



Office of Inspector General | United States Postal Service

## Audit Report

# Fiscal Year 2021 Officers' Travel and Representation Expenses

Report Number 21-094-R22 | February 18, 2022



# Table of Contents

- Cover
- Highlights..... 1
  - Background..... 1
  - What We Did..... 1
  - What We Found..... 1
  - Recommendations..... 1
- Transmittal Letter ..... 2
- Results..... 3
  - Introduction/Objective ..... 3
  - Background..... 3
  - Finding Summary ..... 4
  - Finding #1: Taxable Reimbursements..... 4
    - Recommendation #1..... 5
  - Management’s Comments..... 5
  - Evaluation of Management’s Comments ..... 5
- Appendices ..... 6
  - Appendix A: Additional Information..... 7
    - Scope and Methodology..... 7
    - Prior Audit Coverage ..... 8
  - Appendix B: Management’s Comments..... 9
- Contact Information ..... 11

# Highlights

## Background

The U.S. Postal Service has 50 authorized officer positions, including the postmaster general, deputy postmaster general, and all vice presidents. Forty-four positions were active during fiscal year (FY) 2021. Officers filed 364 expense reimbursement requests totaling \$417,075.

Further, the Postal Service hired limited-term contract employees (contract employees) that were not officers, but management elected for their travel reimbursement requests to receive the same level of review as officers. During FY 2021, the contract employees filed 91 reimbursement requests, totaling \$157,755.

## What We Did

Our objective was to determine whether Postal Service officers complied with policies and procedures regarding travel and representation expense reimbursements. We reviewed 15 reimbursement requests for each quarter totaling \$152,804. We also reviewed all 91 reimbursement requests submitted by the contract employees.

## What We Found

Postal Service officers properly complied with policies and procedures regarding travel and representation expense reimbursements. We identified minor issues including hotel taxes in tax exempt states, reimbursement for valet parking, a missing hotel receipt, and timeliness of submitting claims. We communicated these issues to Postal Service personnel who agreed to address the issues as appropriate.

We also found that the Postal Service did not capture and report as taxable income selected travel reimbursements paid to temporary contract employees whose assignments lasted more than one year, as required. After we brought the issue to management's attention, they began following proper procedures for capturing and reporting applicable taxable income and withholding applicable taxes. Further, they issued invoices to the contract employees for taxes not previously withheld, reported taxable compensation to the IRS, and drafted a control to identify travelers who submit claims for long-term assignments.

## Recommendations

We recommend management enhance controls to ensure they capture taxable reimbursements for employees on temporary assignment and report them to the IRS.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

February 18, 2022

**MEMORANDUM FOR:** CARA M. GREENE  
VICE PRESIDENT, CONTROLLER

*Lorie Nelson*

**FROM:** Lorie Nelson  
Acting Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report – Fiscal Year 2021 Officers' Travel and  
Representation Expenses (Report Number 21-094-R22)

This report presents the results of our audit of the Fiscal Year 2021 U.S. Postal Service's Officers' Travel and Representation Expenses (Project Number 21-094).

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

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our audit of Fiscal Year (FY) 2021 U.S. Postal Service's Officers' Travel and Representation Expenses (Project Number 21-094). We conducted this audit in response to the U.S. Postal Service Board of Governors' policies and procedures requiring annual audits of officers' travel and representation expenses.<sup>1</sup>

Our objective was to determine whether Postal Service officers complied with policies and procedures regarding travel and representation expense reimbursement. See [Appendix A](#) for additional information about this audit.

## Background

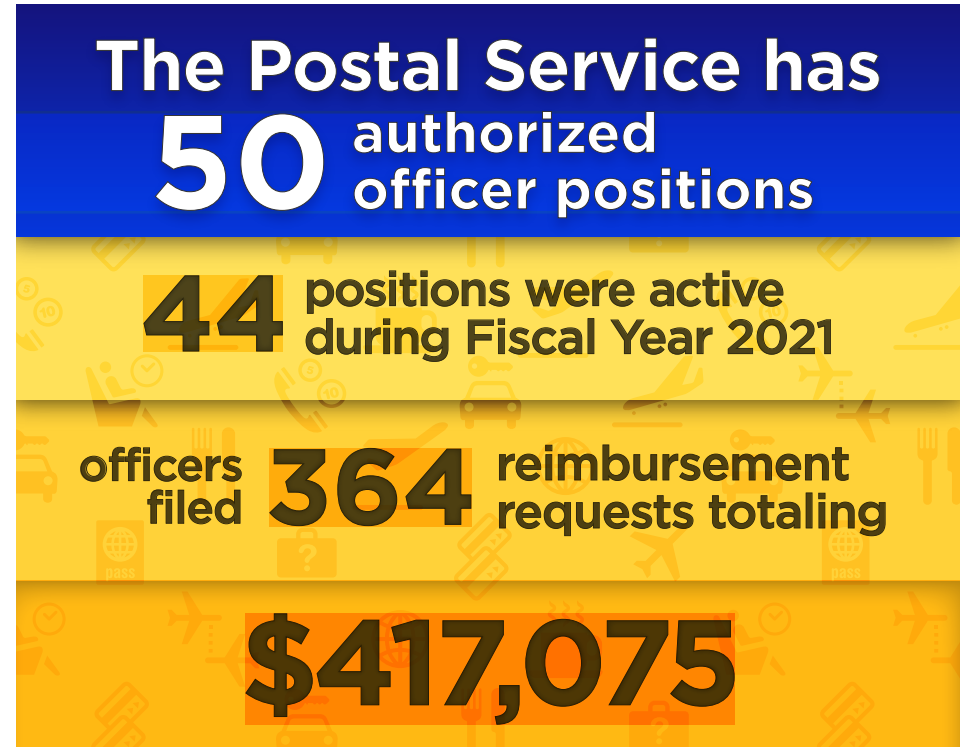
The Postal Service has 50 authorized officer positions,<sup>2</sup> including the postmaster general (PMG), deputy postmaster general, and all vice presidents. Forty-four positions were active during FY 2021. Officers filed 364 reimbursement requests totaling \$417,075. Table 1 shows officers' reimbursements from FY 2019 through FY 2021.

**Table 1: Annual Comparison of Officers' Travel and Representation Expense Reimbursements<sup>3</sup>**

Fiscal Year	Number of Transactions	Total Paid Amount
FY 2019	991	\$927,358
FY 2020	646	\$775,126
FY 2021	364	\$417,075

Source: Postal Service eTravel System data.

- Representation expenses nearly always involve one or more non-Postal Service personnel (suppliers, customers, and foreign postal administrators) and a Postal Service officer.
- Title 39 U.S. Code, Sections 202, 203 and 204, dated August 12, 1970, established five officer positions. Under the powers granted, the Board authorized 45 additional officer positions under Board Resolution 99-11, dated October 4, 1999.
- Table does not include the contract employees' reimbursements.
- The Postal Service may hire individuals as executives under employment contracts for periods not in excess of five years. Notwithstanding any such contract, the Postal Service may at its discretion and at any time remove any such individual without prejudice to his contract rights.
- The purpose of the deviation letters was for the employees to be deemed as being in official business travel status during their employment at Postal Service Headquarters in Washington, D.C., despite their permanent duty station being in the same location.



Additionally, in FY 2020, the Postal Service hired limited-term contract employees (contract employees) for a six-month term under the appointment authority of Title 39 U.S. Code Section 1001(c).<sup>4</sup> Each contract employee continued to reside in their home state but were domiciled in Washington, D.C. Their contracts and travel deviation letters<sup>5</sup> allowed for an apartment in the Washington, D.C. area and travel to their home state once a month. The contract employees filed



91 reimbursement requests totaling \$157,755 during FY 2021, including \$141,476 for apartment rentals and monthly trips home.

## Finding Summary

Postal Service officers properly complied with policies and procedures regarding travel and representation expense reimbursements. We identified minor issues during our audit regarding hotel taxes in tax exempt states, reimbursement for valet parking, a missing hotel receipt, and timeliness of submitting reimbursement requests. We communicated these issues to Postal Service personnel who agreed to address the issues as appropriate.

We also found that the Postal Service did not capture and report as taxable income selected travel reimbursements paid to temporary contract employees whose assignments lasted more than one year, as required. After we brought the issue to management's attention, they took corrective action and began following proper procedures for capturing and reporting applicable contract employee's taxable income and withholding applicable taxes. Further, they issued invoices to the contract employees for employment taxes that were not previously withheld and drafted and began testing a control to identify employees on temporary assignments.

## Finding #1: Taxable Reimbursements

The Postal Service did not capture and report as taxable income selected travel reimbursements paid to temporary contract employees whose assignments lasted more than one year, as required. During Calendar Year (CY) 2021, the Postal Service paid contract employees whose contracts were extended beyond one year, over \$35,000 for 20 travel reimbursement requests<sup>6</sup> submitted through the eTravel system.<sup>7</sup> However, management did not capture the reimbursements

for IRS reporting<sup>8</sup> or withhold associated income or employment taxes,<sup>9</sup> as required.

Section 162(a)(2) of the Internal Revenue Code discusses trade and business expenses.<sup>10</sup> Revenue Ruling 93-86<sup>11</sup> and IRS *Fringe Benefit Guide*,<sup>12</sup> state that "if an assignment away from home at a single location initially is realistically expected to last one year or less, and then later is realistically expected to last longer than one year, the assignment is considered temporary until the date the expectations change. At that time, the travel is considered indefinite and any travel reimbursements from that date on are taxable."

According to Postal Service policy,<sup>13</sup> as soon as it becomes known that an employee's temporary assignment to a geographic commuting area will exceed one year, all travel reimbursements must be reported to the IRS as compensation with taxes withheld. Policy also states that the employee will use PS Form 1012, Travel Voucher, and annotate on the form that they are using it for a long-term temporary assignment. The employee will then submit the completed form to the Eagan Accounting Service Center for processing. The employee will not use the eTravel system to claim reimbursement for temporary assignments that last in excess of one year.

For the first two six-month contract periods, the contract employees appropriately submitted all travel reimbursement requests through the eTravel system. However, management extended some of the contracts beyond one year.<sup>14</sup> At that time, the travel reimbursements became reportable income, and the contract employees should have used PS Form 1012 to submit travel reimbursement requests. The Postal Service uses PS Forms 1012 to ensure applicable travel reimbursements are properly captured and reported as taxable income. At the

6 These reimbursements do not include business-related travel and are only for reimbursement of apartment-related expenses in Washington, D.C., and monthly trips to their home state.

7 Postal Service employees, including officers, use the eTravel system to create, submit, and review expense reports; and obtain reimbursement for transportation, lodging, and other expenses incurred while on official travel.

8 Postal Service management has until the last day of the month following the end of the quarter to report compensation.

9 The potential income and employment tax withholdings are federal, state, local, Social Security, and Medicare.

10 I.R.C. §162(a)(2) allows for a deduction of all ordinary and necessary expenses paid or incurred during the taxable year, including traveling expenses while away from home. I.R.C. §162(a) expressly states that "the taxpayer shall not be treated as being temporarily away from home during any period of employment if such period exceeds 1 year."

11 A revenue ruling is an official interpretation by the IRS of the Internal Revenue Code.

12 Department of Treasury, Internal Revenue Service, Publication 5137, revised February 2020.

13 Handbook F-15, *Travel and Relocation*, Section 2-2.1.2.2, dated September 2015.

14 Management extended terms for the contract employees that did not leave the Postal Service at or prior to the conclusion of the six-month contract term, for a total of 24 months.

time the 20 payments were made, management did not withhold associated income or employment taxes or capture the reimbursements for IRS reporting.

Management stated that they were aware of the requirement to report travel reimbursements for its employees on temporary assignments of longer than one year as compensation to the IRS and that they used PS Forms 1012 to facilitate that process. However, management was not certain whether the IRS reporting requirement applied to limited-term contract employees, so they did not track the contract employees' travel reimbursements. After we brought the issue to management's attention, they sought legal advice, which confirmed that the requirement also applies to these contract employees. Once confirmed, the contract employees began using PS Forms 1012 to submit reimbursement requests for apartment rent and expenses for travel to their home state.

Management took corrective action by informing the contract employees of the IRS taxable compensation requirements and explaining that the Postal Service did not withhold applicable income and employment taxes from the 20 reimbursements totaling over \$35,000. Management also issued invoices to the contract employees for the applicable employment taxes that were not withheld. Additionally, in January 2022, management reported to the IRS taxable compensation for the contract employees whose contracts were extended beyond one year.

Management plans to implement a new control to identify travelers who submit claims for a long-term assignment in eTravel for the purpose of providing them policy and procedures regarding the potential taxability of their travel claims. Management expects to implement the control in August 2022.

### Recommendation #1

We recommend the **Vice President, Controller**, enhance controls to ensure management captures taxable reimbursements for employees on temporary assignment, including contract employees, and reports them to the Internal Revenue Service.

## Management's Comments

Management agreed with the finding and recommendation, stating that they have instituted additional controls that, going forward, will prevent further issues. They also stated they will continue to be diligent in ensuring that reimbursable travel expenses are reported and taxed as appropriate.

Additionally, management will create a report identifying all employees, including temporary contract employees, who have been on official travel status approaching the 12-month mark; communicate the tax implications of additional travel beyond 12 months; and require impacted employees to follow the existing process to report taxable travel reimbursements. The target implementation date is August 31, 2022.

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

## Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation in the report and actions taken and proposed should resolve the issue identified.

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

# Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information.....	7
Scope and Methodology .....	7
Prior Audit Coverage .....	8
Appendix B: Management’s Comments.....	9



# Appendix A: Additional Information

## Scope and Methodology

For FY 2021, Postal Service officers filed 364 travel and representation expense reimbursement requests totaling \$417,075. We judgmentally sampled and reviewed 60 reimbursement requests totaling \$152,804. Those 60 sampled reimbursements included 15 reimbursement requests each quarter for existing officers, acting officers, or Sloan Fellows Program participants<sup>15</sup> who traveled during the fiscal year. We included any reimbursements of \$7,000 or more and judgmentally selected additional transactions to total up to 15 transactions for each quarter.<sup>16</sup> Additionally, we reviewed all 91 reimbursement requests submitted by the contract employees during FY 2021. Although the contract employees were not officers, Postal Service management elected to include their travel reimbursement requests in the officer's group<sup>17</sup> in the eTravel system to ensure the requests received special review by Travel and Relocation personnel.

We retrieved reimbursement requests and supporting documents that officers and contract employees filed in the eTravel system. We verified whether these employees complied with policies and procedures regarding:

- Submission and approval of the travel reimbursement requests
- Air transportation and other transportation methods
- Lodging and per diem
- International travel
- Representation expenses
- Duplicate claims<sup>18</sup>
- Appropriateness of credit card use<sup>19</sup>

We used the following as our criteria to evaluate reimbursements:

- *Revised Officers' Travel, Representation, and Office Expense Guidelines* issued by the PMG, dated June 30, 2017.
- Handbook F-15, *Travel and Relocation*, dated September 2015.
- Management Instruction FM-640-2020-1, *Expenses for Internal and External Events*, dated January 2020.
- *The Massachusetts Institute of Technology Sloan Fellows Program Guide*, Learning and Development, United States Postal Service, dated January 5, 2016.
- Limited-term employee contracts and travel deviation letters.

We conducted this performance audit from January 2021 through February 2022 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on January 21, 2022 and included their comments where appropriate.

<sup>15</sup> A 12-month, full-time Master of Business Administration program designed to prepare a group of mid-career managers to become future leaders at the Postal Service. Program participants are reimbursed for travel and representation expenses and their reimbursement claims receive special review by Travel and Relocation personnel.

<sup>16</sup> Each quarter, we selected the five highest dollar reimbursements and randomly selected an addition 10 reimbursements for review.

<sup>17</sup> The Vice President, Controller, identifies employees whose travel expenses require special review and those employees may be flagged under the officer group in eTravel.

<sup>18</sup> Expenses that are claimed more than once.

<sup>19</sup> Travelers only use the travel card for business-related purposes.

We assessed the reliability of eTravel data by comparing it to officer’s travel expense data in the Enterprise Data Warehouse (EDW)<sup>20</sup> for each quarter. In addition, we judgmentally selected a sample of five reimbursement transactions

in EDW each quarter and verified them to the travel reimbursement requests in the eTravel system. We determined the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
<i>Fiscal Year 2020 Selected Financial Activities and Accounting Records</i>	Determine whether the Postal Service fairly stated accounting transactions in the general ledger and whether selected key controls surrounding those transactions were designed and operating effectively; and properly tested, documented, and reported its examination of selected key financial reporting controls related to headquarters and Accounting Service Centers.	20-152-R21	4/30/2021
<i>Fiscal Year 2019 Selected Financial Activities and Accounting Records</i>	Determine whether the Postal Service fairly stated accounting transactions in the general ledger and whether selected controls surrounding those transactions were designed and operating effectively; and properly tested, documented, and reported its examination of selected key financial reporting controls related to headquarters and Accounting Service Centers.	19BM004FT000-R20	1/6/2020

<sup>20</sup> A repository intended for all data and the central source for information on retail, financial, and operational performance.

# Appendix B: Management's Comments



February 8, 2022

JOHN CIHOTA  
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Fiscal Year 2021 Officers' Travel and Representation Expenses, Project Number 21-094

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, Fiscal Year 2021 Officers' Travel and Representation Expenses.

**Finding #1: Taxable Reimbursements**

Management agrees with the finding that the Postal Service did not capture and report as taxable income selected travel reimbursements paid to temporary contract employees whose assignments lasted more than one year. We have instituted additional controls that, going forward, will result in no further issues. We will continue to be diligent to ensure that reimbursable travel expenses are reported and taxed as appropriate.

**Recommendation 1:**

We recommend the **Vice President, Controller**, enhance controls to ensure management captures taxable reimbursements for employees on temporary assignment, including contract employees, and reports them to the Internal Revenue Service.

**Management Response/Action Plan:**

Management agrees with this recommendation and will: 1) create a report to identify all employees, including temporary contract employees, who have been in official travel status approaching the twelve-month mark; 2) communicate the tax implications of additional travel beyond twelve months; and 3) require the impacted employees to follow the existing process to report taxable travel reimbursements.

**Target Implementation Date:**

August 2022

**Responsible Official:**

Executive Manager, Corporate Accounting and Manager, Travel & Relocation

A handwritten signature in blue ink, appearing to read "Cara M. Greene", written over a horizontal line.

Cara M. Greene  
VP, Controller

- 2 -

cc: Chief Financial Officer & Exec. VP  
Deputy Postmaster General &  
Chief Human Resources Officer  
Exec. Dir. Compensation & Benefits  
Assistant Controller  
Executive Manager, Corporate Accounting  
Manager, Travel & Relocation  
Manager, Corporate Audit Response Management

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1735 North Lynn Street  
Arlington, VA 22209-2020  
(703) 248-2100

For media inquiries, please email  
[press@uspsoig.gov](mailto:press@uspsoig.gov) or call 703-248-2100