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Highlights

Background

As of September 30, 2022, 92 percent of Postal Service's 635,250 employees were members of labor organizations (unions), whose terms of employment are covered by collective bargaining agreements (labor contracts). In fiscal year (FY) 2022, three of the eight Postal Service unions ratified new labor contracts, resulting in the Postal Service owing retroactive pay to approximately 394,000 employees. Inconveniences due to prolonged processing of retroactive pay affect employees and directly impact the Postal Service's relationship with its unions, and its Delivering for America goal of being an "employer of choice" that retains the most capable and diverse employees.

What We Did

Our objective was to assess the United States Postal Service's processes and systems over retroactive pay. To accomplish our objective, we reviewed timelines for three collective bargaining agreements (labor contracts) from contract ratification to issuing retroactive payments to affected employees.

What We Found

The Postal Service has robust steps to process retroactive pay. However, opportunities exist to improve the timeliness of payments. For the three contracts reviewed, the Postal Service took between eight and eleven months to issue retroactive pay. We found the most significant contributing factors affecting timeliness included the challenges in code development due to the outdated system used to process payroll, competing priorities with scheduled payroll system changes and projects, and the lack of formal policies and procedures. Processing retroactive payments requires coordination among five Postal Service functional areas. Each functional area must work around other existing or unanticipated projects planned for the systems required for processing payroll to reach an agreed upon implementation date. Finally, the Postal Service lacks formal procedures around processing retroactive pay, though functional areas do have processes and responsibilities in place.

Recommendations

We recommended management require the new payroll system be able to execute retroactive pay's complex processing when assessing, reviewing, and selecting a new vendor, and document procedures that include responsibilities for functional areas involved in the process, scheduling guidelines, and timeframes to implement contract requirements.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 24, 2023

MEMORANDUM FOR: CARA GREENE
VICE PRESIDENT, CONTROLLER

A handwritten signature in black ink, reading "Alan MacMullin", is positioned below the recipient information.

FROM: Alan MacMullin
Deputy Assistant Inspector General
for Finance, Pricing, and Human Capital

SUBJECT: Audit Report – Processing of Retroactive Pay
(Report Number 23-060-R24)

This report presents the results of our audit of Processing of Retroactive Pay.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

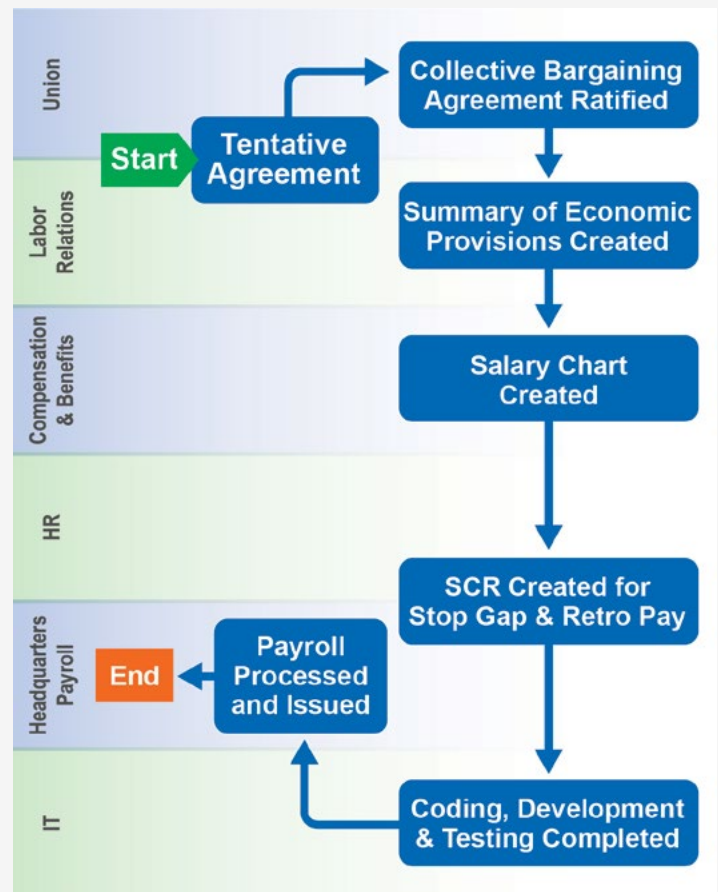
This report presents the results of our self-initiated audit of the Postal Service's retroactive pay process (Project Number 23-060). Our objective was to assess the United States Postal Service's processes and systems over retroactive pay. See [Appendix A](#) for additional information about this audit.

Background

As of September 30, 2022, approximately 92 percent of the Postal Service's 635,250 employees were members of labor organizations (unions), with their terms of employment covered by collective bargaining agreements (labor contracts). In fiscal year (FY) 2022, three of the eight Postal Service unions ratified new labor contracts, with new wage rates, resulting in the Postal Service owing retroactive pay to approximately 394,000 employees. Employee compensation and benefits is the Postal Service's largest operating expense category, making up approximately 65 percent of total operating expenses. With that large an impact on expenses, it is in the Postal Service's interests to promptly and accurately implement requirements with the new labor contract.

As labor contracts near their end, unions negotiate with the Postal Service for increases to employees' payrates as well as changes to other terms of employment,¹ but those increased rates are not paid until the new labor contract is ratified² by the members. Once ratified, the Postal Service must process the retroactive pay owed to employees. First, the Postal Service implements a stopgap measure to bring the affected employees' pay to their current new wage rates based on the ratified labor contract. Next, Postal Service works to process the past-due, retroactive wages owed to employees, which employees earned between the date of the expired labor contract and the date of the stopgap. This differs from an annual pay increase where the dates are established in advance by the contract, allowing the Postal Service to plan and make required payments.

Figure #1. Retroactive Payments Process



Source: OIG analysis based on interviews held with Postal Service functional areas.

The Postal Service has five functional areas that play a part in processing retroactive pay, as shown in Figure 1: Labor Relations, Compensation & Benefits, Headquarters Payroll, Human Resources (HR), and Information Technology (IT). Labor Relations creates a Summary of Economic Provisions that outlines the agreed-upon pay and benefit changes in newly ratified union labor contracts. Headquarters Payroll and HR review the provisions to understand the impact and changes in both the Postal Service's payroll system³ and Human Capital Management (HCM)⁴ system. Compensation and Benefits develops the new salary charts based on these provisions. Headquarters Payroll and HR then work in conjunction with IT to configure and test code changes using

1 Examples include uniform allowance increases and leave earning changes.

2 A formal approval of a newly negotiated agreement by votes from employees in the union.

3 A business application that maintains all the pay rules, including wages, and is used to compensate all Postal Service employees. The system runs on Mainframe and is managed by the Vice President, Finance.

4 An HR application used to process and manage general personnel records. The application runs on a digital platform, hosted by the Eagan Computer Operations, and is managed by Vice President, Human Resources.

Software Change Requests⁵ (SCRs) to document the system changes. Following appropriate testing, the code changes are moved into the payroll system and HCM system’s production environments and employees’ pay and HR records are updated.

Finding #1: Postal Service Retroactive Pay Timeliness

There are robust steps the Postal Service must implement to process retroactive pay resulting from union contract ratification. However, even with complex labor contract requirements, opportunities exist for the Postal Service to improve on the timeliness of the processing of retroactive pay. We reviewed three labor contracts ratified in FY 2022 to understand their timelines and noted the Postal Service took between eight and eleven months to issue retroactive pay to approximately 394,000 employees, as shown in Table 1.

The time to process retroactive pay was affected for various reasons. We found the most significant contributing factors that impact the retroactive pay processing timeline include payroll system enhancements or replacement, competing priorities with scheduled payroll system changes and projects, and lack of formal policies and procedures.

“However, even with complex labor contract requirements, opportunities exist for the Postal Service to improve on the timeliness of the processing of retroactive pay”

Manual system coding in the legacy payroll system, which was deployed in 1985, resulted in increased timelines for processing retroactive pay. Coding is required to implement complex changes to the system to process retroactive pay. In addition, the payroll system has numerous mainframe applications that require employees who are knowledgeable on the legacy source language to execute these changes.

The Postal Service is currently in the solicitation phase of the Payroll modernization program. Management intends to acquire a new system to fully automate, integrate, and streamline the Payroll process.

Workload prioritization also affected the timelines for processing retroactive pay. As shown in Figure 2, each of the labor contracts reviewed had extended gaps in time between sending the respective SCRs to IT and the action being effective in payroll. Specifically, for two of the three contracts’ stopgaps, there was a three-to-four-month lag between when the SCR was sent to IT and when the stopgap was effective. For retroactive pay, all three contracts had between two to almost five months from when the Postal Service sent the SCR to IT and when it processed retroactive pay.

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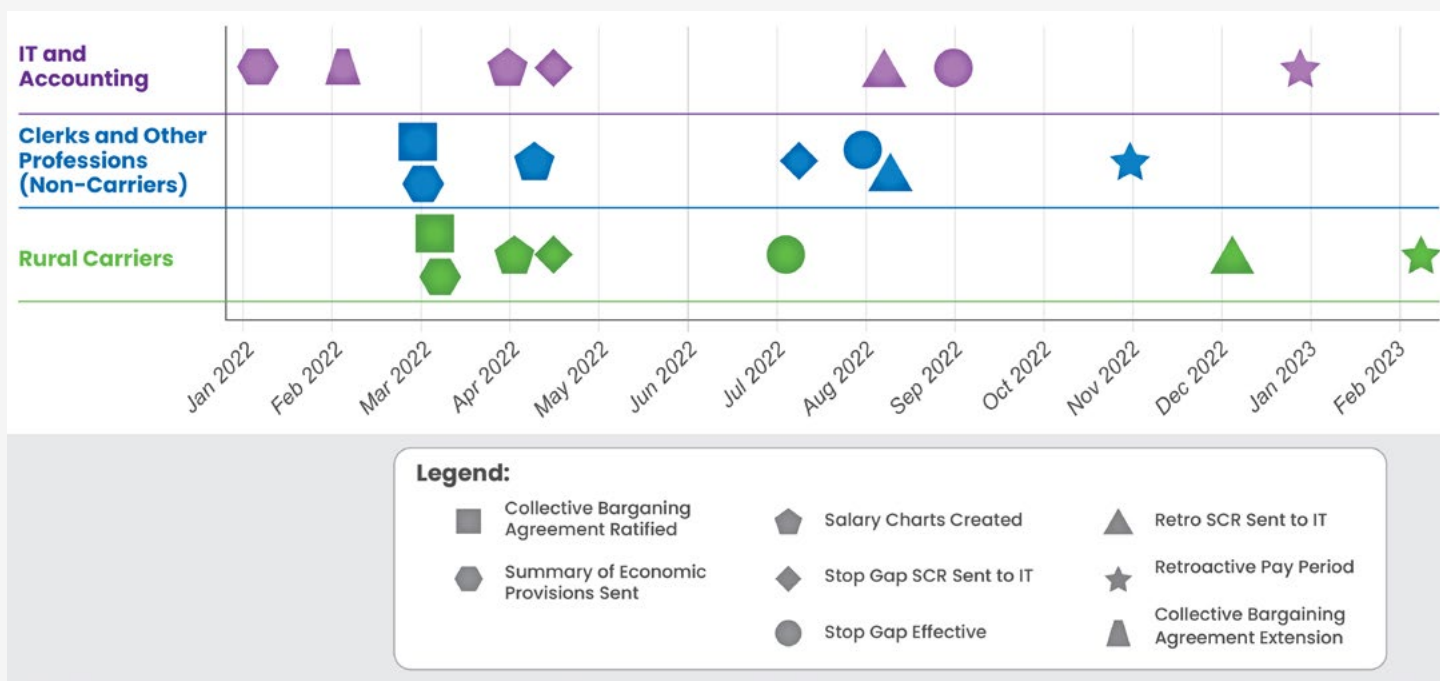
Table 1. FY 2022 Retroactive Pay Amounts and Processing Time

Craft:	Postal Service Employees Affected ⁶ :	Amount Paid in Retroactive Pay ⁷ :	Retroactive Pay Processing Time
Rural Carriers	162,700	\$ 245,985,275	11 months
Postal Service Clerks and other Professions (non-Mail Carriers)	230,300	\$ 159,332,939	8 months
Information Technology and Accounting Professionals	1,200	\$ 4,960,490	10 months
Total	394,200	\$ 410,278,705	

Source: Postal Service documentation, payroll system reports, and OIG analysis.

5 A formal request for a change to any component of a Technology Infrastructure.
 6 Employee count is rounding to the nearest hundred.
 7 Reflects gross pay only, without the accompanying benefit payments made by the Postal Service on the behalf of employees, such as Social Security taxes, Thrift Savings Plan matching, and other retirement contributions, that are due to the additional gross pay.

Figure 2. Retroactive Pay Timelines Per Union



Source: OIG analysis of Postal Service retroactive pay documentation and correspondences.

Management stated that, historically, IT code development and testing takes about six weeks. Each functional area must work around other existing or unanticipated projects planned for the systems required for processing payroll to reach an agreed upon implementation date. The Postal Service could expedite issuing retroactive pay by considering where these payment dates fall on its workload prioritization list.

Finally, a lack of formal procedures contributed to the time it took to process retroactive pay. While there are processes and responsibilities in place amongst the functional areas, they are not formally documented. Documented policies and procedures, particularly those that require establishing a Rough Order of Magnitude⁸ and scheduling to share with all stakeholders, would provide clarity and expectations for processing retroactive pay due to the considerable effort to execute the labor contract requirements in both the HCM and payroll systems. This would provide greater visibility into the estimated hours, system development, and completion timeframes needed to implement the requirements. The Postal Service could expedite retroactive payments by standardizing parts of the process and

creating visibility in areas where bottlenecks and delays may occur within the process.

In FY 2022, the length of time it took for the Postal Service to process retroactive payments resulted in two unions filing grievances and seeking interest on the retroactive payments. Further, the Postal Service’s goal of being an “employer of choice” that retains the most capable and diverse employees can be compromised when employee’s compensation is negatively impacted by prolonged periods of time to process retroactive pay.

Recommendation #1:

We recommend the **Vice President, Controller**, require that the new payroll system be able to execute retroactive pay’s complex processing when assessing, reviewing, and selecting a new vendor.

Recommendation #2:

We recommend the **Vice President, Controller**, in coordination with the functional areas involved in the process, establish and document procedures for processing retroactive pay that include documenting the responsibilities for functional areas involved in the process, scheduling guidelines, and timeframes to implement contract changes, allowing for improved clarity on the procedures necessary to implement contract requirements.

⁸ An estimate on the cost and schedule necessary to complete a task, which can provide business owners an idea of the magnitude of an effort.

Management's Comments

Management agreed with the findings and recommendations.

Regarding recommendation 1, management stated that the Payroll Modernization requirement document was sent out to prospective suppliers August 1, 2023, as part of the Request for Proposal. Management added that responses from the prospective suppliers are due October 20, 2023, and will be reviewed in accordance with the Postal Service's Supplying Principles and Practices. Management further stated that to limit the size of the Request for Proposal, several detailed requirements were summarized into a single broader requirement, and the retroactive adjustment functionality will be part of the solution assessment. In subsequent communication, management set the target implementation date as February 29, 2024.

Regarding recommendation 2, management stated they will establish and document procedures for processing retroactive pay that include documenting the responsibilities for functional areas involved in the

process, scheduling guidelines, and timeframes to implement contract changes, allowing for improved clarity on the procedures necessary to implement contract requirements. A formal process with assigned responsibilities and scheduling guidelines will be created, which will require agreement and sign off by all involved stakeholders. The target implementation date is April 30, 2024.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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Earnings Statement

<u>Earnings</u>	<u>Rate</u>	<u>Hours</u>
Reg Salary		80
Retroactive Pay		

Deductions

This Period

Appendix A: Additional Information

Scope and Methodology

The scope of the audit included timelines of labor contracts ratified between FYs 2021 and 2023. Eight unions ratified their labor contracts with the Postal Service during this period. The audit team mapped out the retroactive pay process by selecting and reviewing the processes for three unions from contract ratification to issuing retroactive payments to affected employees.

To accomplish our objective, we:

- Interviewed the Postal Service functional areas with roles and responsibilities within this process.
- Interviewed union leadership regarding their views on the retroactive pay process.
- Reviewed union labor contracts and associated Summary of Economic Provisions, as well as the salary charts created for salary and cost of living updates provided for in the labor contracts, system change requests and evidence of Unit Testing, System Integration Testing, and Customer Acceptance Testing and grievances filed with the Postal Service.
- Created retroactive pay process flowcharts with key process points and tracked the dates in which each key process points began.
- Reviewed Enterprise Information Repository summaries for the payroll and HCM systems and Technical Solution Requirements and Sarbanes-Oxley (SOX) Impact Assessment forms for the SCRs.
- For the payroll and HCM systems, we confirmed required testing and approval was completed for code changes prior to moving changes into each system's production environment.
- Reviewed SOX testing for applicable business and IT controls within this process.

We conducted this performance audit from March 2023 through October 2023 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 October 5, 2023, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the internal control structure over the processes and systems' uses to issue retroactive pay to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective: control environment, risk assessment, control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls over the processes and systems used to issue retroactive pay. Based on the work performed, we identified internal control deficiencies within the context of our objectives. However, this does not include any deficiencies identified in Postal Service SOX controls. We reviewed their relevant SOX controls over this process and did not disagree with management's assessment of its controls. Our recommendations, if implemented, should improve the weaknesses we identified in the timeliness of processing retroactive pay.

We assessed the reliability of retroactive pay data by comparing our download of payroll data for the retroactive pay periods to Postal Service retroactive pay reports and Summaries of Economic Provisions. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments



October 19, 2023

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Processing of Retroactive Pay (Audit 23-060)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report *Processing of Retroactive Pay*.

Management agrees with the finding that there are opportunities for improvement in the retroactive payment processing overall.

Following are our comments on each of the two recommendations.

Recommendation #1:

We recommend the **Vice President, Controller**, require that the new payroll system be able to execute retroactive pay's complex processing when assessing, reviewing, and selecting a new vendor.

Management Response/Action Plan:

Management agrees with this recommendation.

The Payroll Modernization requirement document was sent out to prospective suppliers on August 1, 2023, as part of the Request for Proposal. Responses from the prospective suppliers are due on October 20, 2023, and will be reviewed in accordance with our Supplying Principles and Practices.

In order to limit the size of the Request for Proposal, several detailed requirements were summarized into a single broader requirement. The ability to automatically load adjustments for a span of multiple pay periods includes the ability to load retroactive adjustments. The retroactive adjustment functionality will be part of the solution assessment. A copy of this requirement in the RFP was provided to the OIG to support closing this recommendation with issuance of the final report.

Target Implementation Date: November 30, 2023

Responsible Official:

Executive Manager Payroll

Recommendation #2:

We recommend the **Vice President, Controller**, in coordination with the functional areas involved in the process, establish and document procedures for processing retroactive pay that include documenting the responsibilities for functional areas involved in the process, scheduling guidelines, and timeframes to implement contract changes, allowing for improved clarity on the procedures necessary to implement contract requirements.

Management Response/Action Plan:

Management agrees with this recommendation.

A formal process with assigned responsibilities and scheduling guidelines will be created. The final process will require agreement and sign off by all involved stakeholders.

Target Implementation Date: April 30, 2024

Responsible Official:

Executive Manager Payroll

E-SIGNED by CARA.M GREENE
on 2023-10-19 09:30:18 EDT

Cara M. Greene
Vice President, Controller

cc: Corporate Audit Response Management

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UNITED STATES



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