

# **POSTAL REGULATORY COMMISSION**

## **OFFICE OF INSPECTOR GENERAL**



### **FINAL AUDIT REPORT**

## **COMPENSATION CHANGES AND PERFORMANCE AWARDS**

**Audit Report 09-2-A02  
January 29, 2010**

# *Table of Contents*

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<b>INTRODUCTION</b> .....	1
Background .....	1
Objectives, Scope and Methodology .....	1
<b>RESULTS</b> .....	2
Review of Compensation Changes and Performance Awards .....	2
Missing Documentation .....	2
Recommendation 1 .....	2
Separation of Duties in Processing of Performance Awards .....	3
Recommendation 2 .....	3
No Formal Performance Award Policy .....	4
Recommendation 3 .....	4
<b>APPENDIX I</b> .....	5

# *Introduction*

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## **Background**

This report presents the results of an audit by the Postal Regulatory Commission (PRC) Office of Inspector General of the PRC compensation changes and performance awards.

The PRC processes compensation changes consistent with the U.S. Postal Service and uses the Postal Service Human Resources department to process the changes. To initiate compensation changes, PRC officials complete a Postal Service Form 50, *Notification of Personnel Action*, using the appropriate Notice of Action (NOA) code and forward the form to the Postal Service Human Resources department. The majority of PRC's compensation changes involve salary increases. Relevant NOA codes are salary increases, career appointments, temporary appointments, transfers, promotions, retirements and so forth.

Each year, the Office of the Secretary and Administration outlines performance evaluation and issues merit increase guidelines for the year. The performance evaluation process consists of the employee submitting a work accomplishments narrative to the supervisor. The supervisor and employee then meet to discuss the accomplishments and then the supervisor gives the appropriate merit rating. The employee receives a salary increase based on that rating. Specifically, the exact percentage increase an employee receives depends upon their final rating and position in the current salary range.

At any time, the PRC may provide performance awards to its employees for exceptional work. Department heads submit written justification for the approval of the performance awards to the PRC Chairman. The Office of the Secretary and Administration processes the approved performance awards and forwards them to the Postal Service Information Technology Accounting Service Center for processing the award checks.

## **Objective, Scope and Methodology**

The objective of our review was to evaluate the key management controls over the PRC compensation changes. Specifically, we determined whether compensation changes and performance awards were supported properly and complied with PRC procedures and practices.

To accomplish our objectives, we statistical sampled 30 compensation changes from a universe of 308 transactions submitted October 1, 2005 to June 1, 2009 and 40 performance awards from a universe of 135 performance award transactions submitted October 1, 2005 to June 1, 2009. We also interviewed key PRC employees, and reviewed program policies and supporting documentation for the transactions.

We conducted this review between June and November 2009 in accordance with generally accepted government auditing standards and included test of internal controls that were deemed necessary under the circumstances. Those standards require that we plan and perform the audit

to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objective.

We relied on data obtained from Postal Service systems. We did not directly audit the systems, but performed a limited data integrity review by validating a sample of data to source documentations.<sup>1</sup> We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with the Director of the Office of Secretary and Administration on November 5, 2009.

## ***Results***

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### **Review of Compensation Changes and Performance Awards**

PRC employees generally supported expenses for compensation changes and performance awards and complied with policies and procedures for processing these changes. However, PRC officials could improve its record retention of key PRC documents and controls over the management of the performance award process.

#### **MISSING DOCUMENTATION**

PRC management did not maintain appropriate supporting documentation for three compensation transactions: two career appointments and a promotion. PRC officials could not locate the supporting documentation in the relevant Official Personnel Folders, which should contain, at minimum, the PRC Form 50, PS Form 2591, *Application for Employment*, and offer letter. To satisfy the requirements of our testing, we obtained and examined the employee's official PS Form 50 received from the Postal Service Corporate Personnel Management, noting NOA code, description of transaction, title of PRC official authorizing transaction and date processed.

In addition, PRC staff could not locate the approved 2008 Performance Award spreadsheet. The former PRC Chairman indicated that he had signed the Performance Award spreadsheet and provided a copy of the 2008 Performance Award spreadsheet from his records. For our audit purposes, the performance award amounts from this spreadsheet reconciled to our sample amount and to the performance award paid, reflected on the Eagan performance award payable file.

The PRC does not have a record retention policy. The proper and systematic management of records is essential to business needs and to assure compliance with applicable laws and regulations, such as Freedom of Information Act.

We recommend that the PRC:

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<sup>1</sup> We obtained electronic data from USPS Employee Master File, Salary History file and USPS Awards file

1. Develop a record retention policy.

**Management's Comments**

PRC Management provided a response to the draft of this audit report on December 18, 2009. A copy of that response is included as Appendix I of this report. Management agreed with this recommendation and has reviewed and updated all Official Personnel Files (OPF). They will also ensure future compliance.

PRC management will implement a record retention policy for FY 2010.

**Evaluation of Management's Comments**

Management's comments are responsive to the recommendation, and the action planned should correct the issues identified,

## **Separation of Duties in Processing of Performance Awards**

The tasks of receiving and processing of performance award requests and receiving and distributing the performance award checks were not segregated. This environment lacks appropriate separation of duties, which could lead to mismanagement of PRC funds.

We recommend that the PRC:

2. Implement a process to provide separation of the duties in processing performance award requests and receiving and distributing performance award checks.

**Management's Comments**

Management agreed with this recommendation and has separated the duties and responsibilities for administering the compensation and performance awards programs.

**Evaluation of Management's Comments**

Management's comments are responsive to the recommendation, and the action taken should correct the issues identified

## **No Formal Performance Award Policy**

PRC does not have a formal performance award policy. Without a formal performance award policy, there may be abuse and inconsistency in the application of the policy. Program transparency would be enhanced with a formal performance award policy.

We recommend that the PRC:

3. Develop a formal performance award policy.

### **Management's Comments**

Management agreed with this recommendation and will implement a formal performance award policy for FY 2010.

### **Evaluation of Management's Comments**

Management's comments are responsive to the recommendation, and the action planned should correct the issues identified



POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Office of the Secretary

December 18, 2009

Mr. Jack Callender  
Inspector General  
Postal Regulatory Commission  
901 New York Avenue, N.W.  
Washington, DC 20268

Re: Draft Audit Report  
Compensation Changes and Performance Awards  
Report Number AR-09-02-A02

Dear Mr. Callender,

Thank you for the opportunity to review your November 20, 2009 Draft Audit Report of the Compensation Changes and Performance Awards,

Management has reviewed the report and has subsequently reviewed all Official Personnel Files (OPF) for accuracy and completeness. The files have been made up-to-date and contain the required information as prescribed by the Office of Personnel Management. We have also implemented a review process to ensure future compliance.

The Commission uses the General Schedule and agrees with the recommendation to develop a record retention policy to be implemented for FY 2010.

Further the duties and responsibilities for administering the compensation and the performance awards programs have been reassigned. The Commission has implemented a process that separates the duties of processing performance award requests, and receiving and distributing performance awards checks.

The Commission agrees with the recommendation to develop a formal performance awards policy and will do so for implementation of the FY 2010 performance awards.

The Commission appreciates your efforts and assistance in these matters.

A handwritten signature in blue ink, appearing to read "Shoshana Grove".

Shoshana Grove,  
Secretary and Chief Administrative Officer