



June 18, 2004

GOVERNORS

RICHARD J. STRASSER, JR.
CHIEF FINANCIAL OFFICER
AND EXECUTIVE VICE PRESIDENT

SUBJECT: Fact Sheet – Erroneous Economic Value Added Reserve Payments
(Product Number FT-OT-04-003)

This fact sheet provides information on the erroneous payments from the Economic Value Added (EVA) reserve balance (Project Number 04XD023FT000). This review was initiated at the request of the Chief Financial Officer (CFO) during the executive session of the June Board of Governors Audit and Finance Committee meeting to review internal payroll processes and controls to identify the source of the problem. These payments were intended to complete the remaining payout of EVA reserve balances to approximately 1,900 employees.

Due to a payroll processing error, over 41,000 current or former employees received about \$103 million in erroneous payments on June 18, 2004. These payments duplicated lump-sum payments that employees received in October 2002. Attached is relevant information identified to date.

We will continue to monitor the collection of the erroneous payments and the corrective actions taken. In the interim, we are providing a status of the erroneous payment issue.

/s/ John M Seeba

John M Seeba
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for Audit

Attachment

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ERRONEOUS EVA RESERVE PAYMENTS

BACKGROUND:

- On October 25, 2002, approximately 77,000 employees received an EVA reserve balance payout.
- Employees in a bargaining unit position on September 30, 2002, who had an EVA reserve balance, did not receive the payout. An agreement was reached with those employees to pay their remaining EVA balances on June 18, 2004. The lump-sum payment was to be included with the biweekly paycheck.
- Approximately 1,900 employees were entitled to but did not receive this payout.

CONDITION: 41,334 current or former employees received about \$103 million in erroneous payments due to a payroll processing error.¹ These payments duplicated a lump-sum payment the employees received in October 2002.

DETAILS:

- The error was caused by a [REDACTED] who did not update an automated instruction.
- Although written guidance was issued to update the automated instruction from FY 2002 to FY 2004, it was not done. This instruction identified which EVA reserve balance file to use. As a result, the 2002 payments were duplicated and the payments intended for 2004 were not made.
- The Quality Assurance branch personnel conducted tests on the automated instruction and approved it for processing.
- However, as stated in the first bullet, the [REDACTED] did not follow the written guidance for live processing.
- Additionally, the 2002 EVA reserve balance file was still accessible. Had that file been locked or renamed immediately following the 2002 payout, manual intervention would have been required to continue the 2004 payment process.
- Although additional controls are in place to help confirm payroll is processed correctly, the Postal Service did not immediately detect the error. Payroll Benefits

¹ Totals were based on the pay period 13, 2004 payroll file. The dollars represent the amount net of federal taxes and other payroll deductions.

personnel initially reviewed the reasonableness of net payroll amounts, but the EVA reserve balance was not included in the net payroll amount. Rather, the figure was included in a section of the report that was generally not reviewed by personnel as part of the verification process.

- Headquarters personnel detected the error when reviewing payroll information. The payroll process was then immediately terminated.
- 2,152 of the 41,334 employees were either separated or pending separation. These individuals could have received \$7,939,597 in erroneous payments. However, these checks should be returned by supervisors or managers of the affected employees.
- Postal Service personnel could not correct the payments to the 41,334 employees without delaying payroll to all employees. However, they prevented erroneous payments to an additional 35,000 employees once the problem was identified.

CORRECTIVE ACTIONS TAKEN BY POSTAL SERVICE MANAGEMENT:

- Postal Service systems schedulers will be required to manually input data to run special payroll programs.
- The CFO sent letters to employees explaining the erroneous payment and the required repayment.
- Postal Service Headquarters notified facilities on June 15, 2004, to return erroneous payment checks for those employees who were separated or pending separation.
- Eagan Accounting Service Center management is currently discussing potential changes to reports used in payroll verification to strengthen the process.
- The Postal Service will make EVA reserve balance payments to the 1,900 employees on July 2, 2004.