CY 2020 report because the appointment was made late in the year and total compensation did not exceed the bonus exception limit. However, since the basic annual salary limit for this employee was exceeded without bonuses or rewards, the bonus exception did not apply.

In addition, the Postal Service did not pursue recovery of a portion of a \$10,000 recruitment incentive bonus following noncompliance with the terms of the recruitment incentive agreement. Management initially advised that the employee was not required to repay the incentive bonus because the separation was involuntary. However, after further discussion, management advised they would pursue recovery of a portion of the bonus and planned to clarify the language of future employment agreements. We calculated that the Postal Service is due \$5,833 from the former employee.

Recommendations

We recommended Postal Service management:

- Coordinate with the Board of Governors to issue an amended *Report to Congress and Office of Personnel Management* for CY 2020 that includes the employee identified in the report.
- Collect the prorated portion of the recruitment incentive bonus identified in this report.
- Clarify the language on repayment of incentives for contract noncompliance in the standard templates used for employment, recruitment, and retention agreements.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 23, 2021

MEMORANDUM FOR: DOUGLAS A. TULINO
DEPUTY POSTMASTER GENERAL AND CHIEF HUMAN
RESOURCES OFFICER

Lorie Nelson

FROM: Lorie Nelson
Acting Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report - Compensation, Benefit, and Bonus Authority in
Calendar Year 2020 (Report Number 21-183-R21)

This report presents our audit of the U.S. Postal Service's Compensation, Benefit, and Bonus Authority in Calendar Year 2020 granted through the Postal Accountability and Enhancement Act of 2006.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Luisa Gierbolini, Acting Director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management
Postmaster General

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service’s calendar year (CY) 2020 compensation, benefit, and bonus authority granted through the Postal Accountability and Enhancement Act of 2006 (PAEA) (Project Number 21-183). The objective of this audit was to determine whether the Postal Service complied with applicable maximum total compensation provisions of the PAEA and related Postal Service policies and guidelines for CY 2020. See [Appendix A](#) for additional information about this audit.

Background

The PAEA amended portions of Title 39 of the U.S. Code regarding maximum salary and total compensation limits for employees, executives, and officers. An annual Executive Order, *Adjustments of Certain Rates of Pay*, establishes salary limits for the Executive Schedule (ES) and Vice President of the U.S.¹ Table 1 explains the authority and salary limits for CY 2020.

Table 1. Statutory Limits for CY 2020

Limit	Description (Authority)	Eligibility/Conditions	Amount for CY 2020
Basic Annual Salary Limit	No officer or employee may be paid compensation at a rate in excess of the rate for ES Level 1 (39 U.S.C. § 1003(a)).	Every officer and employee.	\$219,200
Bonus Exception	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"> The Board of Governors (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.²) Recipient’s name, amount of bonus or reward, and amount over limit as a result of the bonus or reward must be included in the annual <i>Comprehensive Statement of Postal Operations</i> (Comprehensive Statement) (39 U.S.C. § 3686(d)). 	\$253,300
Critical Positions Exception	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 for 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"> 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.) Recipient’s name, amount of bonus or reward, and amount over limit as a result of the bonus or reward must be included in the annual Comprehensive Statement (39 U.S.C. § 3686(d)). Recipient’s name, nature of duties, and basis for payment must be reported by the Board within 30 days of payment. 	\$303,960

Source: 39 U.S.C. § 1003(a) and 3686(a) through (d) and Executive Order No. 13901.

¹ Executive Order No. 13901 established the limits effective the first day of the first applicable pay period beginning on or after January 1, 2020.

² Per guidance from the U.S Department of Justice, Office of Legal Counsel, dated May 15, 2013.

For purposes of the basic annual salary limit above, compensation includes the cumulative portion of annual compensation received during the year that is attributable to salary plus any federal annuity received. For the limits established under the two exceptions above, compensation also includes merit lump sum, incentive and recruitment bonuses, and executive detail bonus payments, as well as the value of non-cash awards such as gift certificates or stamp yearbooks. Excluded from total compensation is the value of benefits such as grievance payments, overtime, premium pay, or the cash value of benefits like health benefits, life insurance, increased annual leave exchange hours, free financial counseling, wellness benefit, parking, and other perquisites not subject to PAEA compensation guidelines.

For the limits established under the two exceptions above, compensation also includes:



merit lump sum



incentive bonuses



recruitment bonuses



executive detail bonuses



non-cash awards



gift certificates



stamp yearbooks

The Board designated these eight positions as critical, senior executive or equivalent positions for CY 2020.³

1. Chief Logistics and Processing Operations Officer and Executive Vice President
2. Chief Human Resources Officer and Executive Vice President
3. Chief Financial Officer and Executive Vice President
4. Chief Retail and Delivery Officer and Executive Vice President
5. General Counsel and Executive Vice President
6. Chief Commerce and Business Solutions Officer and Executive Vice President
7. Senior Vice President, Finance and Strategy
8. Chief Human Resources Officer and Executive Vice President

In addition to the limits established in Title 39 of the U.S.C., the Postal Service has internal policies and procedures regarding compensation, benefits, and bonuses.

Finding Summary

The Postal Service complied with the applicable maximum total compensation provisions of PAEA in CY 2020 based on recent practices, with one exception. The Postal Service paid one employee a basic annual salary that exceeded the basic annual salary limit. In addition, the Postal Service did not pursue recovery of a portion of an incentive bonus following noncompliance with terms of a recruitment incentive agreement.

“The Postal Service complied with the applicable maximum total compensation provisions of PAEA in CY 2020 based on recent practices, with one exception.”

³ The former and current Postmaster General and the former Deputy Postmaster General were employed for only portions of CY 2020. As a result, none of them received total compensation approaching 120 percent of the annual compensation of the U.S. vice president as per the critical positions exception.

Finding #1: Basic Annual Salary

The Postal Service did not comply with statutory requirements when it paid one employee basic salary compensation totaling \$222,633, which was in excess of the basic annual CY 2020 salary limit of \$219,200. The employee was appointed Chief Information Officer and Executive Vice President effective November 21, 2020, which involved a salary increase. With the salary payment on December 24, 2020, the employee received an aggregate CY 2020 salary in excess of the limit for the year. The Postal Service did not designate the employee's position as a critical, senior executive or equivalent in the *Report to Congress and Office of Personnel Management* for CY 2020 as required in order to pay basic salary compensation in excess of the salary limit.

“Since the basic annual salary limit for this employee was exceeded without bonuses or rewards, the bonus exception did not apply.”

Title 39 U.S.C. § 1003(a) states that no officer or employee shall be paid compensation at a rate in excess of the rate for ES level I (\$219,200 for CY 2020). The statute provides two exceptions – the Bonus Exception and the Critical Positions Exception. The Bonus Exception raises the total compensation limit to \$253,300 (in CY 2020) when additional non-salary compensation is paid through an approved bonus and other reward program. The Critical Positions Exception allows the Postal Service to pay up to 12 employees up to \$303,960 (in CY 2020) if they are in designated critical, senior executive positions.⁴

Management explained that they did not include the employee in the annual report to Congress because the compensation did not exceed the

higher limit established by the bonus exception. Management believed that because the appointment was late in the year and the total compensation did not exceed the bonus exception limit, it did not trigger a reporting obligation.

⁴ Title 39 U.S.C. § 3686(c).

⁵ Recruitment incentive agreement dated December 3, 2020.

Following the appointment, they designated the employee as a critical, senior executive and expect to identify the employee in the CY 2021 report to Congress.

The Department of Justice Office of Legal Counsel (OLC) opined in May 2013 that the Postal Service may not pay an officer an annual basic salary in excess of the ES level 1 even if it has an approved program for bonuses and rewards. Further, OLC opined that the critical positions exception does not apply unless the Postal Service designates the employee in the report to Congress. Therefore, since the basic annual salary limit for this employee was exceeded without bonuses or rewards, the bonus exception did not apply. In addition, the critical positions exception did not apply in this case because neither the employee nor the position was in the required *Report to Congress and Office of Personnel Management* for CY 2020.

While this is a violation of statutory requirements, there is no penalty or other impact to the Postal Service.

Recommendation #1

We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to coordinate with the Board of Governors to issue an amended *Report to Congress and Office of Personnel Management* for Calendar Year 2020 that includes the employee identified in this report.

Finding #2: Recruitment Incentive Bonus

The Postal Service did not pursue recovery of a portion of an incentive bonus following noncompliance with terms of a recruitment incentive agreement.⁵ An employee received \$10,000 as an incentive to accept a position effective November 21, 2020.

The recruitment incentive agreement included the condition that the employee will refund a prorated portion of the bonus if for any reason they did not remain in the position for one full year. The employee could retain the prorated portion of the bonus based on the number of full calendar months held in the position. When

the employee involuntarily separated several months later, the Postal Service did not pursue recovery of any portion of the incentive bonus as required by the agreement.

Management initially advised that the employee was not required to repay the incentive bonus because the employee's separation was involuntary. However, after further discussion, management advised they would pursue recovery of a portion of the bonus and planned to clarify the language of future employment agreements.

We calculated five full calendar months from the effective date of the appointment on November 21, 2020, to the separation date on April 30, 2021 (December 2020 through April 2021). The portion of the bonus the employee was required to refund to the Postal Service was \$5,833.⁶ We consider this amount questioned costs.⁷

Recommendation #2

We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to collect the prorated portion of the recruitment incentive bonus identified in this report.

Recommendation #3

We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to clarify the language on repayment of incentives for contract noncompliance in the standard templates used for employment, recruitment, and retention agreements.

Management's Comments

Management agreed with all recommendations. Also, in subsequent correspondence, management agreed with the findings and monetary impact in the report.

Regarding recommendation 1, management will issue an Amended Report to Congress and the Office of Personnel Management for Calendar Year 2020 that includes the employee listed in the report. The target implementation date is December 20, 2021.

Regarding recommendation 2, management dispatched an invoice for the prorated amount of the incentive bonus.

Regarding recommendation 3, management will clarify language on the repayment of incentives for contract noncompliance in the standard templates used for employment, recruitment, and retention agreements. The target implementation date is October 30, 2021.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations, and the corrective action should resolve the issues identified in the report.

Management dispatched an invoice for the prorated amount of the incentive bonus. Therefore, we consider recommendation 2 closed upon issuance of this report. Recommendations 1 and 3 require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 3 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

“Management advised they would pursue recovery of a portion of the bonus and planned to clarify the language of future employment agreements.”

⁶ Twelve months in a calendar year less five full months in the position equals seven of twelve months the employee did not remain in the position. Calculation of the refund is $7/12 * \$10,000 = \$5,833.33$.

⁷ A cost the OIG believes is unnecessary, unreasonable, or an alleged violation of law, regulation, or contract.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit was total annual compensation paid to Postal Service employees in CY 2020. The three statutory limits established by PAEA include one or more of the following in determining an individual's compensation – basic annual salary, federal annuity, merit lump sum payments, incentive and recruitment payments, executive detail bonus payments, other cash awards, and the value of non-cash awards distributed to the individual during the calendar year.

Each year the Postal Service is required to report on compensation in an annual comprehensive statement. Since we did not perform this audit in fiscal year 2020, we did not have the CY 2019 data necessary to assess the accuracy of Postal Service's report on compensation as it appeared in the *Fiscal Year 2020 Comprehensive Statement of Postal Operations*. However, we reviewed the Postal Service's compliance with these reporting requirements for CY 2018 compensation as it appeared in the *Fiscal Year 2019 Comprehensive Statement of Postal Operations*.

Our scope excluded certain additional payments such as grievance payments, overtime, premium pay, or the cash value of benefits like free financial counseling, parking, life insurance, health benefits, PCES wellness benefit, increased annual leave exchange hours and other perquisites that are not subject to the compensation guidelines defined in the PAEA.

Although the Postal Service provides the payroll processing function for these organizations, we excluded OIG and Postal Regulatory Commission (PRC) employees from our analysis. Compensation of the OIG is designated under the Inspector General Act of 1978. The PRC is an independent establishment of the executive branch of the U.S. government.⁸ PRC employees are not considered to be Postal Service employees or subject to the same

statutory compensation caps, and do not participate in Postal Service award and bonus programs.

To meet our audit objective, we:

- Reviewed Postal Service policies, procedures, and guidelines regarding compensation, benefits, and bonuses.
- Reviewed payroll, bonus, and award information from Postal Service systems.
- Reviewed employment agreements applicable to the compensation limits for the project scope.
- Conducted interviews with the Board secretary, Postal Service representatives in the Compensation and Benefits area, and Accounting Specialists at the Eagan Accounting Service Center, as appropriate.

We conducted this performance audit from May through September 2021 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 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 September 2, 2021, and included their comments where appropriate.

We assessed the reliability of Payroll Systems,⁹ Eagan Accounts Payable System,¹⁰ and Electronic Awards System¹¹ data by tracing a sample of data to source documents, reviewing system controls, and applying logical tests to electronic data files. We determined that the data were sufficiently reliable for the purposes of this report.

⁸ 39 U.S.C. § 501 and 39 CFR § 3000.110.

⁹ The Payroll Systems include programming for Postal Service payroll. All pay rules necessary for compensating Postal Service employees are incorporated into this system.

¹⁰ The Eagan Accounts Payable System provides the capability of making non-traditional accounts payable payments.

¹¹ The Electronic Awards System allows Postal Service employees to complete employee award-related data online and submit them through the workflow approval process.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Compensation, Benefit, and Bonus Authority in Calendar Year 2018</i>	Determine whether the Postal Service complied with applicable maximum total compensation provisions of the PAEA, related Postal Service policies and guidelines, and related U.S. Postal Internal Revenue Service regulations in CY 2018.	19BG009FT000-R20	12/11/2019	None
<i>Compensation, Benefit, and Bonus Authority in Calendar Year 2017</i>	Determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA, related Postal Service policies and guidelines, and IRS regulations in CY 2017.	FT-AR-18-008	7/23/2018	None
<i>Compensation, Benefit, and Bonus Authority in Calendar Year 2016</i>	Determine whether the Postal Service complied with the applicable maximum total compensation provisions of the PAEA in CY 2016, related Postal Service policies and guidelines, and IRS regulations.	FT-AR-17-009	8/8/2017	None

Appendix B: Management's Comments



September 20, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response: Compensation, Benefit, and Bonus Authority in
Calendar Year 2020 (Report Number 21-183-DRAFT)

Thank you for the opportunity to respond to the subject draft audit report prepared by the Office of Inspector General (OIG), and to address the findings and recommendations contained therein. After further review and consideration, the Postal Service agrees with the OIG recommendations contained in the report, and will take steps to implement those recommendations.

Recommendation [1]:

We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to coordinate with the Board of Governors to issue an amended Report to Congress and Office of Personnel Management for Calendar Year 2020 that includes the employee identified in this report.

Management Response/Action Plan:

The Postal Service agrees with this recommendation. The Postal Service will issue an Amended Report to Congress and the Office of Personnel Management for Calendar Year 2020.

Target Implementation Date: December 20, 2021

Responsible Official:

Executive Director, Compensation & Benefits

Recommendation [2]:

We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to collect the prorated portion of the recruitment incentive bonus identified in this report.

Management Response/Action Plan:

The Postal Service agrees with this recommendation. The Postal Service has dispatched an invoice for collection of the prorated amount of the incentive bonus.

Target Implementation Date: September 30, 2021 – COMPLETE.

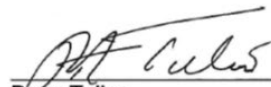
Responsible Official:
Executive Director, Compensation & Benefits

Recommendation [3]:
We recommend the **Deputy Postmaster General and Chief Human Resources Officer** instruct the **Senior Director, Compensation and Benefits**, to clarify the language on repayment of incentives for contract noncompliance in the standard templates used for employment, recruitment, and retention agreements.

Management Response/Action Plan:
The Postal Service agrees with this recommendation. The Postal Service will clarify the language on the repayment of incentives for contract noncompliance in the standard templates used for employment, recruitment, and retention agreements.

Target Implementation Date: October 30, 2021

Responsible Official:
Executive Director, Compensation & Benefits



Doug Tulino

Deputy Postmaster General and Chief Human Resources Officer

cc: *Manager, Corporate Audit Response Management*

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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100

For media inquiries, please email
press@uspsoig.gov or call 703-248-2100