Office of Inspector General | United States Postal Service

Audit Report

Impact of Pandemic on Postal Service Finances

Report Number 20-257-R21 | March 29, 2021

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Highlights

Objective

On March 13, 2020, the President of the U.S. issued the national emergency declaration concerning the COVID-19 pandemic (pandemic). During the ongoing pandemic, the U.S. Postal Service provided essential services as part of the nation's critical infrastructure by continuing to process and deliver mail and packages. The pandemic continues to have an unpredictable impact on Postal Service operations and finances.

From March through September 2020, the Postal Service separated pandemic-related expenses from daily operating expenses to determine the financial impact. These pandemic-related expenses included supplies, services, transportation expenses, and sick and annual leave expenses, among others. Some expenses, such as supplies and services, were directly tracked while others, like transportation expenses, were estimated.

Additionally, the Postal Service generates cash almost entirely through the sale of postal products and services. For a decade prior to the pandemic, the Postal Service publicly expressed concerns regarding its financial liquidity. During the pandemic, the Postal Service's concerns intensified, and management believed liquidity would decline sharply. In March 2020, Congress passed legislation authorizing additional borrowing authority, up to $10 billion, for the Postal Service. This legislation also deferred Social Security taxes for employers, including the Postal Service, through the end of calendar year 2020.

Our objective was to assess the impact of the pandemic on Postal Service finances.

Findings

The pandemic impacted the Postal Service's finances; however, impacts were not entirely negative. Although expenses did increase because of the pandemic, near-term liquidity improved, as package volume and revenue increased in the second half of fiscal year (FY) 2020. Specifically, revenue at FY 2020 year-end was $73.1 billion, which was between $2.9 and $6 billion greater than pandemic projected scenarios. The increase in revenue was largely driven by ongoing, unpredictable package volume increases. We evaluated the pandemic's impact on projected versus actual revenue in a separate audit.

Although management made considerable efforts to isolate expenses specific to the pandemic, the Postal Service did not capture all pandemic-related expenses in a timely or consistent manner. Specifically:

- Expenses were not consistently tracked.
- Expenses charged to gift cards were double counted and misallocated.
- Voyager Card systems did not clearly identify or track all pandemic-related transactions.
- Methodologies to estimate pandemic-related impacts to transportation and leave expenses were not documented and were largely based on professional judgement.

"Although management made considerable efforts to isolate expenses specific to the pandemic, the Postal Service did not capture all pandemic-related expenses in a timely or consistent manner."

As of September 2020, the Postal Service reported about $744 million in pandemic-related expenses for items such as safety and cleaning supplies, increased transportation costs, and increased leave usage. Specifically, the Postal Service reported expenses in the following categories:

- Supplies and cleaning materials: $204 million
- Pending pandemic-related field expenses not yet transferred to the centralized account: $10 million
- Pandemic postcards to the public: $4 million
- Transportation expenses: $124 million
- Leave expenses: $402 million

Transportation and leave pandemic-related expenses could not be directly identified; therefore, management developed methodologies to estimate these expenses. We could not assess the reasonableness of the methodologies because they were not well- documented and were largely based on professional judgement.

Further, through a survey issued to 13 financial managers in the field, we determined that there was no documented procedure outlining how tracking and reporting of expenses should occur. Survey results indicated expense reports were submitted at different intervals, making it difficult to directly track pandemic-related expenses.

In a subsequent meeting, management provided an updated workbook outlining an enhanced validation process to ensure pandemic-related expenses are tracked and supported. The workbook contains enhancements to the original expense tracking process we evaluated in this report. Although we have not fully evaluated the workbook, which is in draft, it provides a more thorough analysis and validation for pandemic-related expenses. We may conduct future audit work around Postal Service requests for COVID-19 expense reimbursement.

Although the pandemic could not be anticipated and management worked swiftly to put measures in place to account for pandemic-related expenses, without specific policies or procedures, the Postal Service was unable to efficiently track expenses resulting from the pandemic.

By the end of FY 2020, the pandemic had not produced the sharp decline in liquidity that Postal Service management anticipated early in the pandemic. Instead, cash flows exceeded expectations, due to sharply rising package revenues, management actions, and employer Social Security tax deferrals. Management's actions included borrowing, reducing planned capital expenditures, and defaulting on fiscal year-end retirement payments. With strong cash flows contributing to record fiscal year-end cash of $14.4 billion, the Postal Service did not borrow against the $10 billion Congress authorized in the March 2020 legislation. Further, management ensured compliance with the Postal Reorganization Act annual debt limit through timely debt repayment. While the effects of the pandemic on the Postal Service's liquidity have been favorable to date, the remaining length and severity of the pandemic's impacts are unknown.

"By the end of FY 2020, the pandemic had not produced the sharp decline in liquidity that Postal Service management anticipated early in the pandemic."

Recommendation

We recommend management develop specific policies and procedures to ensure expenses are consistently documented, validated, and tracked for unanticipated crisis or catastrophic events.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 29, 2021

MEMORANDUM FOR: LUKE T. GROSSMANN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

SHARON D. OWENS
VICE PRESIDENT, PRICING AND COSTING

CARA M. GREENE
VICE PRESIDENT, CONTROLLER

FROM: Mitchell S. Schoenberg
Deputy Assistant Inspector General for Finance and Pricing

SUBJECT: Audit Report – Impact of the Pandemic on Postal Service Finances (Report Number 20-257-R21)

This report presents the results of our audit of the Impact of the Pandemic on U.S. Postal Service Finances.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sherry Fullwood, Director, Cost & Pricing, 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 impact of the pandemic on U.S. Postal Service finances (Project Number 20-257). Our objective was to assess the impact of the pandemic on Postal Service finances. See Appendix A for additional information about this audit. We evaluated the pandemic's impact on revenue in a separate audit.

Background

On March 13, 2020, the President of the U.S. issued the national emergency declaration concerning the COVID-19 pandemic (pandemic). During the ongoing pandemic, the Postal Service provided essential services as part of the nation's critical infrastructure during the pandemic by continuing to process and deliver mail and packages. During the time of our review, the pandemic continues to have an unpredictable impact on the national economy, including on Postal Service operations and finances. For example, quarantines, stay-at-home orders, and travel restrictions affected retail and commercial customers, suppliers, and mail service providers. These events ultimately impacted the Postal Service's overall mail volume mix and revenue, as letter mail fell, package volume surged, and total operating revenue increased.

Expenses

The Postal Service records and reviews detailed expenses through the assignment of unique finance numbers[1] to all facilities and operating entities. Postal Service accounting systems also capture and categorize details on all expenses. During the pandemic, the Postal Service created two finance numbers to track certain pandemic-related expenses, such as safety equipment and supplies. As of September 2020, the Postal Service reported about $744 million in pandemic expenses for items such as safety and cleaning supplies, transportation costs, and leave usage.

> *"As of September 2020, the Postal Service reported about $744 million in pandemic expenses for items such as safety and cleaning supplies, transportation costs, and leave usage."*

Liquidity

The Postal Service defines liquidity as unrestricted cash and cash equivalents[2] plus borrowing authorized by the Postal Reorganization Act (PRA).[3] Borrowing under the PRA cannot exceed $15 billion at any time. Additionally, the annual net increase in borrowing, measured at fiscal year-end, cannot exceed $3 billion. The Postal Service generates cash almost entirely through the sale of postal products and services. For a decade prior to the pandemic, the Postal Service had publicly expressed concerns regarding its liquidity; these concerns intensified during the pandemic. In March 2020, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which added $10 billion to the Postal Service's borrowing authority. The CARES Act debt is available, with restrictions, if the Postal Service determines that, due to the pandemic, it will not be able to fund operating expenses without borrowing.

Finding #1: Pandemic-Related Expenses

Although the pandemic was a unique and unprecedented event, management made considerable effort to isolate and track expenses specific to the pandemic. However, the Postal Service did not capture all pandemic-related expenses in a timely or consistent manner. Specifically:

- Expenses were not consistently tracked.
- Expenses charged to gift cards were double counted and misallocated.
- Voyager Card[4] systems did not clearly identify or track all pandemic-related transactions.

1 All postal facilities and operating entities are assigned 6-digit finance numbers for internal control. The finance number is mandatory with a nominal account when posting to the general ledger.
2 Unrestricted cash and cash equivalents are available for business purposes. We use "cash" to refer to "unrestricted cash and cash equivalents."
3 Postal Reorganization Act of 1970, P.L. 91-375, as amended.
4 Postal Service employees use Voyager cards for fuel, oil, and maintenance purchases from external commercial businesses (vendors).

- Methodologies to estimate pandemic-related impacts to transportation and leave expenses were not documented and were largely based on professional judgement.

These conditions occurred because the Postal Service did not effectively identify and track all pandemic expenses due to undocumented reporting policies and procedures. During emergency situations, such as natural disasters and recessions, the Postal Service creates special finance numbers to track expenses associated with the specific emergency. Field offices are then authorized to assign expenses to the emergency finance number. Management stated there was no written policy for creating emergency finance numbers, but they used this process when the situation was warranted.

The Postal Service created two emergency finance numbers to track the majority of pandemic-related expenses. Headquarters and facilities used one finance number to track pandemic-related expenses associated with safety and cleaning supplies. The second finance number tracked expenses specifically associated with postcard mailings for the White House and Centers for Disease Control and Prevention (CDC), which contained the President of the United States' message addressing the pandemic.

The Postal Service incurred the following additional pandemic expenses that were not charged to either of the pandemic finance numbers:

- Authorized use of Voyager cards to purchase hand sanitizer.
- Transportation expenses caused by reduced commercial air availability.
- Leave usage associated with the pandemic.

Management maintained a summary sheet that tracked pandemic finance number expenses and other pandemic-related expenses not associated with the finance numbers. Voyager card pandemic expenses were not included because of the low dollar amount of total pandemic-related expenses. Further, some expenses, such as supplies and services, were directly tracked while others, like transportation expenses and some pandemic-related leave expenses were estimated. From March 2020 through September 2020, the Postal Service indicated it spent about $744 million in pandemic-related expenses for items such as safety and cleaning supplies, increased transportation costs, and increased leave usage, as shown in Table 1.

Table 1. March – September 2020 Pandemic Expense Impacts (cost in millions)

Expense Type	March	April	May	June	July	August	September	Total
COVID-19 PPE Finance Number	$5.6	$19.6	$60.8	$36.1	$27.6	$38.7	$15.4	**$203.7**
Pending[5] Field Charges	$1.6	$4.1	$1.1	$0.9	$0.7	$0.4	$0.8	**$9.7**
Postcards Finance Number	$4.6	$4.3	$0	($4.6)[6]	$0	$0	$0	**$4.3**
Transportation Impact Estimated	$0	$31.6	$39.1	$53.4	$0	$0	$0	**$124.1**
Additional Sick Leave Estimated	$29.5	$36.1	$3.2	$15.2	$18.1	$11.6	$10.6	**$124.2**
COVID Leave	$1.0	$74.2	$53	$44.2	$44.6	$22.4	$38.30	**$277.7**
Total Expenses	**$42.2**	**$169.8**	**$157.1**	**$145.3**	**$91**	**$73.1**	**$65.2**	**$743.6**

Source: Enterprise Data Warehouse and eFlash[7].

5 Pandemic-related field expenses are those expenses not yet transferred to the centralized, headquarters COVID-19 PPE finance number.
6 This negative number reflects cancellation of the March expenses. These expenses were recalculated and assigned to the April expenses.
7 Enterprise Data Warehouse (EDW) is the repository intended for all data and the central source for information on retail, financial, and operational performance. eFlash captures various types of payroll data, leave, revenue, and summarized in a national level report.

Pandemic Safety and Cleaning Supplies Expenses

Between March and September 2020, the Postal Service captured about $204 million in pandemic-related expenses under the finance number associated with safety equipment and cleaning supplies. As of September 2020, there was an additional $9.7 million in pending pandemic-related transactions from the field. These expenses included things like personal protective equipment (PPE)[8] and VISA/Mastercard gift cards to purchase PPE, cleaners, and disinfectants.

Originally, headquarters approved all nationwide pandemic-related expenses; however, as the pandemic continued, this responsibility was delegated to the field. Once that authority moved to the field, the district finance managers or area controllers were responsible for reviewing and validating pandemic-related purchases. To expedite the approval process, headquarters management allowed the districts to use local finance numbers to complete pandemic-related purchases and later transfer them to the headquarters pandemic finance number.

Management stated there was no formal process for personnel in the field to transfer their pandemic-related expenses to the headquarters emergency finance number and reporting requirements changed as the pandemic evolved which may have led to some inconsistencies in reporting. Initially each area office was to submit a biweekly report to headquarters summarizing pandemic-related expenses. Through a survey issued to 13 financial managers in the field, we determined that there was no documented procedure that outlined how tracking and reporting should occur. For example, survey results indicated expense reports were submitted at different intervals, making it difficult to directly track pandemic-related expenses. Nine of the respondents submitted their expenses monthly, three respondents submitted their expenses bi-weekly, and one respondent submitted their expenses weekly. See Appendix B for detailed survey results.

We identified additional inconsistencies related to the issuance and tracking of VISA/MasterCard gift cards. Given the initial shortage of PPE and cleaning supplies and to maintain operations and safeguard the health of employees, the Postal Service made available $25 VISA/MasterCard gift cards for employees to purchase essential pandemic-related supplies for use while performing their official duties. These supplies included cleaning supplies, hand sanitizer, and cloth face masks, among other things. From March through August 2020 the Postal Service activated about $2 million in gift cards, of which employees spent about $359,000.

In August 2020, the Postal Service instructed district field managers to destroy all non-activated gift cards and recalled all unused, activated gift cards to district offices for reconciliation. District offices were then directed to use these gift cards to purchase PPE and other necessary supplies. We identified that the $2 million in activated gift cards were accounted for in the pandemic-related emergency finance number as well as in a second, separate line item on management's summary tracking sheet. Management immediately corrected this double counting of gift card expenses upon notification; therefore, we are not making a recommendation.

Pandemic Post Card Expenses

In March 2020, the Postal Service worked with the White House and the CDC to deliver post cards containing a message from the President of the U.S. addressing the pandemic. A second finance number was set up to track those post card expenses. In addition to about $24.9 million in postage, the Postal Service spent about $4.3 million for printing expenses related to the pandemic post cards. The Postal Service was not reimbursed for the postage and printing expenses. We are finalizing a concurrent audit that describes these expenses in further detail.

Voyager Card Expenses

From March to June 2020, the Postal Service modified the usage of the Voyager cards to allow for the purchase of hand sanitizer at gas stations and auto parts stores. This temporary exception ended in July 2020. Hand sanitizer purchases were generally categorized under product code "540 – Health and Beauty Supplies". Management lifted restrictions for product code 540 to allow

8 PPE includes equipment for protecting the following: eye, face, head, hand, and foot protection; and protective clothing. For more information, see Management Instruction EL-810-2009-4 - *Personal Protective Equipment and Respiratory Protection Programs*.

employees to purchase hand sanitizer. Management stated the voyager card pandemic expenses for product code 540 was about $3,000.

Additionally, code “33 - Miscellaneous”, which was as a sub-category of product code 540, was also used for pandemic-related purchases. We reviewed data in the Fuel Asset Management System[9] from April to June 2020 and determined that about $11,000 of about $2.6 million total expenses for product code “33 - Miscellaneous” were pandemic-related expenses. The transactions associated with the identified $8,300 were flagged as questionable expenses in the system and “COVID” was later added in the comments field. We could not assure that all pandemic-related Voyager card expenses were captured because we could only identify pandemic-related expenses if a “COVID” annotation was included.

Pandemic Transportation Expenses

Transportation expenses resulting from the pandemic could not be directly identified; therefore, management developed methodologies to estimate these expenses. These methodologies relied on management’s professional judgment. The Postal Service’s fiscal year (FY) 2020, Quarter (Q) 3 (April through June), financial report[10] stated that Q3 transportation expenses increased by about $214 million (about 10.9 percent) over the same period last year (SPLY). Although the report does not identify how much of the additional $214 million relates to the pandemic, management estimated about $124 million of the total $2.2 billion reported transportation expenses were pandemic related.

“Management estimated about $124 million of the total $2.2 billion reported transportation expenses were pandemic-related.”

According to Postal Service policy, management is responsible for maintaining up-to-date and accurate air transportation contract and rate information. Cost estimating best practices[11] states that a well-documented cost estimate contains the source data used, the method used, and a record showing approval by management. However, management did not document the analysis used to develop their methodology or support the assumptions used to estimate pandemic-related transportation expenses. For example, management assumed the total decrease in available commercial air during the pandemic, as compared to the SPLY, moved to non-commercial air. This does not account for possible changes in mail volume, which could have resulted in a change in commercial air mail volume. Without documented analysis to support the level of subjectivity applied, management’s methodology could not be independently validated.

Pandemic Leave Expenses

In March 2020, the Postal Service implemented a liberal leave policy to allow employees to take emergency annual leave or leave without pay if they were impacted by the pandemic. Additionally, in April 2020, leave policies were adjusted to include new leave categories as a result of the Families First Coronavirus Response Act (FFCRA).[12] FFRCA also required the Postal Service to provide paid sick leave to non-career employees. The Time and Attendance Collection System (TACS)[13] included codes for specific FFCRA pandemic-related leave.

Although TACS had specific codes for the various leave categories, management used eFlash[14] data to estimate pandemic-related leave as follows:

- For the estimate of additional general sick leave used as a result of the pandemic, management used all leave coded as sick leave in eFlash and compared it against the SPLY. Management then determined the difference in leave usage and assumed this difference was 100 percent attributed to

9 A tool for managing and controlling fuel costs.
10 Quarter III, 2020 Report on Form 10-Q - United States Postal Service-6.
11 *Cost Estimating and Assessment Guide* (Government Accountability Office (GAO), Report Number GAO-20-195G, March 2020).
12 P.L. 116–127 116th Congress — March 18, 2020: A law which requires some employers to provide employees with emergency paid sick leave and expanded family and medical leave for childcare.
13 TACS is the system used by all installations to automate the collection of employee time and attendance information.
14 An operating reporting management system that captures various types of payroll data such as work hours, leave, and pay as well as non-payroll data.

the pandemic. This methodology resulted in assigning about $124 million in additional sick leave to management's pandemic expense summary sheet.

- For the estimate of FFCRA specific leave used as a result of the pandemic, management assumed all leave in the eFlash "other" category was totally related to the pandemic. This methodology resulted in assigning an additional $278 million to management's pandemic expense summary sheet.

Neither methodology was evaluated against TACS data. TACS identified FFCRA-specific pandemic sick leave in the amount of about $237 million from March through September 2020, which was about $41 million (about 15 percent) less than the estimated other leave in eFlash. Postal Service management stated that TACS provided the exact leave codes designated for the new leave types; however, management elected to use eFlash because employees may not have used the correct timekeeping codes in TACS, and eFlash also captured sick leave adjustments.

Management stated they used the pandemic expense summary sheet internally to understand how the pandemic directly impacted expenses and to evaluate certain variances as compared to the original FY 2020 financial plan, which was issued before the pandemic. Management stated the data were also used for developing the FY 2021 Integrated Financial Plan (IFP)[15] to estimate how much additional expense may be incurred due to the pandemic. The expenses described in this report were shared with GAO and congressional staff, but not used to request any funding reimbursement through the CARES act.

In a subsequent meeting, management provided an updated workbook that outlines an enhanced validation process to ensure new or incremental costs incurred due to the pandemic are tracked and supported. The workbook contains enhancements to the original expense tracking process we evaluated in this report including 73 tabs of calculations, source data and query reports. Further, management replaced the use of eFlash data with TACS data to more accurately identify pandemic leave and other personnel expenses. It also reduced estimated pandemic transportation expenses when management determined certain surface transportation expense estimates could not be fully supported or validated by system reports. The expenses identified in the updated tracking workbook are substantially higher than the initial $744 million evaluated in this report. This is due to the inclusion of new expense categories detailed in the Treasury MOU dated January 19, 2021 based on the provision in the Cares Act requiring terms and conditions mutually agreed upon by the Secretary and the Postal Service. These categories include the following:

- Increased instances of carriers out after 6 p.m.
- Increased overtime
- Increased hiring expenses associated with increased absenteeism
- Inefficiency factors
- Additional expenses incurred providing statutorily mandated infrastructure and operations due to product volume changes attributable to the COVID-19 emergency.

"In a subsequent meeting, management provided an updated workbook that outlines an enhanced validation process to ensure new or incremental costs incurred due to the pandemic are tracked and supported."

Although we have not fully evaluated the workbook, it provides a more thorough analysis and validation for pandemic-related expenses. The Postal Service filed and received approval for partial CARES act funding the week of March 15, 2021. We may conduct future audit work around Postal Service requests for COVID-19 expense reimbursement.

Although the pandemic could not have been anticipated and management worked swiftly to put measures in place that would account for pandemic-related expenses, without documented, specific policies or procedures as guidance

15 A documented plan submitted to the Board of Governors for approval as the primary documentation of financial needs and plans for the coming year.

for tracking expenses related to unanticipated crisis or catastrophic events, the Postal Service was unable to efficiently track expenses resulting from the pandemic and may not be able to effectively identify costs related to exigent[16] events. Further, this could cause inaccurate data to be communicated to stakeholders and used to develop financial plans.

Recommendation #1

We recommend the **Vice President**, **Controller**, develop specific policies and procedures to ensure expenses are consistently documented, validated, and tracked for unanticipated crisis or catastrophic events.

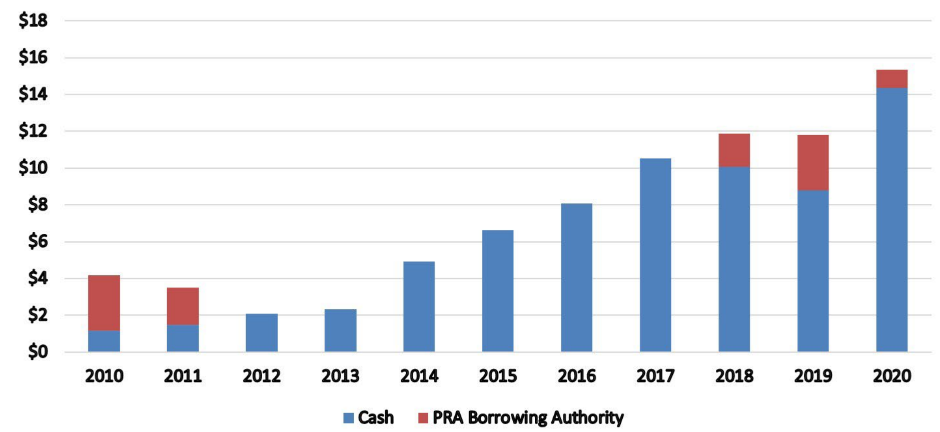
Finding #2: Pandemic Impact on Liquidity

During the pandemic, the Postal Service's concerns intensified and management believed liquidity would decline sharply. Although the pandemic impacted the Postal Service's finances, the impacts were not entirely negative. Expenses did increase as a result of the pandemic, but near-term liquidity improved, as package volume and revenue increased in the second half of FY 2020. Specifically, revenue at FY 2020 year-end was $73.1 billion, which was between $2.9 and $6.2 billion greater than pandemic-projected scenarios. The increase in revenue was largely driven by ongoing, unpredictable package volume increases. By the end of FY 2020, the pandemic had not produced the sharp decline in liquidity that Postal Service management anticipated early in the pandemic. Instead, cash flows exceeded expectations due to unanticipated sharply rising package revenues, management actions, and employer Social Security tax deferrals, and cash totaled $14.4 billion at fiscal year-end. Management's actions included borrowing, reducing planned capital expenditures, and defaulting on $7.8 billion in fiscal year-end retirement payments.

Two of management's liquidity enhancing measures — borrowing and reducing capital expenditures — were in line with actions private sector businesses took during the pandemic. The Postal Service's actions, combined with sharply rising package revenue, contributed to a fiscal year-end cash balance significantly higher than the pre-pandemic plan, which did not include borrowing. The CARES Act's deferral of employer Social Security taxes also increased cash flow from April through the end of FY 2020.

The Postal Service's cash and liquidity have changed over the past 11 years, following the end of the Great Recession.[17] After FY 2009, Postal Service liquidity declined, reaching a fiscal year-end low point in 2012. Since then, liquidity rose in seven of eight years and reached a high of $15.4 billion in FY 2020. The multi-year rise in Postal Service liquidity was facilitated by its annual decisions, beginning in FY 2012 with the decision to default on required year-end retirement payments, which accrued to $63.3 billion by the end of FY 2020. Annual borrowing authority and total debt during this period was limited to maximums of $3 billion and $15 billion, respectively, under statutory restrictions in the PRA. See Figure 1 for cash and annual borrowing authority under the PRA by fiscal year-end.

Figure 1. FYs 2010-2020 Liquidity at Fiscal Year-Ends (in billions)



Source: Postal Service financial reports.

In its FY 2020 IFP, management expected its operating and capital plans to produce fiscal year-end unrestricted cash between $7.5 and $8 billion, compared to $8.8 billion in FY 2019. This would be the first substantial decline in liquidity since FY 2012. The projected cash balance did not include annual retirement

16 Events that require immediate action or aid and are considered urgent and pressing.
17 The Great Recession started in December 2007 and ended in June 2009.

payments. Further, management planned no change in debt from $11 billion at the end of FY 2019. Management believed its plans would maintain enough liquidity to fund day-to-day operations and essential capital investments. However, they also believed the economy might be vulnerable to an economic slowdown or recession that would adversely affect its revenues and liquidity.

The Board approved management's FY 2020 IFP in February 2020 before the pandemic became a business consideration. Management developed its FY 2020 revenue assumptions by the end of November 2019 and focused on cost reductions thereafter. The timing of the IFP's development could not incorporate the unforeseen recession that would begin in February 2020,[18] the month prior to the declaration of the pandemic.

"After the pandemic was initially declared, a sudden decrease in letter mail volume, package volume, and cash receipts created increased uncertainty for the Postal Service's liquidity outlook."

Through the first five months of FY 2020, total cash at each month-end tracked management's forecast. However, after the pandemic was initially declared, a sudden decrease in letter mail volume, package volume, and cash receipts created increased uncertainty for the Postal Service's liquidity outlook. In March 2020, the recession's initial impacts on revenue and liquidity materialized, with total revenue 3.9 percent below plan and month-end cash $384 million below plan.

The pandemic led to congressional action to address the Postal Service's liquidity concerns. In March 2020, Congress passed legislation, the CARES Act, authorizing additional borrowing authority of up to $10 billion for the Postal Service. According to the CARES Act,[19] the $10 billion is available from the U.S. Department of the Treasury if, due to the pandemic, the Postal Service determines it needs funds to cover operating expenses. Further, the Postal Service may issue debt under the CARES Act only while the pandemic national emergency remains in effect.

The CARES Act also deferred Social Security taxes for employers, including the Postal Service, through the end of calendar year 2020. The deferred taxes are due in two equal installments at the ends of calendar years 2021 and 2022.

In addition, in response to the uncertainty, management borrowed $3.4 billion from the U.S. Treasury, using an arrangement due to expire April 21, 2020.[20] The Postal Service's borrowing was consistent with the actions of U.S. companies that faced declining revenues. As reported by *The New York Times*, during one week in March, banks loaned twice the amount they would typically lend to companies in an entire year.[21]

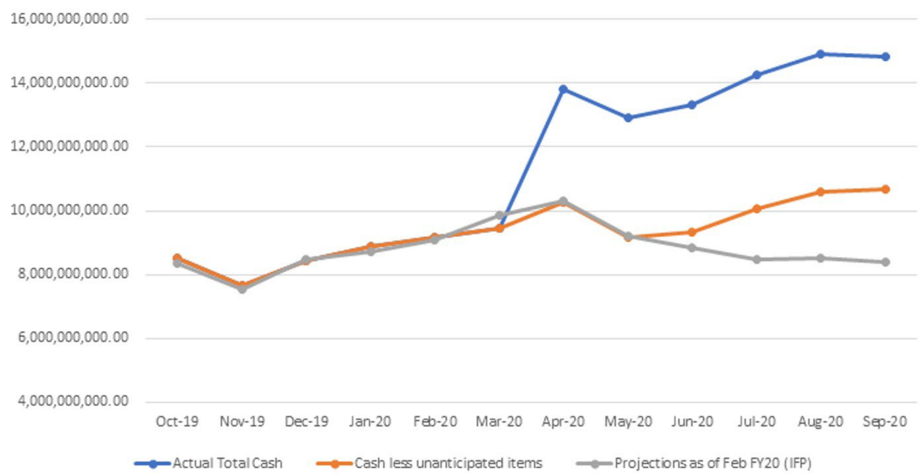
Further, much like U.S. businesses who had no way of knowing when the economy would reverse course, the Postal Service quickly reduced its capital expenditures. By May 7, 2020, the Postal Service was on course to spend $1.8 billion on capital investments in FY 2020, which was $480 million below its $2.3 billion plan.

The recession's adverse impact on Postal Service cash flows diminished after March 2020. Excluding the $3.4 billion borrowing and Social Security tax deferrals, cash levels were within one half of 1 percent ($50 million) of its pre-pandemic planned levels at the ends of April and May 2020. On this same basis, in June 2020, cash increased to $500 million (5.7 percent) above plan. In addition, excluding authorized borrowing under the CARES Act, liquidity rose to $12.5 billion on June 30. The Postal Service noted the decline in revenue from letter mail was more than offset by substantial growth in packages in the quarter ended June 30, as a result of a surge in e-commerce driven by the pandemic.

18 The National Bureau of Economic Research's Business Cycle Dating Committee declared February 2020 as both the final month of the economic expansion that began in June 2009 and the beginning of the 2020 recession.
19 CARES Act, Title VI, Miscellaneous Provisions, Sec. 6001. Borrowing Authority for the United States Postal Service.
20 This $3.4 billion was under authority provided by the PRA.
21 "As Virus Hobbles Economy, Companies Race to Tap Credit and Raise Cash," *The New York Times*, March 31, 2020.

Net cash inflows were also stronger in Q4, FY 2020,[22] compared to the IFP-based forecast. Cash was $6.3 billion above plan, with $3 billion due to borrowing and $1.1 billion from Social Security tax deferrals. The remaining $2.2 billion was due to stronger than expected cash flows. Figure 2 shows FY 2020 actual cash, planned cash, and cash excluding borrowing and Social Security tax deferrals.

Figure 2. FY 2020 Postal Service Cash Versus IFP Forecast



Source: Postal Service general ledger and projections provided by management.

Increased package revenue, higher debt, reduced capital expenditures, Social Security tax deferrals, and default on retirement payments contributed to record fiscal year-end cash. The Postal Service has not yet needed to borrow against the $10 billion Congress authorized in the March 2020 legislation. Further, management ensured compliance with the PRA's annual debt limit through timely repayment of $400 million of debt due September 30.[23] Including only borrowing authorized by the PRA,[24] liquidity reached $15.4 billion at the end of FY 2020. This liquidity would be enough to fund 76 days' worth of average cash outlays. While the impacts of the pandemic on the Postal Service's liquidity have been favorable to date, the length and severity of the pandemic are unknown.

Other Matters: Pandemic Impact on Cost Attribution

The Postal Service uses five statistical sampling systems[25] to attribute almost $50 billion in costs to products. This process includes Data Collection Technicians (DCT)[26] visiting or calling facilities to collect mail characteristic data. This data is entered into a statistical sampling program and later used to determine how a variety of costs should be attributed to products. Accurate product cost attribution is essential for the Postal Service to ensure it meets its regulatory mandate that revenue for each mail class and service types cover its attributable costs.[27] Further, accurate cost attribution is necessary to support annual price setting goals.

Throughout the pandemic, the Postal Service continued conducting site visits to collect mail handling and processing data needed to allocate costs to products. However, some data collectors had limited access to sites to conduct in-person samples due to necessary social distancing measures. As a result, management increased the use of telephone readings[28] to collect necessary statistical sampling data in support of product cost attribution. Furthermore, the Postal Service developed guidelines to assist districts in maintaining social distancing while conducting process reviews,[29] specifically, leveraging the ZOOM conferencing software onsite at the test facilities.

Despite the alternative methods of data collection, rescheduled and cancelled tests increased during the pandemic. Quarterly data from March to June

22 July through September 2020.
23 This $400 million was part of the $3.4 billion April 2020 borrowing.
24 The Postal Service does not include debt authorized by the CARES Act in its liquidity calculation.
25 In-Office Cost System (IOCS), City Carrier Cost System (CCCS), Rural Carrier Cost System (RCCS), Transportation Cost System (TRACS-Surface/Air), Origin Destination Information System- Revenue, Pieces, and Weight (ODIS-RPW).
26 An employee dedicated to statistical work that entails gathering and recording data from mail samples and other valid sources.
27 The terms "attributable costs" and "cost attribution" are interchangeable.
28 A DCT calls the sampled employee's work location and reads the IOCS questions and instructions to the respondent over the telephone to complete the reading.
29 Process review activities are performed to ensure that data collection tests are performed accurately and correctly.

2020 indicated a 60 percent increase in cancelled readings and a 7 percent increase in rescheduled readings, as compared to SPLY. Origin Destination Information System-Revenue Pieces and Weight was the least impacted because management was able to identify and secure approval for the use of census data.

Management must ensure the statistical program tests are timely, appropriate, and consistent with Postal Service policies and guidelines. Management stated the fluctuations in data collection during FY 2020, Q3 had minimal impact on the precision rates needed to ensure accurate product cost attribution because of the alternate methods used to collect data. Management determined the reduction in precision rates were minimal and would not materially impact product cost attribution. We assessed the Postal Service's third quarter calculations for estimated impact on sampling precision rates and determined management's assessment was reasonable. The increase in third quarter rescheduled and cancelled readings resulted in a decrease in precision rates by about 1 percent. However, we were unable to assess the full impact, or lack thereof, on precision rates because the *FY 2020 Annual Compliance Report* was not released until December 29, 2020.

Increases in cancelled or rescheduled sampling tests could be mitigated if the Postal Service continues to improve its costing system by using enhanced technologies to incorporate real-time, granular data in product cost attribution. In response to a prior audit recommendation,[30] the Postal Service implemented a plan effective July 31, 2020 to incorporate more real-time, granular data into their cost allocation processes. Specifically, management stated their commitment to using operational data, when suitable, for product cost attribution through a detailed, multi-year plan that outlined steps and systems for analysis to increase the use of real-time data. Based on the current plan filed July 31, 2020, we are not making a recommendation at this time.

Management's Comments

Management agreed with the recommendations presented in this report.

Regarding finding 1, management noted that our analysis identified approximately 0.5 percent variance in Pandemic-related expenses. They also noted, although the difference was not material, they agreed with the finding. Regarding recommendation 1, management agreed and stated they have improved documentation and validation of pandemic-related expenses. The target implementation date to formally document the improvements in a new policy is June 2021.

Regarding finding 2, management agreed with our assessment of the pandemic's impact on Postal Service liquidity. Specifically, they agreed that the pandemic's long-term impacts are unknown and increases in cash balances are a result of several financial management decisions, to include defaulting on year-end retirement payments and reductions in capital expenditures.

See Appendix C 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 recommendations in the report and corrective actions should resolve the issues identified in the report.

Regarding finding 1, although our pandemic expense analysis identified low variance rates, the development of specific processes and procedures to consistently document, track, and validate expenses associated with unanticipated crisis or catastrophic events will reduce the likelihood of potential material variances in the future.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendation 1 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.

30 *Competitive Products Pricing Best Practices* (Report Number CP-AR-19-003, dated September 11, 2019).

Appendices

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

Appendix A: Additional Information

Scope and Methodology

The scope of our audit is March through September 2020 and SPLY. To perform this audit, we:

- Reviewed potential funding and legislation related to the pandemic.
- Evaluated Postal Service accounts related to COVID-19 expenses.
- Analyzed the expense accounts and finance numbers created by the Postal Service to determine accuracy and completeness of expenses annotated in the accounts.
- Evaluated Postal Service expenses incurred during the pandemic.
- Conducted an analysis of sampling system data compared to SPLY to determine if adequate sampling was conducted.
- Determined if the cost attribution process accurately reflected any changes to the mail mix because of the pandemic.
- Reviewed documents related to borrowing resolution passed by the Board of Governors on April 1, 2020 and supporting changes to planned capital commitments and expenditures for FY 2020 and future years.
- Reviewed Postal Service regulations, policies, and procedures related to pandemic-related expenses, cost attribution, and liquidity.
- Interviewed Postal Service personnel and stakeholders to discuss pandemic-related expenses, cost attribution, and liquidity.

We conducted this performance audit from July 2020 through March 2021 in accordance with generally accepted government auditing standards (GAGAS) 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 February 12, 2021 and included their comments where appropriate.

We assessed the reliability of computer-generated data from the statistical sampling systems (IOCS, TRACS, CCCS, RCCS and ODIS-RPW) through discussion with personnel from the Postal Service Cost Systems and Analysis group and by completing tests for completeness and reasonableness. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

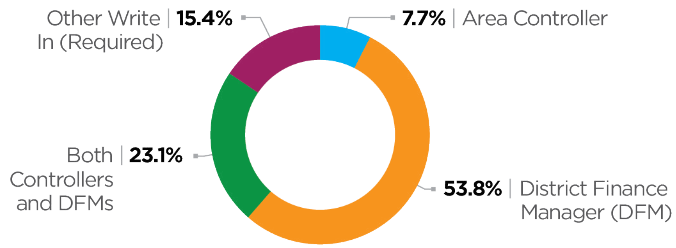
Report Title	Objective	Report Number	Final Report Date	Monetary Impact
In-Office Cost System Sampling Processes	Evaluate IOCS sampling processes to identify opportunities for improved efficiencies.	19-032-R20	5/22/2020	None
Costing Best Practices	Identify industry best practices for increased efficiencies in cost systems and methodologies.	CP-AR-19-004	9/17/2019	None

Appendix B: Survey Results

Use of Finance Numbers for COVID-related Expenses

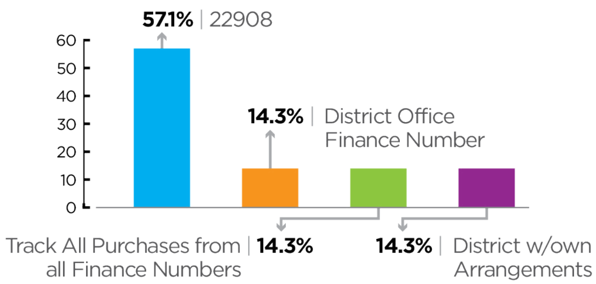
(13 Respondents)

1 What is the title and/or position of the individual responsible for managing and tracking COVID-related expenses?

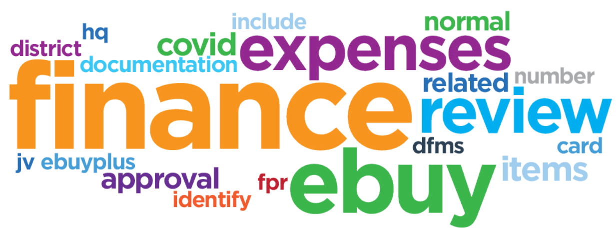


2 Did you establish a dedicated finance number for COVID-related expenses, or did you use an existing finance number?

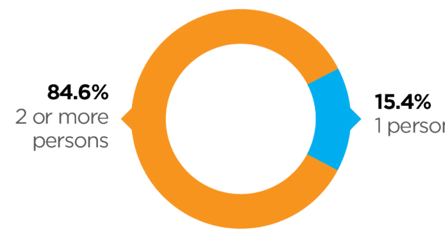
2-1 What was the finance number used? *(7 Respondents)*



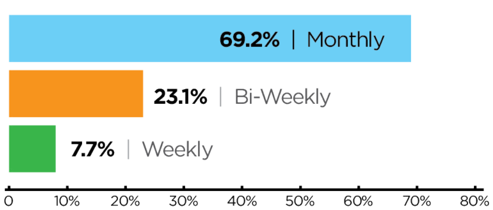
3 What is the process of validating expenses/purchases applied to the COVID-related finance number, prior to forwarding to headquarters?



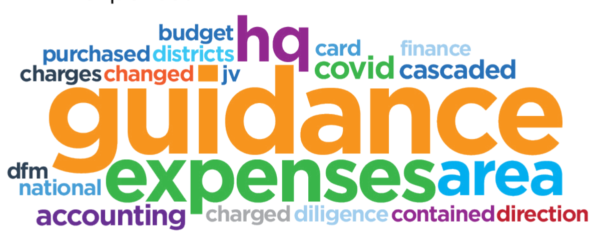
4 How many individuals are involved in the validation process?



5 How often are the expenses submitted to headquarters?



6 What guidance or procedure were provided for managing COVID-related expenses?



7 Were supporting documents for COVID-related expenses retained? If so, what was the retention period?

Appendix C: Management's Comments

UNITED STATES POSTAL SERVICE

March 22, 2021

JOE WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Impact of Pandemic on Postal Service Finances
Project Number 20-257

We appreciate your team reviewing the impact of the pandemic on Postal Service finances and acknowledging the unprecedented nature of the pandemic and the considerable effort made by management to isolate and track expenses specific to the pandemic.

<u>Finding #1: Pandemic-Related Expenses</u>
The OIG found that management did not capture all pandemic-related expenses in a timely or consistent manner. We note that differences identified by the OIG were immaterial and represented less than 0.5% of the pandemic-related expenses for items such as safety and cleaning supplies, increased transportation costs and safety and cleaning supplies, however, management agrees with the finding.

<u>Recommendation #1:</u>
We recommend the Vice President, Controller, develop specific policies and procedures to ensure expenses are consistently documented, validated and tracked for unanticipated crisis or catastrophic events.

<u>Management Response/Action Plan:</u>
Management agrees with the OIG's recommendation and has improved documentation and validation of pandemic-related expenses as noted by the OIG in the report. We will formally document these improvements in a new policy.

<u>Target Implementation Date:</u>
June 2021

<u>Responsible Official:</u>
Assistant Controller

<u>Finding #2: Pandemic Impact on Liquidity</u>
The OIG's observations on the pandemic impact on the Postal Service's liquidity are accurate and we agree with the OIG's assessment that the remaining length and severity of the pandemic's impacts are unknown. We also agree that the reason for an increase in our cash balance was due to additional borrowing, deferral of the employer share of Social Security taxes, reduced capital expenditures, and defaults on year-end retirement payments; had the Postal Service not taken these actions the

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Postal Service would have had less than 1 payroll of cash on hand as of September 30, 2020.

Luke T. Grossmann
Senior Vice President, Finance and Strategy

Sharon D. Owens
Vice President, Pricing and Costing

Cara M Greene
Vice President, Controller

cc: Manager, Corporate Audit Response Management

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UNITED STATES POSTAL SERVICE

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