



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-114874

OCTOBER 5, 1979

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The Honorable William F. Bolger
Postmaster General
United States Postal Service



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Dear Mr. Bolger:

Subject: [Examination into alleged irregularities in
retirement and leave records] (FPCD-80-14)

Rpt #

At the request of the Chairman, Subcommittee on Treasury,
Postal Service, and General Government, Senate Committee on
Appropriations, we examined into alleged irregularities in
retirement and leave records at the United States Postal
Service. The allegations were that, as a result of a new
payroll system, retirement and leave records were being
credited incorrectly and that retirement amounts withheld
from employee paychecks were missing and not being credited
to the civil service retirement fund.

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We provided the results of our review to the Subcom-
mittee in a staff briefing. The purpose of this letter is
to bring the results of our review to your attention.

We sampled retirement and leave records for 32 full-
time employees in both headquarters and field offices.
Where problems were identified, we relied on readily avail-
able information and interviews to identify the extent of
problems and adequacy of corrective actions taken. Our
sample was too small for projections. However, because the
problems resulted from inadequate controls, they could be
widespread. The results of our review are summarized here
and are discussed in detail in the enclosure.

As you are aware, problems with the new payroll system
caused thousands of employees to be paid emergency (manual)

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salaries for various pay periods in 1978. Some employees are still being paid this way today. When this occurs, the civil service retirement fund is not paid, individual retirement accounts are not credited, and leave records are not credited or charged until pay adjustments are processed by the automated system. Duplicate and incorrect adjustments, together with inaccurate and untimely processing of personnel actions, have further compounded the problem of properly maintaining retirement and leave records and have resulted in employees' being overpaid and/or underpaid.

The Postal Service is taking action to correct these problems and has undertaken additional projects which should provide for stronger controls over adjustment processing and aid in correcting retirement and leave records. We would stress, however, that correcting retirement and leave records is very important because errors in these records could result in overpayments or underpayments of retirement refunds or lump-sum leave when employees leave the Postal Service.

In providing employees with information on benefits, the Postal Service may have confused some employees. For example, the earnings statements do not contain employees' total Postal Service retirement contributions when they have previously applied for a disability retirement but had their applications denied.

Providing clear and detailed information to all employees is advantageous to both the employer and employee. If employees know little about their benefits, the basic objectives of motivating and retaining them will not be accomplished. Employees also benefit because the information helps them make informed personal financial plans. However, providing confusing information benefits no one. We recommend that the earnings statement be revised to show total retirement contributions to date or expressly state that the amount shown may not be total contributions.

Sick leave balances of nine full-time employees sampled were credited incorrectly from May to July 1978. Many other full-time employees apparently had the same problem. Although the Postal Service has corrected the system problem that was crediting incorrect leave, employees' leave balances sampled had not been corrected as of May 1979. Unclear postal regulations regarding the crediting of sick leave can be a contributing cause to the delay in correcting inaccurate

sick leave balances. We therefore recommend that you clarify postal regulations to remove any doubt about how sick leave is credited.

There is an apparent lack of control over leave administration. Postal regulations require that leave authorizations be prepared and controlled for any leave taken. Most employees sampled had leave charged to their leave balances without proper authorization. Many missing authorizations are probably caused by oversights on the part of supervisors. However, without approved leave authorizations, officials could have a difficult time documenting deductions from leave if disputes arose.

Some employees were authorized leave, but none was charged to their balance. This indicates a potential for leave abuse. The Postal Inspection Service tests controls over leave administration during its installation financial audits, and, according to postal inspectors, past audits have demonstrated that there has been a lack of control over leave administration, and leave administration will continually be reviewed during Postal Inspection Service audits.

We recommend that you stress to postal installation officials that it is their responsibility to control the leave of employees and to follow postal regulations requiring proper control over leave authorizations.

We discussed the results of our work with knowledgeable postal officials. They agreed with our conclusions and recommendations and assured us that they would take corrective action. We are sending a copy of this report to the Postal Inspection Service. We would appreciate being informed of the actions taken on Inspection Service audits to correct the problems associated with (1) the new payroll system and (2) controls over leave administration.

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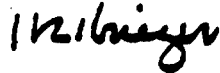
Copies of this report are being sent to the Chairmen, House Committee on Post Office and Civil Service, Senate Committee on Governmental Affairs, House Committee on Government Operations, and the House and Senate Committees on Appropriations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to

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submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,



H. L. Krieger
Director

Enclosure

GAO EXAMINATION INTO ALLEGED IRREGULARITIES
IN RETIREMENT AND LEAVE RECORDS AT THE
UNITED STATES POSTAL SERVICE

INTRODUCTION

On March 21, 1979, the Chairman, Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations, asked us to look into alleged payroll irregularities at the United States Postal Service (USPS). The allegations were that a new payroll system ^{1/} had credited retirement and leave records incorrectly and that retirement amounts withheld from employee paychecks were missing and not being deposited to the civil service retirement fund. Specifically, we were asked to

--test check the records at USPS headquarters in Washington and field offices to determine the extent of these problems and

--determine the adequacy of corrective actions proposed by USPS.

WORK PERFORMED AND SCOPE

Since the request did not contain specific cases, we sampled retirement and leave records for 32 full-time postal employees who were on the payroll as of March 23, 1979. These employees worked at various stations or offices controlled by USPS headquarters, Washington, D.C.; the Washington, D.C. Post Office; and the Northern Virginia Management Sectional Center, Merrifield, Virginia. We worked at these locations and at the New York Postal Data Center. Additional information was obtained from the two other Postal Data Centers located in Minneapolis, Minnesota, and San Bruno, California. Postal employees are paid and retirement and leave records are maintained by the three Postal Data Centers.

^{1/}In May 1978 USPS implemented a completely new payroll system to bring USPS into compliance with the Fair Labor Standards Act. The amendments to this act, Public Law 93-259, dated Apr. 8, 1974, made the act applicable to USPS on May 1, 1974.

We examined records on retirement contributions and annual and sick leave usage for 1978. We calculated retirement contributions using the same payroll records used by USPS to prepare its civil service retirement fund payments and traced yearend retirement contribution totals to the employees' service history records (retirement accounts). This record is the source document for preparing retirement or settlement claims for submission to the Office of Personnel Management (OPM).

We traced sick and annual leave credits to leave balances maintained at the New York Postal Data Center. Leave charges were also traced to leave balances utilizing leave authorizations and employees' timecards.

Where problems were identified, we relied on readily available information and interviews to identify their extent and the adequacy of corrective actions taken.

Because our sample size was extremely small, we could not project the extent of the problems found. However, the problems identified could be potentially widespread because they resulted from inadequate system controls.

PROBLEMS WITH THE NEW PAYROLL SYSTEM

The new automated payroll system had many problems accepting changes for personnel actions, such as promotions, transfers, or new hires during 1978. As a result, thousands of new, promoted, or transferred employees had to be paid emergency (manual) salaries in 1978 and some are still being paid this way. When this occurs the civil service retirement fund is not paid when due. Also, individual retirement accounts are not credited and leave records are not credited or charged until pay adjustments are processed by the automated system at the Postal Data Centers.

Inaccurate and untimely processing of personnel actions, which establishes or changes the pay records of employees, and duplicate and incorrect adjustments have compounded the problem of accurately maintaining retirement and leave records and have resulted in employees' being overpaid and/or underpaid. USPS officials are concerned about inaccurate and untimely processing of personnel actions and duplicate and incorrect adjustments, and they are taking actions to correct these problems.

Delays in paying the retirement fund

OPM regulations require that retirement contributions (employee and employer shares) be paid on the same day payroll checks are dated. The majority of the over 600,000 postal employees were paid by the new payroll system in 1978, and about \$1.3 billion in retirement contributions were paid to the retirement fund. In addition, our sample showed that when employees were paid by the new payroll system, retirement deductions were properly calculated and credited to individual retirement accounts.

The salaries of at least 46,000 employees were not processed by the payroll system for various pay periods in 1978. 1/ These employees were paid emergency salaries from postmaster bank accounts at about 70 percent of gross salaries to show their estimated net pay after payroll deductions. USPS established an accrued liability for gross outstanding emergency salaries and retirement and other benefit program payments. The retirement payments (employer and employee shares) were to be made at the time a pay adjustment was processed. Employees' service history records were also to be corrected after the adjustments were processed.

We estimated that, if retirement contributions had been paid to the civil service retirement fund on these gross salaries when due in 1978, the fund would have received as much as \$4.2 million more to invest during the year.

Of the 32 employees sampled, 2 received emergency salary payments for several pay periods in 1978, and contributions to the retirement fund were consequently delayed.

Employee A entered on duty on June 13, 1977. On June 3, 1978, she received a promotion and reassignment. However, because a notification of personnel action (form 50) for the promotion was not processed by the payroll system until July 25, 1978, she received emergency salaries for all or part of

1/This information was obtained from a 1978 yearend listing of outstanding emergency salaries used to prepare W-2s and payments of Federal, State, and local income taxes. These employees received emergency salaries totaling about \$22 million.

four pay periods. 1/ It was not until April 1979 that adjustments for three of the pay periods were processed and the proper retirement contributions were paid to the civil service retirement fund. This was 8 to 10 months after the retirement contributions were due. As of May 4, 1979, the adjustment for the remaining pay period had not yet been processed.

Employee B entered on duty on August 26, 1978. Because a notification of personnel action (form 50) was not processed for about 6 weeks, he received emergency salaries for the first three pay periods. He then received an automated payroll check for the fourth pay period, but not for the fifth. USPS officials could not explain how this occurred. Most of the adjustments were processed in May 1979, some 6 to 8 months after the retirement contributions were due. The adjustment for part of one pay period, however, had not been processed as of May 4, 1979.

Delay in processing personnel actions and inaccurate adjustments have compounded retirement and leave record problems

Inaccurate and untimely processing of personnel actions and duplicate and incorrect adjustments for pay and/or leave have compounded the problems of properly crediting retirement and leave records of USPS employees and have resulted in employees' being overpaid and/or underpaid. These problems occurred to the two employees in our sample who received emergency salaries.

According to USPS officials, untimely processing of personnel actions was caused by startup problems with the new payroll system. Concerning duplicate pay adjustments, USPS officials believed that similar problems occurred in other cases and that some have resulted in duplicate payments. They attributed the problem to many post offices' submitting more than one adjustment for the same pay period. They explained that processing duplicate and incorrect

1/USPS pays its employees on a biweekly basis. However, because of the Fair Labor Standards Act requirements concerning compensation for hours worked and overtime pay, USPS maintains time and attendance on a weekly basis.

adjustments occurred because Postal Data Center personnel did not use or have available current control mechanisms to verify whether adjustments had already been processed or whether they were correct.

If these problems are typical of the 46,000 employees whose emergency salaries had not been adjusted as of December 1978 and those who are still receiving them, retirement and leave record problems could be significant. When retirement and leave records are inaccurate, incorrect settlements for retirement contributions and lump-sum leave payments could occur when employees leave USPS.

The following discussion illustrates the numerous problems that can occur when personnel actions are not processed in a timely manner or when adjustments are incorrect or processed in duplicate.

Employee A was underpaid for three pay periods. The underpayments were caused by errors in preparing and/or processing personnel actions which gave her a step increase for her old grade instead of the promotion she had received. The retirement contributions were also calculated and credited to her retirement account using the understated salary rate. A correct personnel action (form 50) was processed on November 2, 1978, and she was then paid at the correct step and grade. However, as of May 4, 1979, adjustments had not been processed for the periods she was underpaid. Until these adjustments are processed, the employee's correct retirement contributions will not be paid to the civil service retirement fund.

Employee A had also received emergency salaries because of a transfer, and these were adjusted in April 1979. However, in May 1979 a duplicate adjustment was processed for one of the four pay periods. Consequently, this employee's payroll check for May 4, 1979, was overstated. The overpayment was caught at the employee's payroll office and the excess was applied against another emergency salary. However, until an adjustment is processed for the duplicate payment, employee A's retirement contributions for that pay period will be overstated.

Also, when employee A received emergency salaries for all or part of four pay periods, her sick and annual leave balances did not show the leave earned or used during these periods. In April 1979 her payroll record was adjusted for most of the pay periods. However, her sick leave balance was understated by 6 hours because of a programming problem that resulted in full-time employees' not being credited

with all sick leave earned during these pay periods. The duplicate adjustment for one pay period compounded the problem even further because she received a double credit for leave earned and a double charge for leave used. Thus her sick leave balance was then understated by 10 hours.

Employee A's annual leave balance was understated because, when she was receiving emergency payments, she took 8 hours' annual leave, but an adjustment to recognize this had not been processed as of May 4, 1979. In May 1979 the duplicate adjustment credited her with an additional 4 hours' annual leave, and her annual leave balance was then overstated by 12 hours.

Employee B was paid emergency salaries for four pay periods, and in May 1979 pay adjustments for most of the pay periods were processed. However, he was overpaid on all but one of the adjustments, and, as a result, the retirement contributions were also overstated.

In December 1978 employee B's sick leave balance was understated because it did not reflect leave earned during the periods he received emergency salaries. His balance was only 12 hours, instead of the correct 20 hours. In December 1978 he was absent for 16 hours because of sickness and was placed in a nonpay status for 4 hours. This incident adversely affected not only his pay but also his retirement contributions.

Unlike other Federal agencies, USPS credits annual leave to employees at the beginning of the leave year to encourage usage during nonpeak periods. New employees, such as employee B, are not credited annual leave until completion of 90 days or seven pay periods of continuous employment. After new employees complete this qualifying period, their leave balances are credited by multiplying the rate at which they earn leave by the remaining pay periods in the leave year plus the amount earned during the qualifying period. If leave is taken during this qualifying period, the employee is automatically placed in a nonpay status because an employee would have no leave to this credit.

Applying this formula to employee B would have resulted in an annual leave balance of 60 hours at the end of leave year 1978 (Jan. 12, 1979). However, because (1) his leave accrual rate was improperly recorded on his personnel action form and (2) he was paid emergency salaries for several pay periods, his leave balance was understated by 30 hours.

In January 1979 the employee was absent for 12 hours. Instead of charging the employee annual leave, he was

placed in a nonpay status. Not only was he not paid for the 12 hours but also his retirement contributions were understated. According to USPS officials, this occurred because the automated payroll records erroneously showed that the employee did not meet the qualifying period.

In April 1979 an adjustment was processed to correct his leave balance as of the end of the leave year, but it was for only 24 hours, not 30 hours. According to USPS officials, this was caused by an error in preparing the adjustment. A May 1979 duplicate adjustment was processed, and his annual leave balance was then overstated.

Actions taken to correct payroll system problems

USPS officials attributed the need to pay emergency salaries and the delays in processing adjustments and personnel actions to startup problems with the new payroll system. They said that (1) the adjustment system was not installed at the time of payroll implementation because USPS had to perform additional tests to insure operability and, as a result, a large backlog of adjustments developed, (2) there were interface problems between the personnel and payroll systems that delayed the timely processing of personnel actions, and (3) personnel were not familiar with the systems' new codes.

USPS officials believe that most problems are behind them now as a result of a concerted effort to correct system deficiencies and to process the backlog of adjustments. They said that USPS had instituted training procedures for field unit personnel which significantly reduced the input errors to the new system and greatly improved the timeliness and accuracy of processing personnel actions.

USPS's efforts to reduce the outstanding emergency salaries are apparently succeeding. Emergency salaries unadjusted at the end of July 27, 1979, totaled \$9 million, a decrease of over \$13 million since the end of 1978. Although emergency salaries are still being paid, the amount has decreased since 1978. For example, during 1978, USPS was paying emergency salaries of about \$3 million each pay period and adjusting them at about \$1.9 million each pay period. For pay periods 1 to 16 (December 16, 1978, to July 27, 1979) the emergency salaries paid and adjusted are shown in the following table.

<u>Pay period</u>	<u>Emergency salaries paid</u>	<u>Emergency salaries adjusted</u>
1	\$ 2,454,104	\$ 3,337,267
2	2,385,528	2,598,873
3	2,147,156	3,347,267
4	2,195,934	3,355,631
5	1,653,643	3,098,168
6	1,496,132	2,931,545
7	1,330,245	2,700,713
8	1,178,293	2,498,609
9	1,034,821	2,095,453
10	990,112	2,285,680
11	846,649	1,962,672
12	996,127	1,450,539
13	1,141,255	1,431,795
14	1,040,927	1,188,893
15	1,050,461	1,334,122
16	<u>1,119,804</u>	<u>1,417,655</u>
Total	\$ <u>23,061,191</u>	\$ <u>37,034,882</u>
Average	\$ <u>1,441,324</u>	\$ <u>2,314,680</u>

USPS has also taken actions to control duplicate and incorrect adjustments. For example, USPS now provides its postal installations with "payroll registers" each pay period showing pay adjustments processed in that pay period. Officials told us that, with this information, postal installations can detect duplicate adjustments. They are undertaking other projects which, when implemented in November or December 1979, will provide for tighter controls over adjustment processing and aid in correcting retirement and leave records. These projects include (1) providing postal installations with payroll and cumulative adjustment history information, (2) redesigning the adjustment system to eliminate duplicate adjustments, and (3) reviewing adjustments made to doublecheck retirement contributions and to catch duplicate adjustments.

The Postal Inspection Service is also aware of the payroll problems and is conducting an audit of the new system. One of the objectives of this audit is to review the causes of inaccurate and untimely processing of personnel actions and duplicate adjustments and recommend system changes to prevent these problems.

Conclusions

Startup problems with the new payroll system caused thousands of employees to be paid emergency salaries, and some are still being paid this way. When this occurs, civil service retirement contributions are not paid to OPM when due and employees' individual retirement and leave records are not properly credited or charged until pay adjustments are processed. Duplicate and incorrect adjustments, together with inaccurate and untimely processing of personnel actions, have compounded the problem of properly maintaining retirement and leave records.

USPS is taking action to process adjustments correctly and to improve the timeliness and accuracy of processing personnel actions. It has also taken actions to control duplicate and incorrect adjustments and has undertaken additional projects which should provide for tighter controls over adjustment processing and aid in correcting retirement and leave records.

If implemented properly, these actions should be effective, and we have no recommendations to make at this time. We would stress, however, that correcting retirement and leave records is very important because errors in them could result in overpayments or underpayments of retirement refunds or lump-sum leave when an employee leaves USPS.

RETIREMENT INFORMATION ON EARNINGS STATEMENTS IS CONFUSING

Providing detailed information to employees on pay and benefits is extremely beneficial to the employer and the employee. If employees know little about their benefits, the basic objective of motivating and retaining them will not be accomplished. Employees benefit because the information helps them evaluate and make personal financial plans. However, these advantages will not accrue to USPS and to some of its employees until confusing earnings statements are corrected. A number of postal employees alleged that their earnings statements did not accurately reflect their total retirement contributions.

The earnings statements for one employee sampled who had been with USPS since 1957 showed that he had paid only \$950 in retirement contributions, whereas his retirement account showed that he had contributed \$10,500. This segment of the earnings statement is simply entitled "USPS Retirement" and is a feature adopted by the new payroll system to provide employees with additional useful information. USPS information describing the earnings statement

is confusing, and an employee could misinterpret the information as being his total contributions to the retirement fund. For example, two excerpts from information describing the earnings statement and "USPS Retirement" are as follows:

"Purpose: To report to each employee his or her detail earnings, gross to net pay, leave status, bond data and USPS retirement balance * * *."

* * * * *

"USPS Retirement - total amount contributed to retirement fund since last Form 50 service entry date."

According to USPS officials, the employee in our sample case applied for a disability retirement in November 1977. This action transferred accountability for retirement contributions during 1957-76 to OPM for settlement. This employee was denied disability retirement. However, because the accountability for retirement contributions during 1957-76 remained at OPM, the earnings statement only reflected retirement contributions from the year the employee applied for disability retirement to the present. According to postal officials, there are many applications for disability retirement, and in each case USPS retirement contributions shown on the employees' earnings statements are less than the actual contributions.

Conclusion

In providing employees with added useful information, USPS may have confused some employees. The earnings statements should be clarified or other mechanisms developed to provide employees with accurate benefit information.

Recommendation

We recommend that the earnings statement be revised to show total retirement contributions to date or expressly state that the amount shown may not be total contributions.

CORRECTIONS OF LEAVE BALANCES HAVE BEEN SLOW

The sick leave balances of nine employees sampled were credited improperly during pay periods 12 through 16 (May 20 to July 28, 1978). Consequently, their sick leave balances were understated from 1 to 6 hours at the end of 1978. According to USPS officials, this was caused by a programming problem that did not properly credit many full-time employees with sick leave earned during those pay periods.

Although the programing problem was corrected in pay period 17 (July 29 to August 11, 1978), the sick leave balances of the employees sampled had not been corrected as of May 1979. Unclear postal regulations regarding the crediting of sick leave caused the programing problem. The same regulations can be a contributing cause to the delay in correcting these records because postal officials have misinterpreted them and, as a result, may have led employees to believe their sick leave balances were credited properly.

Postal regulations state that full-time employees earn 4 hours' sick leave for each full biweekly pay period. The regulations state further that employees who are in a nonpay status totaling 80 hours have their leave credit reduced by the amount of leave earned in one pay period. USPS headquarters officials told us that the leave reduction portion of the regulations applied to both sick and annual leave; however, officials at the post office level interpreted this portion of the regulation to apply only to annual leave. When we tried to determine whether the sick leave balances had been corrected, officials at the post office level were not aware that errors occurred and said sick leave was reduced each time employees worked less than a full biweekly pay period rather than when 80 hours in a nonpay status are accumulated.

Conclusion

Regulations regarding the crediting of sick leave are not completely clear and can be a contributing cause to the delay in correcting inaccurate sick leave balances.

Recommendation

We recommend that postal regulations be clarified to remove any doubt about how sick leave is credited.

LACK OF CONTROL OVER LEAVE ADMINISTRATION

According to USPS regulations, postal officials are responsible for administering the leave program, informing employees of their leave balance, and approving or disapproving employees' requests for leave. It is the responsibility of employees to request leave by completing a form 3971--leave authorization--and obtaining approvals of this authorization before taking leave. Postal officials and supervisors are also required to make sure that these authorizations are properly controlled and filed to support

any leave taken. Because the leave authorization is the source document for approving and taking annual and sick leave, we obtained these forms and attempted to verify whether leave was properly charged to the employees sampled.

We could not verify whether leave was properly charged for 26 of the 32 employees sampled because leave authorizations were missing for periods when the employee was charged leave. In some cases leave authorizations were missing for leave charged for most of leave year 1978. In 5 of the 32 cases, authorization for leave was granted; however, no leave was charged on the employee's payroll record.

Missing leave authorizations do not present a major control problem when employees' time is recorded under the USPS manual time and attendance system because employees generally sign for leave taken on their timecards. However, about half of the postal employees are on an automated time and attendance system. Nineteen of the above 26 employees had their time and attendance recorded by this system. Under this system supervisors and timekeepers are to charge an employee leave by using an employee's time and attendance badge supported by a leave authorization. If an authorization is missing or not prepared, an employee could question the leave charge because there would be no document containing his signature. If such a dispute arose, officials may have a difficult time documenting and justifying leave charges.

Leave authorized but not charged to employees' payroll records indicates that there is a potential that employees could take leave and have someone else punch in for them. USPS officials explained that leave was probably not taken in these cases. They said that, under the automated time and attendance system, supervisors usually controlled employees' time and attendance badges to prevent someone punching in for an employee who was on leave. Also supervisors make physical time and attendance checks to insure that employees who record time are actually on duty. The Postal Inspection Service also tests controls over leave administration during its annual installation financial audits. According to postal inspectors, lack of control over leave administration has been demonstrated in past audits and will continually be reviewed during Inspection Service audits.

Conclusion

Lack of control over leave authorizations--the source document for recording leave--can cause supervisors difficulty in documenting and justifying charges to leave if disputes arise. Leave authorized but not charged to employees' leave balances indicates that there is a potential for abuse. USPS does maintain management and internal audit controls to deter abuses of leave. However, past audits by the Postal Inspection Service have demonstrated that there has been a lack of control over leave administration.

Recommendation

K We recommend that the Postmaster General stress to postal installation officials that it is their responsibility to control the leave of employees and to follow postal regulations requiring proper control over leave authorizations.