



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Donated Leave Accounting
Management Advisory**

April 18, 2013

Report Number FT-MA-13-012



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HIGHLIGHTS

April 18, 2013

Donated Leave Accounting

Report Number FT-MA-13-012

BACKGROUND:

U.S. Postal Service policy allows employees who are incapacitated due to serious health conditions to request and receive annual leave from other employees. The annual leave becomes known as donated leave upon transfer to the requestor. Employees may use donated leave for the duration of the incapacitation only and any unused donated leave is paid to that employee upon separation. The Postal Service is required to record this balance in its financial records.

Our objective was to determine whether the Postal Service properly established a process to record and account for the value of unused donated leave in the financial records.

During our fiscal year 2012 financial statements audit work, we observed the unused donated leave value was not included in the recording of the accumulated leave value. Accounting standards require future compensated absences, such as unused donated leave, to be recorded in the financial statements. To determine the financial impact, we reviewed the accounting of donated leave.

As of September 30, 2012, active Postal Service employees used about 1.4 million donated leave hours with an estimated value of \$37.8 million.

WHAT THE OIG FOUND:

The Postal Service did not properly account for the value of unused donated leave in its financial records. This occurred because procedures for recording the liability for leave did not include unused donated leave. In addition, the value of unused donated leave was not readily available to management through reports or other management tools. As a result, the leave liability balance was understated in the financial records by about \$5.6 million as of September 30, 2012.

WHAT THE OIG RECOMMENDED:

Since management implemented a software change request to update the unused leave report on March 22, 2013, and plans to update Postal Service policies and procedures by April 30, 2013, we are not making any recommendations. We will continue to monitor the leave accountability process as part of our ongoing financial statement audit work.

[Link to review the entire report](#)



Date: April 18, 2013

MEMORANDUM FOR: TIMOTHY F. O'REILLY
VICE PRESIDENT, CONTROLLER

A rectangular box containing a handwritten signature in cursive script that reads "John E. Cihota". A small yellow circular icon with a question mark is located in the top right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial and Systems Accountability

SUBJECT: Management Advisory – Donated Leave Accounting
(Report Number FT-MA-13-012)

This report presents the results of our review of Donated Leave Accounting (Project Number 13BD004FT000).

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

Attachments

cc: Joseph Corbett
Julie S. Moore
Scott G. Davis
Jean D. Parris
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of Donated Leave Accounting (Project Number 13BD004FT000). The objective of the review was to determine whether the U.S. Postal Service properly established a process to record and account for unused donated leave in accordance with accounting standards.¹ This self-initiated review addresses financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Service's *Annual Leave Sharing Program*² allows career and transitional Postal Service employees³ to donate earned annual leave to eligible Postal Service employees. After the leave is transferred to the requestor, the annual leave becomes donated leave in the payroll system. Recipients receive and may use this donated leave under certain conditions. Specifically, donated leave may be used only after earned annual and sick leave are exhausted, during the leave recipient's eligibility period, and when the recipient would be in a normal pay status except for the incapacitation due to the qualifying health condition. Further, it may be used to retroactively replace the 40 hours without pay requirement to be eligible to receive donated leave. Upon separation, the employees who requested the donated leave time receive payment for any unused donated leave.

During our fiscal year (FY) 2012 financial statements audit work, we observed that the unused donated leave value was not included in the recording of the accumulated leave value. To determine the financial impact, we reviewed the accounting process used for donated leave. The accounting standards require future compensated absences be recorded in the financial statements.

As of September 30, 2012, active Postal Service employees used about 1.4 million donated leave hours for an estimated value of \$37.8 million. The value of unused donated leave is about \$5.6 million.

Conclusion

The Postal Service did not properly account for the value of unused donated leave in its financial records. This occurred because its procedures did not address donated leave. As a result, as of September 30, 2012, the Postal Service understated its responsibility for the value of future absences in its financial records by about \$5.6 million. Although this amount is not material to the financial statements, accounting standards require the Postal Service to establish accountability for employees' compensation of future

¹ Financial Accounting Standards Board Codification 710-10-25-1, *Compensated Absences*, dated September 15, 2009.

² Management Instruction EL-510-2003-2, dated October 30, 2003.

³ Career employees are employees who are part of the regular work force. Transitional employees are hired for a term not to exceed 360 calendar days for each appointment.

absences. Management implemented a software change request⁴ to update the *Accrued Leave Liabilities* report on March 22, 2013. In addition, management plans to update Postal Service policies and procedures by April 30, 2013; therefore, we are not making any recommendations in this report.

Donated Leave Accounting

The Postal Service did not record the future cost of unused donated leave in its financial records. This occurred because Postal Service procedures to establish a monthly liability for future compensated absences omitted unused donated leave. The current process to record the value of the estimated leave liability uses the *Accrued Leave Liabilities* report. Due to insufficient oversight, the Postal Service did not include unused donated leave hours and the associated compensation amount in the report since initiation of the *Annual Leave Sharing Program*. As a result, employees' accumulated leave liabilities were understated in the financial statements for the value of unused donated leave.

Accounting standards require the Postal Service to establish a liability for employees' compensation for future absences if:

- The employer's obligation relating to an employee's right to receive compensation for future absences is attributable to the employee's services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

As required by these standards, the Postal Service establishes a monthly liability for annual and holiday leave it expects to pay. The amount of this leave liability is adjusted monthly, based on information in the *Accrued Leave Liabilities* report. However, because this report did not include the unused donated leave data, the liability was not adjusted for unused donated leave. Therefore, the employees' accumulated leave liability was understated by about \$5.6 million as of September 30, 2012. See [Appendix B](#) for other impact.

We discussed this matter with management and confirmed that the unused donated leave was not included in the process to establish employees' accumulated leave liability since the *Annual Leave Sharing Program* started. As a result of our audit, management implemented a software change request to update the *Accrued Leave Liabilities* report on March 22, 2013. In addition, management anticipate they will update

⁴ Software change request EA2372-2, dated January 7, 2013.

Postal Service policies and procedures to include unused donated leave by April 30, 2013. Therefore, we are not making any recommendations. We will continue to monitor the leave accountability process as part of our ongoing financial statement audit work.

Appendix A: Additional Information

Background

The Postal Service *Annual Leave Sharing Program* allows career and transitional Postal Service employees to receive and use donated annual leave. Employees who are incapacitated due to serious health conditions may request and receive donated annual leave. Annual leave becomes donated leave when transferred to the requestor with approved documentation. The donated leave balance appears as a separate category on the receiving employees' payroll records. The period for which an employee uses donated leave is considered to be a paid leave status, except employees do not earn sick leave or annual leave on the donated leave hours used.

Donated leave may be used:

- During the recipient's leave eligibility period as long as there is a balance of donated leave available.
- When the recipient would be in a normal pay status except for the incapacitation due to the qualifying health condition.
- To retroactively replace the requirement to expend 40 hours without pay to become eligible to receive donated leave.
- Only after earned annual and sick leave is exhausted. If use of donated leave is requested when the recipient has an earned annual or sick leave balance, leave is charged in the following order: earned sick leave, earned annual leave, donated leave.

The value of any unused donated leave is included in the employee's final payment upon separation. However, if an employee has a negative leave balance, the unused donated leave balance is first applied to negative sick leave balances and then to negative annual leave balances, except for separation by death or disability. Accounting standards require establishment of a liability for unused donated leave when it will be used as compensation for future absences, the payment is considered probable, and the amount can be reasonably estimated.⁵

Objective, Scope, and Methodology

The objective of the review was to determine whether the Postal Service properly established a process to record and account for the value of unused donated leave in accordance with accounting standards.

⁵ Financial Accounting Standards Board Codification 710-10-25-1, *Compensated Absences*, dated September 15, 2009.

To accomplish our objective, we:

- Judgmentally selected a pay period that ended in September 2012 to include activity through FY 2012.
- Extracted accumulated donated leave data from the Postal Service mainframe.
- Interviewed Postal Service personnel.
- Reviewed Postal Service policies, procedures, and regulations.
- Reviewed accounting standards.
- Reviewed and analyzed donated leave data using Audit Command Language and Excel.

We conducted this review from December 2012 through April 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We provided a preliminary draft copy of this report to management on March 15, 2013, and, because we did not make any recommendations, management chose not to respond formally to this report.

We assessed the reliability of computer-generated data from the payroll system by tracing to the source documents and determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Other Impact

| Recommendation | Impact Category | Amount |
|-----------------------|-----------------------------|---------------|
| None | Data Integrity ⁶ | \$5,606,595 |

We identified 12,136 active employees with 210,938 hours of unused donated leave as of September 30, 2012. The value of the unused donated leave was \$5,606,595 based on employees' salary rates.

⁶ Validation of the consistency, accuracy, and completeness of data used by the Postal Service. Data used to support management decisions that is not fully supported or completely accurate. This can be the result of a flawed methodology; procedural errors; or missing or unsupported facts, assumptions, or conclusions.