



# Audit Report

**August 1, 2016**



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Highlights

***The Postal Service complied with the applicable provisions of the Postal Accountability and Enhancement Act of 2006, its own policies and guidelines, and IRS regulations for CY 2015 officer compensation.***

### Background

The Postal Accountability and Enhancement Act of 2006 amended 39 U.S.C and revised the cap on total compensation payable to U.S. Postal Service employees. As a result of this revision, the Postal Service could not pay an employee more than \$203,700 for calendar year 2015. There are two exceptions: some employees may have annual compensation of up to \$235,300 with a bonus or reward program approved by the U.S. Postal Service Board of Governors and employees in critical positions may have annual compensation of up to \$282,360.

Compensation includes annual salary, merit lump sum payments, bonuses, awards, and annuity payments.

Our objective was to determine whether the Postal Service complied with applicable provisions of the Postal Accountability and Enhancement Act of 2006, Postal Service policies and guidelines, and IRS regulations for calendar year (CY) 2015 executive officer (officer) compensation.

### What The OIG Found

The Postal Service complied with the applicable provisions of the Postal Accountability and Enhancement Act of 2006, its own policies and guidelines, and IRS regulations for CY 2015 officer compensation.

We identified an insignificant reporting issue that did not affect the disclosure requirements. We noted the Postal Service incorrectly reported total compensation in the annual *Comprehensive Statement on Postal Operations* for two officers. Management reported two officers as exceeding the Executive Level I cap by \$4,699 and \$9,318 rather than \$4,646 and \$9,060, respectively. The differences of \$53 and \$258, respectively, represent financial counselling benefits.

The Postal Service appropriately excluded financial counselling benefits; however, management mistakenly used incorrect amounts because documentation did not disclose detailed benefit information. This error did not impact the disclosure requirements or the personnel included in the *Comprehensive Statement on Postal Operations*.

### What The OIG Recommended

We discussed this insignificant observation with management, who acknowledged the mistake and implemented a process to ensure a more comprehensive source document is used for financial counseling benefits in the future. Therefore, we are not making a recommendation.

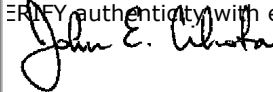
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

August 1, 2016

**MEMORANDUM FOR:** JEFFREY C. WILLIAMSON  
CHIEF HUMAN RESOURCES OFFICER AND  
EXECUTIVE VICE PRESIDENT

E-Signed by John Cihota  
VERIFY authenticity with eSign Desktop  


**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Finance, Pricing, and Investments

**SUBJECT:** Audit Report – Executive Officer Compensation for  
Calendar Year 2015 (Report Number FT-AR-16-008)

This report presents the results of our audit of Executive Officer Compensation for Calendar Year 2015 (Project Number 16BG006FT000).

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

Attachment

cc: Julie S. Moore  
Corporate Audit and Response Management

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# Findings

*The PAEA amended 39 U.S.C. and revised the cap imposed on total compensation payable to Postal Service employees.*

## Introduction

This report presents the results of our audit of calendar year (CY) 2015 compensation paid or deferred<sup>1</sup> to executive officers (officer)<sup>2</sup> of the U.S. Postal Service (Project Number 16BG006FT000). The objective of the audit was to determine whether the Postal Service complied with applicable provisions of the Postal Accountability and Enhancement Act of 2006 (PAEA), Postal Service policies and guidelines, and IRS regulations for CY 2015 officer compensation. See [Appendix A](#) for additional information about this audit.

The PAEA amended 39 U.S.C. and revised the cap imposed on total compensation payable to Postal Service employees. Compensation includes annual salary, merit lump sum payments,<sup>3</sup> bonuses, awards, and annuity payments. Table 1 explains the three compensation levels for CY 2015.<sup>4</sup>

### Table 1. CY 2015 Compensation Levels

Source: 39 U.S.C. §§1003(a) and 3686(a) (b) and (c).

- 1 Compensation credited but not distributed in CY 2015.
- 2 Defined in this report as Postal Career Executive Schedule II employees.
- 3 The performance-based lump sum payment is included as part of the Postal Service's National Performance Assessment Program (or its annual pay-for-performance incentive program).
- 4 In CY 2015, 25 officers exceeded the Level I cap. Eighteen officers exceeded Level I by virtue of bonuses or awards, making Level II the applicable cap. The remaining seven were designated critical, making Level III the applicable cap. No officer exceeded his/her applicable cap.



**Management, implemented a process to ensure a more comprehensive source document for financial counseling benefits is used in the future. Therefore, we are not making a recommendation.**

Postal Service officers may receive additional benefits not subject to the compensation cap, including increased annual leave exchange hours, free financial counseling, parking, life insurance, health benefits, and other perquisites.<sup>5</sup>

## Summary

The Postal Service complied with the applicable provisions of the PAEA, Postal Service policies and guidelines, and IRS regulations for CY 2015 officer compensation.

We identified an insignificant reporting issue that did not affect the disclosure requirements or the personnel included in the *Comprehensive Statement on Postal Operations* (CSPO).<sup>6</sup> We noted the Postal Service incorrectly reported total compensation in the annual CSPO for two officers. Management acknowledged the mistake and improved the reporting process; therefore, we are not making any recommendations in this report. We will continue to monitor compliance with the PAEA, Postal Service policies and guidelines, and IRS regulations for compensation paid to officers.

## Minor Observation: Comprehensive Statement on Postal Operations

The Postal Service incorrectly reported<sup>7</sup> total compensation in the annual CSPO for two officers. As shown in Table 2, management reported in the annual CSPO that two officers exceeded the cap by \$4,699 and \$9,318 rather than \$4,646 and \$9,060, respectively. The difference of \$53 and \$258, respectively, represent financial counselling benefits.

**Table 2. Compensation Data**

Officer	Total Salary <sup>8</sup>	Officers Benefits <sup>9</sup>	Total Compensation	Exceeded Cap 1	Reported per CSPO	Difference
Shaun E. Mossman	\$206,828	\$482	\$206,346	\$4,646	\$4,699	\$53
Jacqueline K. Starko	\$211,508	\$748	\$210,760	\$9,060	\$9,318	\$258

Source: Employee Master File and FY 2015 CSPO.

The Postal Service is required to report officers who received compensation exceeding Executive Level I (cap 1) during the most recent calendar year in the annual CSPO. Both officers exceeded cap 1 due to bonuses and awards.<sup>10</sup> Officers' benefits such as financial counselling benefits should not be included as compensation for salary cap purposes.<sup>11</sup>

The Postal Service appropriately excluded financial counselling benefits; however, management mistakenly used incorrect amounts because documentation did not disclose detailed benefit information. This error did not impact the disclosure requirements or the personnel included in the CSPO.

We discussed this insignificant observation with management, who acknowledged the mistake and implemented a process to ensure a more comprehensive source document for financial counseling benefits is used in the future. Therefore, we are not making a recommendation.

<sup>5</sup> The Postal Service offers the postmaster general a driver and personal security services through the U.S. Postal Inspection Service.

<sup>6</sup> 39 U.S.C §3686 (d).

<sup>7</sup> The fiscal year (FY) 2015 CSPO includes CY 2014 compensation data.

<sup>8</sup> The base salary paid to the employees, including mid-year raises, merit pay or pay-for-performance, awards, and bonuses.

<sup>9</sup> Officers' benefits include parking and financial counselling.

<sup>10</sup> The Postal Service may award a bonus or other reward in excess of the Executive Level I compensation for an approved program.

<sup>11</sup> Per 39 U.S.C. §1003 (a), the Postal Service is authorized to establish compensation and benefits for its officers. We consider compensation and benefits mutually exclusive categories. The law limits paid compensation and the use of the word paid suggests that compensation refers to cash payments for services provided versus non-cash benefits received by an officer.

# Recommendations

## Management's Comments

Management appreciated the U.S. Postal Service Office of Inspector General's (OIG) determination that the Postal Service complied with applicable laws, Postal Service policies and guidelines, and IRS regulations, and has already made process changes to address the minor observation.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive.

# Appendices

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## Appendix A: Additional Information

### Background

The PAEA amended 39 U.S.C. and imposed guidelines on total compensation for the Postal Service. Compensation includes annual salary, merit lump sum payments, bonuses, awards, and annuity payments. Under this provision, the total compensation is established at three levels:

- The first cap provides that no officer or employee may be paid compensation at a rate in excess of the rate for Level I of the Executive Schedule. This limit was set at \$203,700 for CY 2015.
- With Board approval, however, the Postal Service may develop a program to award a bonus or other reward over the compensation cap, as long as the total annual compensation paid to the officer is not above the total annual compensation payable to the vice president of the U.S. at the end of the calendar year in which the bonus or award is paid. In approving any such program, the Board must determine that the performance appraisal system for affected officers makes meaningful distinctions based on relative performance. This compensation cap was \$235,300 for CY 2015. The Postal Service annually reports total compensation for any officer that exceeds Level I of the Executive Schedule in the CSPO.
- In addition, the Board may allow the Postal Service to pay up to 12 of its officers or employees in critical senior executive or equivalent positions total annual compensation of up to 120 percent of the total annual compensation payable to the vice president of the U.S. as of the end of the calendar year in which such payment is received. This compensation cap was \$282,360 for CY 2015.

The PAEA requires written notification to the OPM and Congress of each senior executive or equivalent position designated as critical.

On January 28, 2016, the Board reported the following positions as critical for CY 2015:

- Postmaster general and chief executive officer
- Deputy postmaster general and chief government relations officer
- Chief operating officer and executive vice president
- Chief financial officer and executive vice president
- Chief information officer and executive vice president
- Chief human resources officer and executive vice president
- General counsel and executive vice president

Postal Service officers may receive additional benefits that are not subject to the compensation cap, including increased annual leave exchange hours, free financial counseling, parking, life insurance, health benefits, and other perquisites. Also, in certain cases, officers have contractual incentive benefits that, when not tied to any performance goals or measures, are subject to the compensation cap in the year they are earned.

In certain cases, the Postal Service entered into agreements to provide executive retention bonuses that could take the form of deferred compensation. As shown in Table 3, two active and two former officers have outstanding deferred compensation balances.

**Table 3. Cumulative Deferred Compensation, as of December 31, 2015**

<b>Officer Name</b>	<b>Cumulative Deferred Balance</b>	<b>Status</b>
Joseph Corbett	\$223,408	Active
Megan J. Brennan	14,720	Active
John E. Potter	478,947 <sup>12</sup>	Inactive
Ross Philo	315,233 <sup>13</sup>	Inactive
<b>Total Deferred Balance</b>	<b>\$1,032,308</b>	

Source: Eagan Accounts Payable System (EAPS).

### Objective, Scope, and Methodology

The objective of our audit was to determine whether the Postal Service complied with applicable provisions of the PAEA, Postal Service policies and guidelines, and IRS regulations for CY 2015 executive officer compensation. To achieve our objective we:

- Interviewed Postal Service personnel
- Reviewed Postal Service policies and guidelines
- Reviewed compensation information from payroll systems
- Reviewed bonus, award, and deferred compensation information from EAPS
- Reviewed IRS guidelines for reporting wages and taxes
- Reviewed officers' employment agreements

We conducted this performance audit from February through July 2016, 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 July 7, 2016, and included their comments where appropriate.

We relied on computer-generated data from Payroll Systems, Accounting Enterprise Data Warehouse Reporting, and EAPS for reviewing salaries, deferred compensation, awards, bonuses, and annual leave exchanges. We assessed the reliability of this data by testing required data elements to include reconciling data elements between systems and to published information. We determined that the data were sufficiently reliable for the purposes of this report.

<sup>12</sup> Mr. Potter received a payment of \$110,625 in January 2015 from his deferred compensation account.

<sup>13</sup> Mr. Philo received a payment of \$157,616 in February 2015 from his deferred compensation account.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Officer Compensation for Calendar Year 2014</i>	<a href="#">FT-AR-15-009</a>	7/22/2015	None
<b>Report Results:</b> Although, the Postal Service complied with the applicable provisions of the PAEA, its own policies and guidelines, and IRS regulations, we found one officer mistakenly included in the comprehensive report even though the officer's compensation was less than Executive Level I (\$199,700 in CY 2013). This occurred because the Postal Service mistakenly included financial counseling services worth about \$2,000 in the officer's total compensation. Management agreed; therefore, we did not make any recommendations.			
<i>Officer Compensation for Calendar Year 2013</i>	<a href="#">FT-AR-14-011</a>	5/28/2014	None
<b>Report Results:</b> Although the Postal Service complied with the PAEA and IRS regulations, it did not always comply with approved officer benefits policies requiring an officer to sign an employment agreement when accepting a relocation incentive bonus. Specifically, management did not obtain signed, 12-month employment agreements for both officers who accepted relocation incentive bonuses totaling \$39,000 in CY 2013. Management was not initially aware of the requirement and acknowledged these agreements should have been signed to ensure officers reimburse the Postal Service if they separate after receiving a relocation bonus and before completing a minimum of 12 months of employment. Because management took appropriate corrective action to address the issue, we did not make any recommendations.			
<i>Officer Compensation for Calendar Year 2012</i>	<a href="#">FT-AR-14-005</a>	2/4/2014	None
<b>Report Results:</b> Our report determined that the Postal Service complied with IRS regulations for CY 2012, but not always with annual officer compensation caps as required by the Postal Act of 2006 or its own internal policies and guidelines for leave approval. This occurred because management previously misinterpreted the Postal Act of 2006. We identified three officers whose compensation exceeded the caps by \$142,075. Management agreed to follow new criteria that addressed the issues discussed in our report. Since these criteria were developed in CY 2013, subsequent to the compensation period reviewed, we did not make any recommendations.			

## Appendix B: Management's Comments

JEFFREY C. WILLIAMSON  
Chief Human Resources Officer  
and Executive Vice President



July 21, 2016

SHERRY FULLWOOD  
ACTING DIRECTOR, AUDIT OPERATIONS  
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report—Officer Compensation for Calendar Year 2015  
(Report No. FT-AR-16-DRAFT)

Thank you for the opportunity to respond to your draft audit report on Officer Compensation for Calendar Year 2015.

Management appreciates the OIG's determination that the Postal Service complies with applicable provisions of the Postal Act of 2006, its own policies and guidelines, and IRS regulations for officer compensation.

The Postal Service has already made process changes that will, going forward, address the insignificant reporting issues identified by this audit.

If you have any questions regarding our response, please contact Pamela S. Grooman, Manager, Pay and Performance Programs, at 202-268-8008.

A handwritten signature in black ink, appearing to read "J. C. Williamson", with a long horizontal flourish extending to the right.

Jeffrey C. Williamson

cc: Mr. Marshall  
Ms. Moore  
Ms. Grooman  
Ms. Haring



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