August 16, 2010

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SUBJECT: Audit Report –Territorial Cost–of–Living Allowance
(Report Number FT-AR-10-012)

This report presents an issue concerning Territorial Cost-of-Living Allowance (TCOLA).[1] We identified this issue during our audit of the fiscal year (FY) 2010 Financial Statements – Eagan Information Technology and Accounting Service Center (IT/ASC) (Project Number 10BM001FT002). The objective of this portion of the audit was to determine whether TCOLA was processed in accordance with legislation and Postal Service policy.[2] This self initiated audit addresses financial risk. See Appendix A for additional information about this audit.

Postal Service policy requires TCOLA to be paid to employees who are working outside of the continental United States. TCOLA payments are calculated based on the duty station assigned to the various areas outside of the continental United States.

Conclusion

We reviewed TCOLA payments for the period September 12 to September 25, 2009,[3] and confirmed they were generally processed in accordance with legislation and Postal Service policy. However, we identified one payment, out of 7,414, where human resources personnel entered a transitional employee's[4] incorrect duty station into the Human Capital Management (HCM)[5] application when he was hired. The employee was stationed at the [redacted], GA, Post Office™ (PO) but was being paid TCOLA for the Egegik, AK, PO duty station. This occurred because at the time of data entry, no

[1] Territorial cost–of–living allowance is also known as Non-foreign area Cost-of-Living Allowance.
[2] U.S. Code, Title 39 Part II, Chapter 10, Section1005(b), and *Employee and Labor Relations Manual,* February 2010, Section 439.11.
[3] We initiated our audit of TCOLA at the beginning of October 2009. To ensure we had sufficient data, we selected the period September 12 to September 25, 2009, for review.
[4] Transitional employees are paid hourly with a limited term appointment up to but not to exceed 1 year.
[5] HCM is an integrated, enterprise-wide application that helps human resources personnel to administer several functions, including personnel action processing.

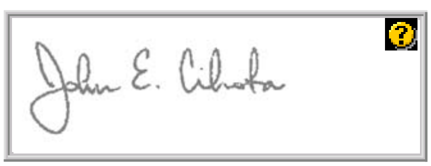
procedures or edit checks existed to prevent or detect this type of input error. As a result, the employee received TCOLA payments totaling $11,944 for the period December 6, 2008, to November 20, 2009, when he was not performing duties located in an area eligible for this benefit.

We consider the $11,944 as monetary impact, recoverable questioned cost.[6] See Appendix B for our calculation of monetary impact.

Issues with the accuracy of human resource information aggregated with other payroll information could result in control deficiencies for financial reporting purposes. Accordingly, we pursued this issue through the Sarbanes-Oxley control review process.[7] At this time, because we do not have any indications of other erroneous TCOLA payments and do not believe the issue is systemic, our initial determination is that this is a one-time, stand-alone issue.

After we brought the erroneous payment to management's attention, they processed personnel actions to correct the duty station. In addition, they established an accounts receivable to collect the erroneous payment. Employee Resource Management, through Human Resource Business Intelligence, is also planning to reactivate a data governance/exception report, targeted for September 30 2010, to be reviewed daily to identify anomalies of this type. Data governance/exception reports were available in the past to identify different types of anomalies, but the reports were discontinued. Because management corrected the issue and has planned to implement and monitor exception reports, we are not providing any recommendations at this time. However, we will continue to monitor the creation and reinstatement of data governance/exception reports as part of our ongoing financial statements audit work.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.



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for Financial Accountability

[6] Recoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations.
[7] The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by September 30, 2010. As such, management must attest to the status of the internal controls over financial reporting (ICFR) as of fiscal year-end, and the independent public accountant must also issue an opinion on the ICFR.

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

According to legislation and Postal Service policy, TCOLA is an amount that is payable to Postal Service employees working outside of the continental United States. TCOLA applies to approximately 7,400 employees stationed in Alaska, Hawaii, Guam, the Commonwealth of Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. TCOLA compensates for differences in prices of goods and services in each TCOLA area as compared to Washington, D.C. The Office of Personnel Management conducts surveys in the TCOLA areas and in the Washington, D.C., area to determine TCOLA rates. The law limits TCOLA to no more than 25 percent of basic pay.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this portion of the FY 2010 Financial Statements - Eagan IT/ASC audit was to determine whether TCOLA was processed in accordance with legislation and Postal Service policy. To achieve our objective, we:

- Reviewed information from the HCM application.
- Analyzed employees' duty station and office address.
- Verified TCOLA payments were not greater than 25 percent of basic pay.
- Interviewed Postal Service personnel.

We initiated our audit of TCOLA at the beginning of October 2009. To ensure we had sufficient data, we selected the period September 12 to September 25, 2009, for our review. To determine the total amount of the error, we added all erroneous payments from December 2008, when the transitional employee was hired, through November 2009, when the employee separated from the Postal Service.

We conducted this portion of the audit from October 2009 through August 2010 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 officials on August 5, 2010, and included their comments where appropriate.

We assessed computer-generated data and payroll journals from Postal Service payroll systems. 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. As such, we determined this data to be sufficiently reliable.

PRIOR AUDIT COVERAGE

We are not aware of any prior audit coverage related to TCOLA.

APPENDIX B: MONETARY IMPACT

We calculated erroneous TCOLA payments by pay period[8] as follows:

Recoverable Questioned Cost[9]

Pay Period	Erroneous Payment
December 06 – 19, 2008	$523
December 20, 2008 – January 02, 2009	$459
January 03 – 16, 2009	$453
January 17 – 30, 2009	$428
January 31 – February 13, 2009	$527
February 14 – 27, 2009	$453
February 28 – March 13, 2009	$486
March 14 – 27, 2009	$329
March 28 – April 10, 2009	$414
April 11 – 24, 2009	$448
April 25 – May 08, 2009	$487
May 09 – 22, 2009	$384
May 23 – June 05, 2009	$460
June 06 – 19, 2009	$547
June 20 – July 03, 2009	$527
July 04 – 17, 2009	$512
July 18 – 31, 2009	$491
August 01 – 14, 2009	$473
August 15 – 28, 2009	$387
August 29 – September 11, 2009	$421
September 12 – 25, 2009	$527
September 26 – October 09, 2009	$566
October 10 – 23, 2009	$528
October 24 – November 06, 2009	$407
November 07 – 20, 2009	$436
Separation Payment	$272
Total Monetary Impact	**$11,944**

[8] Pay period occurs every 14 days.
[9] Recoverable costs that are unnecessary, unreasonable, or an alleged violation of laws or regulations.