



Office of Inspector General | United States Postal Service

Audit Report

Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding

Report Number 21-234-R22 | July 7, 2022

CARES Act

Coronavirus Aid, Relief, and Economic Security Act

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Highlights

Background

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act, enacted as Public Law 116-136 (the “CARES Act”) in response to the COVID-19 pandemic. The CARES Act authorized up to \$10 billion in funding for the U.S. Postal Service from the U.S. Treasury (Treasury), should the Postal Service determine that it would be unable to fund operating expenses due to the pandemic.

In December 2020, Congress amended the CARES Act, stipulating that the Postal Service would not need to repay the funding. In January 2021, the Postal Service and Treasury signed an agreement regarding CARES Act funding allowing the Postal Service to request up to \$10 billion from Treasury for pandemic-related operating expenses. The Postal Service submitted five advance requests to Treasury from March through July 2021, totaling \$10 billion.

What We Did

Our objective was to assess the Postal Service’s justification for and use of funds received under the CARES Act, as amended by the Consolidated Appropriations Act of 2021, and associated disclosure requirements.

What We Found

The Postal Service prepared advance requests for CARES Act funding according to requirements in the CARES Act agreement with Treasury. Additionally, the Postal Service properly itemized expenses, as required in the agreement, which were accurate, reasonable, and properly supported. Further, the Postal Service recorded, allocated, and reported CARES Act funds according to the agreement and generally accepted accounting principles. Finally, the Postal Service established and implemented effective controls over CARES Act funding. Based on the audit results, we are not making any recommendations.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

July 7, 2022

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE
VICE PRESIDENT

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

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

SUBJECT: Audit Report – Coronavirus Aid, Relief, and Economic
Security (CARES) Act Funding (Report Number 21-234-R22)

This report presents the results of our audit of the U.S. Postal Service's Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, 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 self-initiated audit of the U.S. Postal Service's Coronavirus Aid, Relief, and Economic Security (CARES) Act funding (Project Number 21-234). Our objective was to assess the Postal Service's justification for and use of funds received under the CARES Act, as amended by the Consolidated Appropriations Act of 2021, and associated disclosure requirements. See [Appendix A](#) for additional information about this audit.

Background

On March 27, 2020, the President of the United States signed the CARES Act, enacted as Public Law 116-136, in response to the Coronavirus Disease 19 (COVID-19) pandemic. The CARES Act authorized up to \$10 billion in funding for the Postal Service, from the U.S. Treasury (Treasury), should the Postal Service determine that it would be unable to fund operating expenses due to the pandemic. The CARES Act stated that the Postal Service could only use the funds for operating expenses and not to pay any outstanding debt.

In December 2020, Congress amended the CARES Act,¹ stipulating that the Postal Service would not need to repay the funding. In January 2021, the Postal Service entered into an agreement² with Treasury that established the terms and conditions

“The CARES Act authorized up to \$10 billion in funding for the Postal Service, from the U.S. Treasury, should the Postal Service determine that it would be unable to fund operating expenses due to the pandemic.”

(requirements) of CARES Act funding. Per the agreement, the Postal Service could submit advance requests, totaling up to \$10 billion, to Treasury for pandemic-related operating expenses. The requests could seek to cover new or incremental costs incurred due to the COVID-19 emergency and additional expenses incurred in providing statutorily mandated infrastructure needs and operations during this period. The Postal Service began allocating CARES Act funding in March 2021 and had exhausted the \$10 billion by July 2021.

Finding #1: Justification and Use of CARES Act Funding

The Postal Service prepared advance requests for CARES Act funding according to the requirements in the agreement with Treasury. Additionally, the Postal Service properly itemized expenses as required by the agreement which were accurate, reasonable, and properly supported. Further, the Postal Service recorded, allocated, and reported CARES Act funds according to the agreement and generally accepted accounting principles (GAAP).³ Finally, the Postal Service established and implemented effective controls over CARES Act funding.

CARES Act Advance Requests

The Postal Service prepared advance requests for CARES Act funding according to the requirements in the agreement. The agreement stated that, for each advance request, Postal Service officials⁴ must certify that:

- Advance requests were valid and legal.
- Expenses were calculated in accordance with the agreement and necessary due to the COVID-19 emergency.
- The Postal Service would not be able to fund operating expenses without borrowing CARES Act funds.
- Funds would only be used for operating expenses.

1 Consolidated Appropriations Act 2021 (Public Law 116-260, December 27, 2020), Title VIII-United States Postal Service, Sec. 801. COVID-19 Funding for the United States Postal Service.

2 *Memorandum of Understanding between the United States Postal Service and the Secretary of the Treasury*, dated January 19, 2021.

3 The Securities and Exchange Commission (SEC) requires companies to present their financial statements according to a set of accounting standards, conventions and rules known as GAAP. The Postal Service is required by U.S.C. Title 39, Section 3654 to file an annual report with the Postal Regulatory Commission (PRC) containing information required for the SEC's financial reports, which includes the financial statements.

4 Certificates from the Chief Financial Officer, the Secretary of the Board of Governors, and the General Counsel.

Additionally, the agreement required the Postal Service to provide Treasury with the amounts it anticipated requesting during a fiscal year and financial reports following each quarter-end. Further, it required Postal Service outstanding debt repayments with the Federal Financing Bank (FFB)⁵ to be current.⁶

The Postal Service submitted five advance requests to Treasury from March through July 2021, totaling \$10 billion, as shown in Table 1.

Table 1. CARES Act Funding Requests

Advance Request	Funding Period	Date of Request	Date of Receipt	Amount Requested and Received
1	3/13/20 - 12/31/20	3/15/21	3/18/21	\$7,186,000,000
2	1/1/21 - 2/28/21	3/25/21	3/30/21	1,462,900,000
3	3/1/21 - 3/31/21	5/7/21	5/14/21	367,900,000
4	4/1/21 - 4/30/21	6/2/21	6/8/21	596,400,000
5	5/1/21 - 5/31/21	7/22/21	7/29/21	386,800,000
Total				\$10,000,000,000

Source: Documentation provided by the Postal Service.

We reviewed the five advance requests and verified that the Postal Service provided Treasury with the required information and complied with the requirements set forth in the agreement. The Postal Service prepared a financial and legal analysis that supported its need for additional liquidity to cover current operating expenses and established that need was projected to continue into the future by an order of magnitude greater than the advance request amount.

Therefore, the Postal Service's certification for needing CARES Act funds to cover operating expenses was reasonable at the time of request.

CARES Act Expenses

The Postal Service properly itemized expenses as required in the agreement. Additionally, the expenses were accurate, reasonable, and properly supported.

For each request, the agreement required the Postal Service to include an itemization of mutually agreed upon COVID-19 related expenses. The specific types of COVID-19-related expenses that the Postal Service could itemize and calculate in advance requests included:

- New or incremental costs incurred due to the COVID-19 emergency related to:
 - Supplies and services⁷
 - COVID-19 leave⁸
 - Transportation (loss of commercial air transportation network)
 - Hiring and training for new employees⁹
 - Increase in carriers out after 6:00 p.m.
 - Overall overtime cost increase

“The Postal Service designed and implemented specific controls and procedures for preparing the advance requests and allocating the funds once received.”

5 A government corporation of the U.S. under the general supervision and direction of the Secretary of the Treasury. The FFB provides financing to help federal agencies manage their borrowing and lending programs and ensures that all federal government borrowing is conducted through Treasury.
 6 The Postal Service is authorized by U.S.C. Title 39, Section 2005 to borrow money and to issue and sell such obligations as it determines necessary to carry out the purposes. The Postal Service has historically sold all its obligations to the FFB.
 7 Cost of purchasing personal protective equipment (such as masks, gloves, hand sanitizer, disinfectant wipes), cleaning supplies, and services for cleaning.
 8 Cost of new leave types provided by the Families First Coronavirus Relief Act.
 9 Cost of hiring and training additional craft employees (city and rural carriers, mail processing and customer service clerks, and mail handlers).

- Reimbursement of 2 percent of employee salaries and benefits for time spent sanitizing work areas, maintaining social distances in postal facilities, etc.
- Inefficiency factor for new hires and employee absenteeism¹⁰
- Additional expenses incurred in providing the Postal Service's statutorily mandated infrastructure needs and operations during the COVID-19 emergency regardless of mail volume reduction during the period.

Treasury approved each request and provided funds to the Postal Service. We reviewed the advance requests the Postal Service submitted and verified that they included only allowable COVID-19 expenses that were accurate, reasonable, and properly supported.

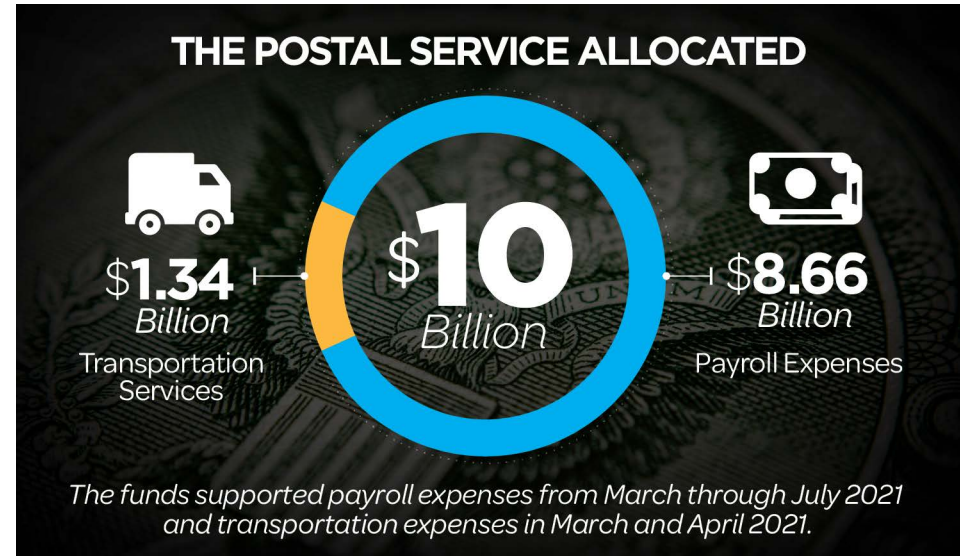
CARES Act Accounting

The Postal Service properly recorded, allocated, and reported CARES Act funds according to the agreement and GAAP. Additionally, management established and implemented effective controls over CARES Act funding.

The CARES Act, as amended, states that the Postal Service would not have to repay the funding as it was no longer considered to be a loan. Accordingly, the Postal Service recorded the CARES Act funds as a capital contribution¹¹ from the U.S. government.

Additionally, the agreement required the Postal Service to use the funds only for operating expenses, but allowed it to choose where to apply the funds. The Postal Service allocated \$8.66 billion to payroll expenses and \$1.34 billion to transportation expenses. The funds supported payroll expenses from March through July 2021 and transportation expenses in March and April 2021.

For CARES Act processes, the Postal Service effectively followed its existing internal control framework, including compliance with general control principles, such as the timely recording of transactions, reconciling of accounts, and proper



approval of journal vouchers. In addition, the Postal Service designed and implemented specific controls and procedures for preparing the advance requests and allocating the funds once received, including:

- Management approval of the agreement, the advance requests, and cost itemizations at various stages in the process.
- Operating procedures for accounting for and recording the \$10 billion CARES Act funding once received.¹²

We found the Postal Service's existing framework and newly designed and implemented controls and procedures allowed for the proper accounting and reporting of CARES Act funds.

Finally, we verified that the Postal Service reported the CARES Act funds in its quarterly and annual financial reports to the PRC and was not required to make any additional disclosures on periodic reports submitted to the PRC.¹³ Additionally, the agreement required the Postal Service to submit to the President

¹⁰ Cost of work hours expended performing additional duties and work time lost learning delivery routes to cover for employees on COVID-related leave.

¹¹ The Postal Service defines capital contribution as the value received from government agencies and others without cost to the Postal Service.

¹² Includes approval of journal entries, and monthly reconciliations.

¹³ The Postal Service is required by U.S.C. Title 39, Section 3654 to file periodic reports to the PRC within the time frame and containing the information prescribed in Form 8-K of the SEC. The SEC requires the filing of a Form 8-K when unscheduled material events or changes that could be important to shareholders or the SEC occur.

of the United States, various congressional committees, and the PRC a plan to ensure the long-term solvency of the Postal Service with recommendations for congressional action.¹⁴ The Postal Service complied with this requirement and timely provided the plan¹⁵ to the specified parties, as required in the agreement.¹⁶

Based on the results of our audit, we are not making any recommendations.

Management's Comments

Management agreed with the finding and stated they built a system of internal controls designed to ensure the completeness and accuracy of the advance requests and to ensure compliance with the requirements of the MOU. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the finding in the report.

¹⁴ The plan must be submitted within 180 days following the agreement.

¹⁵ *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, U.S. Postal Service, March 2021.

¹⁶ The Postal Service provided the plan on March 23, 2021, about two months after the effective date of the agreement.

Appendices

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Appendix A: Additional Information

Objective, Scope, and Methodology

The audit assessed Postal Service compliance with the CARES Act and the justification and use of funds received under the CARES Act.

To accomplish our objective, we:

- Reviewed the CARES Act and its amendment.
- Reviewed the agreement between the Postal Service and Treasury regarding CARES Act funding and identified the terms and conditions to qualify for the funding.
- Interviewed Postal Service personnel involved with the CARES Act program and reviewed policies and procedures related to CARES Act funding.
- Reviewed the five advance requests, supporting details, financial statements, journal entries, accounting reconciliations, and other relevant information.
- Evaluated internal controls over CARES Act funding.
- Assessed the Postal Service’s compliance with the terms and conditions in the agreement.
- Evaluated expenses the Postal Service claimed in its five advance requests for appropriateness, reasonableness, and accuracy.

- Verified accounting treatment and allocation of CARES Act funds requested and received.

We conducted this performance audit from December 2021 through July 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 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 June 22, 2022, and included their comments where appropriate.

We assessed the reliability of supplies and services data in the Enterprise Data Warehouse system by reviewing system controls and automated processes where data is maintained. We also assessed the reliability of the First Coronavirus Response Act-related leave and overtime hours in the Electronic Flash system¹⁷ by applying logical tests to electronic data files. Further, we assessed payroll data in the Time and Attendance Collection System by discussing and verifying the data with management officials knowledgeable about the data. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Impact of Pandemic on Postal Service Finances</i>	Assess the impact of the COVID-19 pandemic on Postal Service finances.	20-257-R21	3/29/2021	None

¹⁷ A weekly operating reporting management systems, which store payroll and non-payroll data, such as employee leave and mail processing.

Appendix B: Management's Comments

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER
EXECUTIVE VICE PRESIDENT



June 30, 2022

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding (Project Number 21-234)

Thank you for providing the Postal Service with an opportunity to review and comment on the finding and recommendation contained in the draft audit report, U.S. Postal Service's Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding.

Management agrees with Finding #1 Justification and Use of CARES Act Funding. Management built a system of internal controls designed to ensure the completeness and accuracy of the advance requests for the CARES Act funding and to ensure compliance with the requirements of the Memorandum of Understanding between the United States Postal Service and the Secretary of the Treasury.

A handwritten signature in blue ink that reads "Joseph".

Joseph Corbett

cc: Manager, Corporate Audit Response Management

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