Office of Inspector General | United States Postal Service

Audit Report

U.S. Postal Service Recognition and Awards Program

Report Number 21-263-R22 | May 20, 2022

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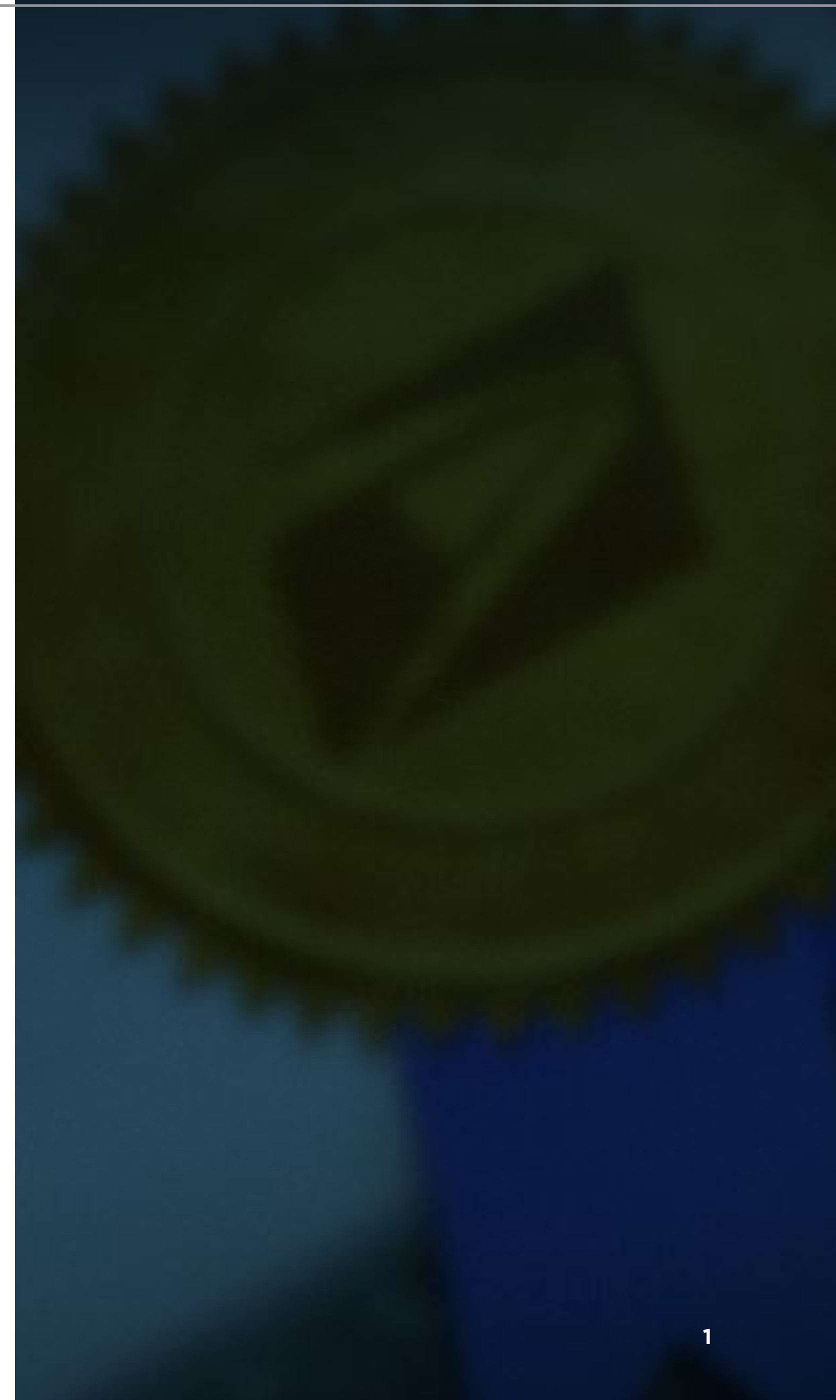
Highlights



Background

The U.S. Postal Service's Recognition and Awards Program is intended to recognize employees who have demonstrated outstanding performance, superior competence, or had some other significant accomplishment. For fiscal years (FY) 2018 to 2021, the Postal Service presented 133,330 awards totaling over $76.8 million.

What We Did

Our objective was to assess the Postal Service's effectiveness in managing its Recognition and Awards Program. We reviewed FY 2018 through FY 2021 recognition and awards data from the eAwards system.

What We Found

Postal Service management could improve controls to effectively manage its Recognition and Awards Program. Specifically, 271 employees inappropriately submitted and approved 10,035 awards totaling $9.1 million; six employees submitted seven awards for themselves totaling $2,598; and 254 employees submitted 598 reciprocating awards for each other totaling $820,128. We also found that management approved 36,959 of 53,377 judgmentally selected awards with inadequate or insufficient justification narratives in the eAwards system. Additionally, management did not audit its awards program.

These conditions occurred because management did not adequately implement or execute existing system controls or review them. Additionally, they did not provide employees with formal training on the awards program and did not properly review award justification narratives before approval. In addition, the policy was unclear on the awards' audit requirement, and did not have procedures in place to audit the awards for fairness. As a result, we estimated the Postal Service incurred $8.2 million annually in questioned costs.

Recommendations

We recommended management (1) improve controls over the awards process; (2) develop a process to identify and follow up on improper awards; (3) develop and communicate examples of commendable justifications and reiterate and train employees on awards requirements; and (4) review and update existing policies and procedures on the audit process.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 20, 2022

MEMORANDUM FOR: STEVEN A. DARRAGH
EXECUTIVE DIRECTOR, COMPENSATION AND BENEFITS

Lazerick C. Poland

FROM: Lazerick Poland
Acting Deputy Assistant Inspector General
for Human Resources and Support

SUBJECT: Audit Report – U.S. Postal Service's Recognition and Awards Program (Report Number 21-263-R22)

This report presents the results of our audit of the U.S. Postal Service's Recognition and Awards Program.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Amy Jones, Acting Director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Recognition and Awards Program (Project Number 21-263). Our objective was to assess the Postal Service's effectiveness in managing its Recognition and Awards Program. See Appendix A for additional information about this audit.

Background

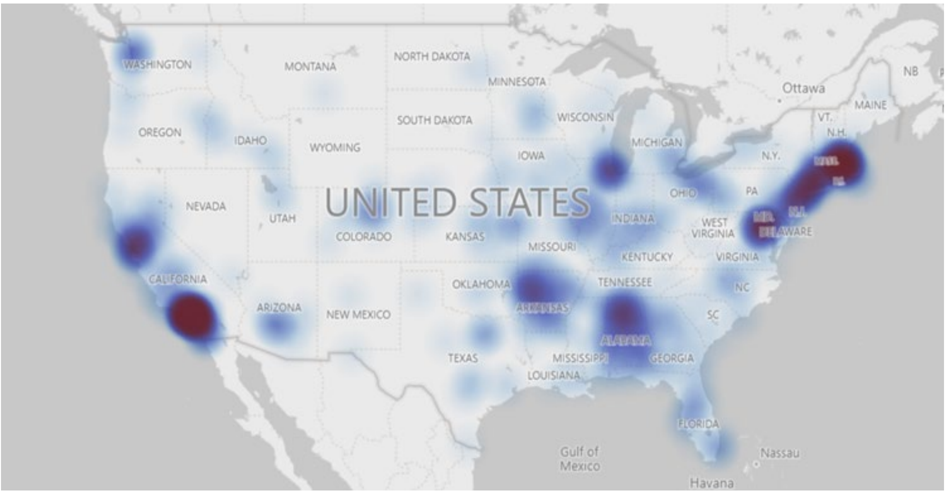
The Recognition and Awards Program is intended to recognize employees who have demonstrated outstanding performance, superior competence, or had some other significant accomplishment. The program was broadly designed to ensure that the recognition and award needs of all organizations and functional areas are met. Except for three high-level awards processed manually, non-cash tangible awards valued at more than $100 and all cash awards are submitted, tracked, and approved through the Postal Service's Electronic Awards (eAwards) system.

Awards are budgeted annually for Postal Career Executive Service (PCES)[1] and Executive and Administrative Schedule (EAS)[2] employees at about 1.5 percent and 0.5 percent of salary, respectively. Bargaining employee awards are not separately allocated and are funded by the general operating funds of the unit. Award funds are budgeted on a fiscal year basis and allocated on a calendar year basis. For fiscal years (FY) 2018 to FY 2021, the Postal Service presented 133,330 separate awards totaling over $76.8 million under the Recognition and Awards Program. These awards ranged from a letter of appreciation to $12,500 in cash.

"For fiscal years (FY) 2018 to FY 2021, the Postal Service presented 133,330 separate awards totaling over $76.8 million under the Recognition and Awards Program."

As shown in Figure 1, the number of awards issued were prevalent in the major metropolitan areas of Washington, DC (DC), Los Angeles, and Boston. Employees in the DC area,[3] which includes Arlington and Merrifield (VA), received 10,268 awards. DC area employees alone accounted for 84 percent of these awards with 8,594. Other locations with a high concentration of awards were in the NY, Chicago, and San Francisco Bay areas. Locations where awards appeared to be dispersed throughout the entire state included Alabama, Arkansas, and Illinois.

Figure 1. Number of Awards Issued From FY 2018 to FY 2021 Heat Map[4]



Source: eAwards system.

1 A staffing category established in 1979 that develops and maintains a motivated, competent group of employees for key management positions. There are two levels in PCES: Level I includes headquarters executives and area and district managers; and Level II consists of officers, including vice presidents.
2 Non-bargaining employees who represent headquarters, area, and district staff in many different administrative, supervisory, and managerial positions that are permanently or temporarily employed in the executive and administrative salary schedule.
3 Included DC and areas of MD and VA.
4 The intensity of the blue color (heat) depicts award activity on the map. The darker the color the more award activity.

Finding #1: Insufficient Controls over Awards

Postal Service management could improve controls to effectively manage their Recognition and Awards Program. Specifically, Postal Service management did not always exercise segregation of duties when submitting and approving awards. Additionally, employees gave reciprocating awards to each other.

Segregation of Duties

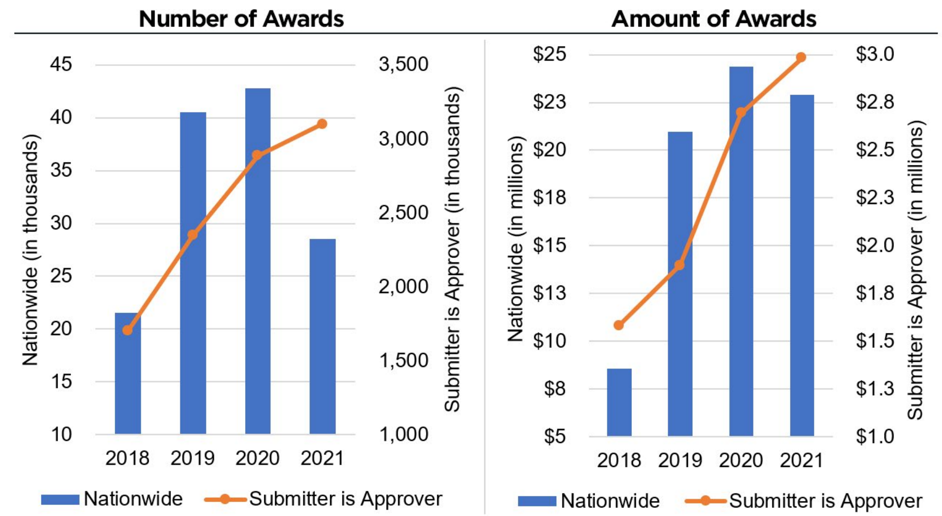
We identified that some employees had the ability to both submit and approve an award and submit awards for themselves. Specifically, from FYs 2018 to 2021, 271 employees were both the submitter and approver for 10,035 awards totaling over $9.1 million, including:

"Specifically, from FYs 2018 to 2021, 271 employees were both the submitter and approver for 10,035 awards totaling over $9.1 million."

- Spot Cash Awards[5] accounted for 6,206 of the awards (62 percent), which totaled over $5.6 million. These awards ranged from $73 to $3,000 with 141 Spot Cash Awards valued at $3,000 each.
- PCES Wellness Awards[6] accounted for 1,688 awards (17 percent) and totaled $691,673. These awards ranged from $16 to $500 with 904 awards valued at $500 each.
- One employee, who was not senior management or an executive, submitted and approved 1,293 awards (13 percent) totaling $522,256. These awards were for 530 employees in 116 performance clusters.[7] This was the highest instance representing the lack of segregation of duties.

These types of transactions accounted for 12 percent of all award amounts in our audit scope. As shown in Figure 2, the number of awards submitted and approved by the same employee increased each year from 1,702 to 3,101, and the amount for these awards nearly doubled from $1.6 million to $3 million.

Figure 2. Nationwide vs. Submitter/Approver Trends, FY 2018 to FY 2021



Source: eAwards system.

During FY 2021, the total number of awards and amounts decreased nationwide; however, the awards and amounts representing the same submitter and approver continued to increase. On average, cash amounts for awards with the same submitter and approver increased to over $960 in FY 2021. These increases are concerning due to the weak internal controls over employees who submit and approve the same awards, which is also rising in number.

5 Given to recognize sustained high-quality performance that is likely to continue beyond normal work requirements. The award amounts ranged from $50 to $3,000 per award and is limited to $3,000 per employee per fiscal year.
6 A PCES employee reimbursement benefit for wellness services promoting health, financial planning, and career development up to $1,000 each calendar year that is administered through the Recognition and Awards Program.
7 Performance cluster (PFC) codes allow all finance numbers within a performance cluster to roll up to a specific manager. For example, this code is used to consolidate both the customer services and mail processing functions within a performance cluster.

Additionally, we identified six employees who submitted seven awards for themselves totaling $2,598. Specifically, awards for these employees were created in the eAwards system by someone else and then submitted for approval by the employee receiving the award, which is not allowed. For example:

- A general clerk entered two Spot Cash Awards for a district financial/budget analyst valued at $1,475. The analyst, who was also the recipient, then submitted these awards for approval.
- An information disclosure technician entered a PCES non-cash award for a director valued at $500. The director, who was also the recipient, then submitted this award for approval.

Although the seven awards were approved by different employees, a system control weakness allowed the recipients to submit the awards for approval for themselves. This weakness shows how employees could bypass a control in the system.

As of April 11,2022, management took corrective action to change the eAwards system's drafter and recipient logic controls; as a result, employees will not be able to submit awards for themselves. Therefore, we did not make a recommendation for this specific issue.

Reciprocating Awards

We found 598 reciprocating transactions where employees submitted awards for each other during FYs 2018 to 2021. These transactions involved 254 employees and totaled $820,128. Of the 598 award transactions, 324 (54 percent) were given on the same day or within a week of each other. Additionally, 12 reciprocating awards were improperly submitted and approved by the same employee. Although, we did not identify specific instances of fraud during our audit, weak controls in this area could allow for fraudulent activity.

We identified 75 performance clusters with the same or similar pattern of reciprocating awards. From FYs 2019[8] to FY 2021, employees with the highest activity were:

- A manager and the manager's assistant submitted a total of 10 awards for each other valued at $13,555 in the Michigan 1 District (see Table 1).

Table 1. Michigan 1 Reciprocating Award Transactions FY 2019 to FY 2021

Submitter Position	Recipient Position	Award Title	Payroll Sent Date	Award Amount
Manager	Assistant	Spot Cash	3/29/19	$1,000
Assistant	Manager	Spot Cash	4/5/19	$1,500
Manager	Assistant	Spot Cash	9/10/19	$1,000
Assistant	Manager	Spot Cash	9/10/19	$1,000
Manager	Assistant	Spot Cash	12/6/19	$800
Assistant	Manager	Spot Cash	12/9/19	$755
Manager	Assistant	Spot Cash	9/4/20	$1,500
Assistant	Manager	Spot Cash	9/4/20	$2,000
Manager	Assistant	Spot Cash	9/2/21	$2,000
Assistant	Manager	Spot Cash	9/2/21	$2,000
Total				**$13,555**

Source: eAwards system.

- A manager and analyst submitted a total of nine awards for each other valued at $9,700 in the California 5 District (see Table 2).

8 In FY 2018, there were no applicable reciprocating award transactions between the employees represented in Table 1 or Table 2.

Table 2. California 5 Reciprocating Award Transactions FY 2019 to FY 2021[9]

Submitter Position	Recipient Position	Award Title	Payroll Sent Date	Award Amount
Analyst	Manager	Spot Cash	5/8/19	$1,000
Manager	Analyst	Spot Cash	5/13/19	$500
Analyst	Manager	Spot Cash	9/11/19	$1,000
Manager	Analyst	Spot Cash	9/11/19	$500
Analyst	Manager	Spot Cash	8/20/20	$2,000
Manager	Analyst	Spot Cash	9/4/20	$1,000
Manager	Analyst	Spot Cash	8/31/21	$1,000
Analyst	Manager	Spot Cash	9/7/21	$1,800
Analyst	Manager	Spot Cash	9/8/21	$900
Total				**$9,700**

Source: eAwards system.

According to Postal Service policy,[10] segregation of duties means that no one Postal Service employee should be responsible for handling all phases of a financial transaction. In addition, according to Standards for Internal Control in the Federal Government, it may be possible to reduce or eliminate certain fraud risks by changing the entity's activities and processes.[11]

These situations occurred because management did not adequately implement or execute existing system controls or perform reviews to reduce exposure to error, misuse, or fraud in processing award transactions. Specifically, the eAwards system allows employees in some positions, at various levels, to both submit and approve awards; however, to mitigate the risk of improper awards, management should implement additional compensating controls.

While no system of controls can guarantee compliance, no one person should have the ability to both submit and approve a transaction. This includes separating responsibilities for authorizing, processing, recording, and reviewing transactions; and handling any related assets so no one individual controls multiple key aspects of a transaction or event.[12] Management stated that the approvers of reciprocating awards could have disallowed the award if they felt something was unjust. However, as mentioned above, the submitter inappropriately approved 12 awards.

> *"While no system of controls can guarantee compliance, no one person should have the ability to both submit and approve a transaction."*

Not having adequate controls in place to ensure employees follow Postal Service policies may result in award funds being distributed improperly. This concern, as well as the combination of increasing number of awards and dollar amounts, may warrant further attention or examination.

9 There were no awards between these employees in FY 2018.
10 Handbook F-20A, *Accounting Services Systems and Processes*, Chapter 9-2, Segregation of Duties and Functions, and Chapter 9-2.4, Cash Disbursements.
11 *United States Government Accountability Office, Standards for Internal Control in the Federal Government*, September 2014, Principle 8 – Assess Fraud Risk, Response to Fraud Risks, Section 8.07, page 42.
12 *United States Government Accountability Office, Standards for Internal Control in the Federal Government*, September 2014, Principle 10 – Design Control Activities, Segregation of Duties, Section 10.03, page 47.

As a result of errors due to weak internal controls during FY 2018 through FY 2021, we determined that the Postal Service incurred questioned costs[13] of about $6.2 million for FYs 2020 and 2021. Going forward, the Postal Service is at risk of incurring about $19.3 million in costs for FYs 2022 through 2025 if management fails to address ineffective internal controls allowing segregation of duty errors to continue. We categorize this impact as funds put to better use.[14]

Recommendation #1
We recommend the **Executive Director, Compensation and Benefits**, improve controls over the awards process to ensure that employees do not have the ability to both submit and approve the same award or submit awards for each other.

Recommendation #2
We recommend the **Executive Director, Compensation and Benefits**, develop a process to identify and follow up on improper awards to ensure that controls are working as designed and employees cannot circumvent controls.

Finding #2: Inadequate Award Justifications

Management approved some awards with inadequate or insufficient justification narratives in the eAwards system between FY 2018 and FY 2021. Specifically, we found that 36,959 of 53,377 judgmentally selected[15] awards (69 percent) totaling over $16.6 million were not supported with adequate written justifications describing an employee's outstanding achievements that warrant the award, as required. Of the 36,959 awards, Spot Cash Awards represented 27,148 (73 percent) totaling over $15 million (90 percent).

"We identified 2,041 awards totaling about $1.1 million with only one word or character in the justification; however, the eAwards system allows up to 4,000 characters."

We identified 2,041 awards totaling about $1.1 million with only one word or character in the justification; however, the eAwards system allows up to 4,000 characters. These ranged from words such as "recognition" or "performance", and characters such as a single period or comma. One Vice President Cash Award[16] for $5,000 only had the character of "x" as a justification. Table 3 shows a breakout of awards by word count. There were 45,959 awards given totaling $19 million, which contained between one and 10 words as the justification.

Table 3. Word Count in eAwards

Word Range	Number of Awards	Percentage of Total	Award Amount	Percentage of Total
1 to 10	45,959	34%	$19,000,842	25%
11 to 35	46,277	35%	27,086,481	35%
36 or more	41,094	31%	30,746,638	40%
Total	**133,330**	**100%**	**$76,833,961**	**100%**

Source: eAwards system.

13 An unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. Generally, these costs are a result of historical events.
14 Funds that could be used more efficiently by implementing recommended actions.
15 Judgmentally selected 53,377 awards from a universe of 133,330 awards.
16 Vice President Cash Award acknowledges and rewards superior individual contribution or achievement deserving of system-wide recognition. The award amount is up to $5,000 per award and is limited to $10,000 per employee per fiscal year.

Even many of the 10-word or more justifications did not adequately provide a sufficient reason for the award. The following are additional examples of justifications lacking information to validate or demonstrate superior performance.

10-Word Justifications:

- "F2C -5.6%, F4 -10.4% and Total WK HR -7.3% YTD."
- "Serves as hiring coordinator for Area N for 79 offices."
- "Employee works on TR 2 and is involved in operations."

More Than 10-Word Justifications:

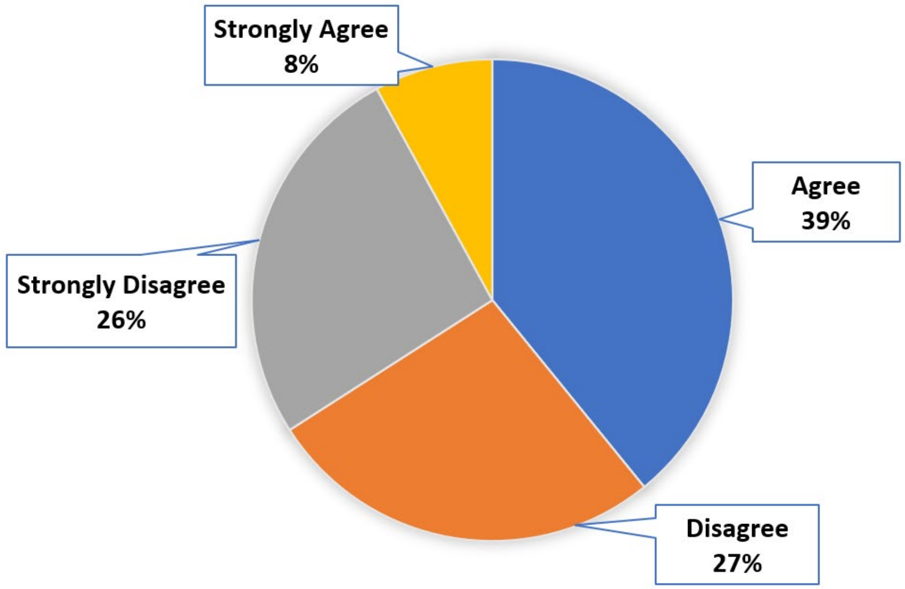
- "Making a difference in St Charles. Thank you for your efforts."
- "EMPLOYEE WAS GIVEN TARGET GIFT CARD FOR TOUR 3 PIT MH - HOLIDAY RECOGNITION ON 11-30-18."
- "Overall contributions to HRSSC goals for workhours/workload targets."

The following minimally worded justifications for the PCES Superior Achievement Awards[17] were attached to awards valued between $4,000 and $7,500:

- "[NAME] a justification is needed." This award recipient received $4,000.
- "CY2021 WestPac Area PCES Superior Achievement Award." This award recipient received $5,000.
- "Taking on VP level responsibilities." This award recipient received $7,500.

We conducted a survey to obtain management's impressions of and satisfaction with the Recognition and Awards Program.[18] As shown in Figure 3, the survey identified that 53 percent of respondents disagreed or strongly disagreed that guidance for an award is clear and easy to follow.

Figure 3. Current Guidance for Determining Eligibility for an Award is Clear and Provides Easy to Follow Guidance



Source: U.S. Postal Service Office of Inspector General (OIG) survey.

The Recognition and Awards Program is intended to recognize employees who have demonstrated outstanding performance or superior competence or had some other significant accomplishment. The program is not intended to provide incentives to employees to meet predetermined goals.[19] Postal Service managers are required to use appropriate review and control procedures to identify the superior work of individuals, programs, and operational areas.[20] Additionally, most awards require a justification for being given[21] such as:

- Performing exceptionally in one or more important job projects.

17 The PCES Superior Achievement Award recognizes cross-functional leadership efforts that lead to a significant, measurable improvement in bottom-line results. The award amount is limited up to $7,500 per award, per employee per fiscal year.
18 The survey included questions regarding submitting and or approving awards in the eAwards system, nominating others for awards, and/or personally receiving awards.
19 *Employee Labor Manual* (ELM) 51, Policy, Section 491.12, page 229.
20 ELM 51, Management Control, Sections 491.2, page 230.
21 ELM 51, Sections 492-497, pages 233-260.

- Enabling a unit to meet unanticipated demands by performance of unusual duties for short periods.
- Demonstrating unusual courage or competence in an emergency.
- Accomplishing a specific act beyond the normal duties.
- Exceeding requirements in one or more important job elements for 12 months or more.
- Making a contribution, including sustained performance, achievement, invention, special act, or service that exceeds usual work requirements.

According to management, they had not provided responsible employees with formal training in all aspects of the awards program. Management also mentioned that they intend to have coordinators available to support employees who need assistance with the awards process. Additionally, management stated that HERO, the Postal Service's online training application, does not include a formal training course applicable to eAwards.

Information on the awards program, including a frequently asked questions document, can be found on the Postal Service's intranet website. However, most of the information on the readily available website is only a general synopsis of the program and links to the ELM. Furthermore, management did not properly review the award justification narratives before approval and mentioned that award approvers can request more or additional information before approval.

The lack of adequate justification narratives to support awards approved by management could lead to the continuation of employees being inappropriately awarded and the perception of unfairness. Therefore, we believe the Postal Service incurred about $10.3 million of unsupported questioned costs involving award payments that management approved during FYs 2020 to 2021.

Most awards require a justification for being given such as:

- Performing exceptionally in one or more important job projects.
- Enabling a unit to meet unanticipated demands by performance of unusual duties for short periods.
- Demonstrating unusual courage or competence in an emergency.
- Accomplishing a specific act beyond the normal duties.
- Exceeding requirements in one or more important job elements for 12 months or more.
- Making a contribution, including sustained performance, achievement, invention, special act, or service that exceeds usual work requirements.

Recommendation #3

We recommend the **Executive Director, Compensation and Benefits**, (a) develop and communicate examples of what is considered a commendable justification for recognition and awards to all applicable staff responsible for recognition and awards activity and (b) reiterate and train all applicable staff on the requirement "to use appropriate review and control procedures to identify the superior work of individuals, programs, and operational areas."

Finding #3: Appropriate Audits Were Not Conducted

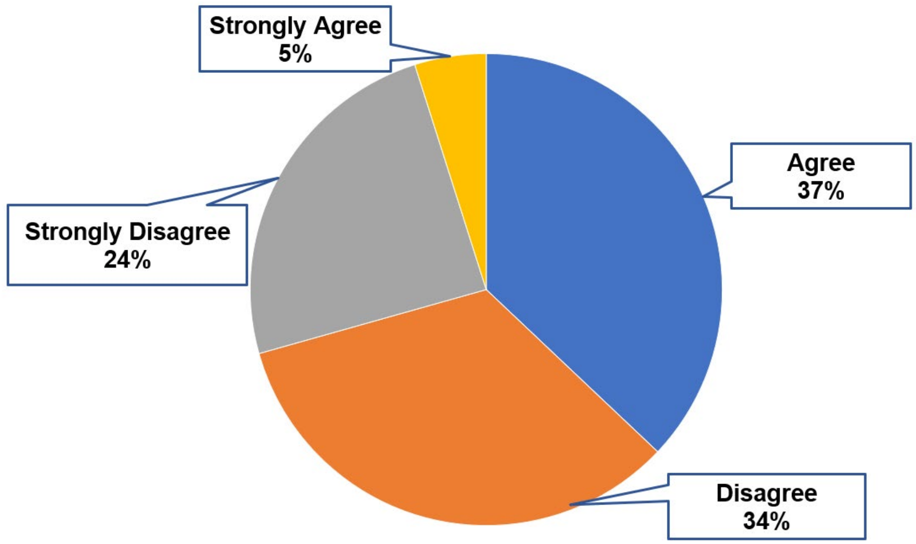
Management did not conduct audits on its Recognition and Awards Program to ensure that all employees obtained the same opportunity to receive recognition and awards, as required. Instead, they annually assess the Committee of Sponsoring Organizations (COSO)[22] Indirect Entity Level Control under Sarbanes-Oxley (SOX).[23] This assessment evaluates the balance between corporate, functional, and individual objectives and incentives through review of program objectives. However, this does not address the effectiveness of controls or employee fairness.

Management also reviewed Performance Cluster Budget Audit Reports, which showed a continuous balance as awards are cancelled, submitted, or returned by the approver. These reports are used by individuals with the designated reporting role to ensure budget controls are working properly and that awards are submitted, approved, processed, and deducted from budget allocations appropriately. While this may be a useful tool for tracking the awards budgets, the Performance Cluster Budget Audit Reports did not test controls to ensure that Postal Service funds were used equitably or as intended.

"Our survey of EAS and PCES employees showed that 58 percent of respondents do not believe that awards are distributed equitably and fairly and that all deserving candidates are receiving recognition."

Our survey of EAS and PCES employees showed that 58 percent of respondents do not believe that awards are distributed equitably and fairly and that all deserving candidates are receiving recognition (see Figure 4).

Figure 4. Awards Distributed Equitable and Fairly



Source: OIG survey.

According to Postal Service policy,[24] vice presidents, district managers, senior and lead plant managers, and the chief Human Resources officer are required to periodically audit the awards process. Additionally, all levels of management are responsible for:

- Ensuring that all employees are treated fairly and equitably.
- Providing a workplace environment characterized by recognition and celebration of business success.
- Using appropriate review and control procedures to identify superior work.
- Ensuring that related actions are fully considered in the awards process.

22 COSO is the Committee of Sponsoring Organizations of the Treadway Commission. COSO updated its 1992 Internal Control — Integrated Framework on May 14, 2013.
23 SOX is the Sarbanes-Oxley Act of 2002, which is a federal law that established auditing and financial regulations for public companies to help protect shareholders, employees, and the public from accounting errors and fraudulent financial practices.
24 ELM 51, Management Control, Section 491.2, page 230.

Although Postal Service policy specifically requires management at various levels to periodically audit the awards process for fairness, it does not provide management with a clear understanding of the plan of action as it relates to the audit requirement. The requirement does not include items such as detailed policies and procedures that reflect what should be audited, how often, and by whom.

According to senior management, managers are responsible for overseeing the audit process. Additionally, management stated that they do not have a formal Recognition and Awards Program audit process in place and, as an alternative, they track the process with reports. Consequently, management assumed that the SOX and Performance Cluster Budget Audit Report reviews met the audit requirement for the award program instead of establishing appropriate procedures to ensure compliance with the expected outcomes mentioned in the policy.

Without properly designed audit procedures to assess the effectiveness of controls, there is an increased risk that management will not be able to determine whether the Recognition and Awards Program is achieving its intended goal to fairly recognize talented employees who contribute to business objectives.

Recommendation #4

We recommend the **Executive Director, Compensation and Benefits**, review and update existing policies and procedures on the Recognition and Awards Program audit process to ensure the appropriate audit is conducted for the expected program outcomes.

Management's Comments

Management agreed with recommendations 3 and 4; however, they disagreed with recommendations 1 and 2. Additionally, management did not indicate in their written response whether they agreed or disagreed with the monetary impact. In subsequent correspondence, management disagreed with the monetary impact.

Regarding recommendation 1, management stated the current policy allows for a person who inputs an award to also approve the award. There is no evidence presented in the audit to suggest that current policy controls are inadequate. Management also stated executives task a few trusted individuals to submit and approve awards. Additionally, management stated the PCES Wellness award is an individual annual benefit provided to PCES Executives and is paid as a reimbursement to the employee. Each submission along with the receipt is reviewed and entered in the eAwards system by an HR Benefits Specialist. Lastly, management stated they have other system controls currently in place and do not believe the submitter and approver relationship is a risk.

Regarding recommendation 2, management restated that allowing managers to submit and approve awards is neither improper nor has culminated in improper awards. Management also stated the recommendation was driven by an inaccurate interpretation of reports pulled by the OIG. They describe one of our examples as a bulk award where the recipient, also the submitter, was one of the awardees and that it was authorized and approved by the Chief Postal Inspector. Additionally, management stated that the seven submitters/approvers representing 12 reciprocating awards involved five executives and two system administrators. Of the 12 awards, one represented a system test using $1 and two were PCES Wellness awards. Management believed none of these constituted improper awards. Lastly, management stated the OIG did not identify specific instances of fraud during our audit.

Regarding recommendation 3, management will implement a 50-word count minimum to the justification narrative field along with an approver certification check box to validate that the information and justification is accurate, commendable, and appropriate. They will also provide samples of commendable justifications for awards and other resources to employees on their intranet. Additionally, management will provide training for all eAwards coordinators on an annual or as needed basis. The target implementation date is November 2022.

Regarding recommendation 4, management will update ELM 51, Section 491.2 Management Control. They will also add a full budget audit report that includes all awards and award details in one report. The compensation team will use this report to initiate a formal review of controls and procedures with the eAwards coordinators to ensure all funds are used equitably and appropriately. The target implementation date is December 2022.

Regarding monetary impact, management did not provide an explanation for their disagreement.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments to recommendations 3 and 4 responsive and the planned corrective actions should satisfy the intent of the recommendations. However, we consider management's comments regarding recommendations 1 and 2 to be nonresponsive.

Regarding management's disagreement to recommendation 1, management stated there was no evidence in the audit to suggest current policy controls were inadequate; however, this statement is inaccurate. We provided management supporting documentation that identified six employees who submitted seven awards for themselves. As a result of our findings, management took corrective action during the audit and changed the eAwards system's drafter and recipient logic controls. Additionally, management stated they tasked a "few" trusted individuals to submit and approve awards; however, we found 271 employees were both the submitter and approver for 10,035 awards totaling over $9.1 million. Regardless of the number of employees who can both submit and approve awards, there is still an opportunity for those individuals to create improper awards with reduced oversight and transparency.

We acknowledged in our report that the PCES Wellness award is a reimbursement benefit for executives that is submitted and approved by a human resources benefits specialist. However, management did not address that four other human-resources employees' also entered, submitted, and approved claims in the eAwards system, which is a control weakness. As a result, employees have the opportunity and means to create fictious claims and direct payments to themselves without oversight. The "other controls" listed in management's response should help manage the recognition and awards program; however, the controls do not identify and provide oversight of potentially improper awards or address segregation of duties. We view the disagreement on this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

Regarding management's disagreement to recommendation 2, management asserted that allowing managers to submit and approve awards is neither improper nor has culminated in improper awards. However, according to Postal Service policy, segregation of duties means that no one Postal Service employee should be responsible for handling all phases of a financial transaction. Thus, allowing managers to submit and approve awards contradicts Postal Service policy.

We disagree with management's assertion that we inaccurately interpreted reports. Throughout the audit, we met with management on multiple occasions to discuss our interpretation of the data, obtain their feedback and confirm the OIG's understanding. In addition, we provided management with copies of the results of our data analysis based on the understanding we gained from their feedback. During discussions, management did not inform the OIG that the data was being interpreted incorrectly.

We acknowledge the example cited on page 4 of the report was a bulk award and the report identified that the award was approved by a different employee. However, six employees, to include the director, were able to submit awards for themselves. We informed management of this issue and they took corrective action by updating the eAwards system so employees can no longer circumvent the control to submit an award for themselves that someone else created.

Although management does not consider reciprocating awards and the PCES Wellness benefit as improper awards, the eAwards system controls allow employees to submit awards for each other and submit and approve the same award. In total, there were 598 reciprocating awards valued at $820,128 and 12 of these awards were submitted and approved by the same employee. Most of the reciprocating awards (54 percent) were given on the same day or within a week of each other. We acknowledge that the award transaction valued at $1 was a system test. However, the $1 award was not deleted, rejected, or rescinded and a check was issued to the award recipient. This transaction could have potentially been an employee testing the system to identify control weaknesses that would allow for an improper award. Overall, there is a potential for fraud due to the control weakness of having the same person submit and approve the claim.

Our audit was not designed to identify specific instances of fraud. Our audit focused on identifying internal control weaknesses that could allow fraud to occur. During our audit, we identified questionable transactions that warranted further attention. As a result, we have referred the reciprocating awards to the Postal Service OIG Office of Investigations for further review. We view the disagreement on this recommendation as unresolved and plan to pursue it through the formal audit resolution process.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All recommendations 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.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information

Scope and Methodology

We reviewed and analyzed recognition and awards data from the eAwards system from FY 2018 through FY 2021. We also reviewed 10 awards, which were processed outside the eAwards system during the same period.

To accomplish our objective, we:

- Reviewed Postal Service policies and procedures related to recognition and awards activity, including reporting, monitoring, and tracking.
- Analyzed recognition and awards data to identify trends, risk areas, and anomalies.
- Interviewed field and headquarters personnel regarding their responsibilities, processes and procedures over the Recognition and Awards Program.
- Solicited comments from the public and from 1,500 Postal Service EAS and PCES personnel to obtain their understanding and perspective of the awards program using surveys.
- Reviewed supporting documentation related to awards and applicable SOX control testing.

We conducted this performance audit from October 2021 through May 2022 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 April 14, 2022, and included their comments where appropriate.

We assessed the reliability of eAwards data by reviewing existing information and documentation regarding the eAwards system; interviewing and obtaining information from knowledgeable Postal Service officials regarding the eAwards data; performing testing related to the completeness, reasonableness, and validity of the eAwards data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments

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May 10, 2022

JOHN CIHOTA
DIRECTOR, AUDIT OPERATIONS

SUBJECT: U.S. Postal Service Recognition and Awards Program (Project Number 21-263-DRAFT, dated April 18, 2022)

Recommendation 1:

We recommend the **Executive Director, Compensation and Benefits,** improve controls over the awards process to ensure that employees do not have the ability to both submit and approve the same award or submit awards for each other.

Management Response/Action Plan:

Management does not agree with the recommendation.

The eAwards process is a management tool utilized to recognize employees who have achieved outstanding performance, have superior competence, or have performed some other significant accomplishment. Our managers are deemed the best individuals to make these determinations. Our current policy, that has existed since 2002, allows for the person who inputs an award to also approve the award. There is no evidence presented in this audit (or any other) to suggest that our current policy controls are inadequate.

Executives maintain confidentiality and accuracy with regards to award submissions by tasking a few trusted individuals to submit and approve awards, as necessary. Each Area's process can vary, but the task is typically given to Finance Managers and/or Human Resource Managers to oversee the budget and process for their respective Areas and Districts. It is similar to the way we handle purchasing where the Finance Manager has both funding authority and approval responsibilities. Like a large bulk funded purchase, we keep a declining balance while maintaining approval authority.

Further, the PCES Wellness awards were noted on page 2 as a finding of an insufficient control over awards. In response, this award is an individual annual benefit that is provided to PCES Executives and is only paid as a reimbursement to the employee once a claim is sent to the PCES Wellness mailbox and is accompanied with an attached receipt. Each form submission along with the receipt is reviewed and then entered in to

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the eAwards system by an HR Benefits Specialist. Once approved in eAwards, the reimbursement check is sent to the employee via mail. We do not see the $691,673 amount cited as a risk, as the current controls for this award are valid and sufficient.

Other system controls that are currently in place:

1) Employees cannot draft, submit, or approve an award for themselves.
2) PFC level awards are capped at a set budget and the system will fail any award submission that brings a PFC over the set cap.
3) Programming changes have been made to prohibit the ability to approve same awards more than once.
4) Requirements of Rate Schedule Codes and Levels are programmed in to eAwards system to ensure individuals of the necessary level and responsibility can submit and approve awards.

In summary, we do not believe the submitter/approver relationship is a risk, as it is a practice where the submitter and approver responsibilities are wholly transparent and meets the need for confidentiality, budget control, and oversight.

Target Implementation Date:
N/A

Responsible Official:
Steven Darragh, Executive Director Compensation and Benefits

Recommendation 2:

We recommend the **Executive Director, Compensation and Benefits,** develop a process to identify and follow up on improper awards to ensure that controls are working as designed and employees cannot circumvent controls.

Management Response/Action Plan:
Management does not agree with the recommendation.

The report cites on page six, "Specifically, the eAwards system allows employees in some positions, at various levels, to both submit and approve awards; however, to mitigate the risk of improper awards, management should implement additional compensating controls." We maintain that allowing managers to submit and approve awards is neither improper nor has culminated in improper awards.

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The recommendation was driven by inaccurate interpretation of reports pulled by the OIG during the audit. On page 4, the report cited "An information disclosure technician entered a PCES non-cash award for a director valued at $500." The report goes on to say that "The director, who was also the recipient, then submitted this award for approval." The report failed to say that this was a bulk award for 17 Inspection Service employees, not just for the director. The director was included in the bulk award which was authorized and approved by the Chief Postal Inspector. This does not constitute an improper award.

The report cited on pages 4 and 6 that twelve reciprocating awards were improperly submitted and approved by the same employee. The twelve awards had a total of seven approvers and five submitters/approvers were Executives and the remaining two were eAwards System Administrators. One of the cited awards was in the amount of $1 and was created as a system test (which was listed on the justification). Two other awards were for the PCES Wellness benefit for Executives and were reviewed by an HR Benefits Specialist prior to reimbursement to employees. None of these cited examples constitute an improper award.

We maintain that our current policy allows for the submitter/approver relationship and does not put postal funds at risk based on cited examples in the audit. The report also states on page 4 that the OIG "did not identify specific instances of fraud during our audit" after reviewing 29,431 awards (based on the data file supplied by the OIG) for fiscal years 2018-2021.

Target Implementation Date:
N/A

Responsible Official:
Steven Darragh, Executive Director Compensation and Benefits

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Recommendation 3:

We recommend **the Executive Director, Compensation and Benefits,** (a) develop and communicate examples of what is considered a commendable justification for recognition and awards to all applicable staff responsible for recognition and awards activity and (b) reiterate and train all applicable staff on the requirement "to use appropriate review and control procedures to identify the superior work of individuals, programs, and operational areas."

Management Response/Action Plan:
Management agrees with the recommendation.

We have engaged with IT System Development team to implement a 50 word count minimum to the justification field and an approver certification check box to validate that the information and justification is accurate, commendable, and appropriate.

We will also provide samples of commendable justifications for awards in FAQs and other resources available to employees on our internal intranet Blue. Compensation is also working on a training to conduct to all eAwards Coordinators at Headquarters and Field on an annual basis, or as needed.

Target Implementation Date:
The recommendation will be implemented in November 2022.

Responsible Official:
Steven Darragh, Executive Director Compensation and Benefits

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Recommendation 4:

We recommend the **Executive Director, Compensation and Benefits**, review and update existing policies and procedures on the Recognition and Awards Program audit process to ensure the appropriate audit is conducted for the expected program outcomes.

Management Response/Action Plan:
Management agrees with the recommendation.

We will work with Brand and Policy to update ELM 51, Section 490, Recognition and Awards, specifically section 491.2 Management Control. Compensation is also working with IT System Development team to add a Full Budget Audit report that includes all awards and award details in one report. Compensation will use this report to initiate a formal review of controls and procedures with the eAwards Coordinators to ensure all funds are used equitably and appropriately.

Target Implementation Date:
The recommendation will be implemented in December 2022.

Responsible Official:
Steven Darragh, Executive Director Compensation and Benefits

Steven Darragh
Executive Director, Compensation and Benefits

cc: DPMG & Chief Human Resources Officer
Acting Deputy Assistant Inspector General for HR and Support
Manager, Corporate Audit Response Management

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