OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

U.S. Postal Service Budget Formulation and Execution Process

Management Advisory

August 7, 2013

Report Number DP-MA-13-002

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 7, 2013

U.S. Postal Service
Budget Formulation and Execution Process

Report Number DP-MA-13-002

BACKGROUND:
The U.S. Postal Service's budget operates on a fiscal year calendar beginning October 1 and ending September 30, with the overall responsibility for the budget formulation process belonging to the chief financial officer. The process begins in February before the coming fiscal year and is completed about 8 months later with the Board of Governors approval.

The Revenue and Volume Forecast group initiates the budget process by developing revenue and mail volume forecasts for the upcoming fiscal year. They calculate these forecasts using changes in demand for postal products, to current laws and regulations, and in assumptions about the current economic outlook. Once revenue and mail volumes are projected, expenses are projected. The expense projections include operating budgets for about 32,000 field offices and other service-wide costs such as headquarters' administrative and program costs. At the same time, the Corporate Budget Office, Corporate Treasury Office, and other program managers prepare capital investment and financing plans.

Once projected revenue and expenses are reviewed and approved by the chief financial officer, the Integrated Financial Plan is developed by the chief financial officer; vice president, Finance and Planning; and the manager of Finance Headquarters, with input from various departments. The Integrated Financial Plan combines the operating budget, capital investment plan, and financing plan into one document for review by the Executive Leadership Team. Once approved by executive leaders, the plan is presented to the Board of Governors for final approval.

Headquarters, area, and district personnel assess budget performance throughout the year. Additionally, the Corporate Budget Office and Corporate Accounting examine financial results for irregularities and abnormalities.

Our objective was to document and analyze the budget formulation and execution process. This report provides management with a single, consolidated document describing the budget process and provides a knowledge resource for future audits and analyses of Postal Service budgets.

WHAT THE OIG FOUND:
We found the Postal Service budget formulation and execution process has sufficient documented measures in place for managing and monitoring the budget process.

WHAT THE OIG RECOMMENDED:
The report does not contain any findings or recommendations. It documents the Postal Service's budget process.
Link to review the entire report

August 7, 2013

MEMORANDUM FOR: STEPHEN J. MASSE
VICE PRESIDENT, FINANCE AND PLANNING

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial and Systems Accountability

SUBJECT: Management Advisory – U.S. Postal Service Budget Formulation and Execution Process
(Report Number DP-MA-13-002)

This report presents the results of our review of the U.S. Postal Service Budget Formulation and Execution Process (Project Number 12BG030FF000).

This report contains no findings or recommendations. The Postal Service informally reviewed a discussion draft of this report and chose not to provide formal comments.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Kevin H. Ellenberger, director, Data Performance and Analysis, or me at 703-248-2100.

Attachment

cc: Megan J. Brennan
Joseph Corbett
Stephen J. Nickerson
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service Budget Formulation and Execution Process (Project Number 12BG030FF000). The objective of our review was to document and analyze the budget formulation and execution process. The report provides management with a single, consolidated document describing the budget process and provides a knowledge resource for future audits and analyses of Postal Service budgets. This self-initiated review addresses financial risk. See Appendix A for additional information about this project.

The Postal Service's budget operates on a fiscal year[1] calendar beginning October 1 and ending September 30, with overall responsibility for the budget formulation process belonging to the vice president, Finance and Planning, and the chief financial officer (CFO). The process generally begins in February before the coming fiscal year and is completed about 8 months later with the Board of Governors (governors) approval. See Appendix B for additional information about the budget process timeframe.

The Revenue and Volume Forecast Group[2] initiates the budget process by developing revenue and mail volume forecasts for the upcoming fiscal year. These forecasts are calculated using projections of the economic outlook developed by an independent economic forecasting firm, changes in demand for postal products, and known changes to laws and regulations. Once revenue and mail volumes are projected, expenses are projected. The expense projections include operating budgets for about 32,000 field offices and other costs, such as headquarters administrative and program costs. At the same time, the Finance Infrastructure Office[3] and Corporate Treasury Office[4] develop capital investment and financing plans. Development of these plans is interdependent and closely coordinated.

Once the CFO reviews and approves all projected revenue and expenses, the Integrated Financial Plan (financial plan) is developed by the vice president, Finance and Planning, and the manager of Finance Headquarters, with input from various departments. The financial plan combines the operating budget, capital investment plan, and financing plan into one document for review by the Executive Leadership Team

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[1] A 12-month period used to keep accounts and other records for applications such as budgeting, planning, and operations. The fiscal year begins on October 1 and ends on September 30 and is divided into 12 accounting periods (one for each month), grouped into four postal quarters.

[2] The Revenue and Volume Forecasting Group is responsible for projecting revenue and volume using statistical programs information and assumptions about the current economic outlook, including changes in demand for postal products and changes to current laws and regulations.

[3] The managers of Finance Operations, Infrastructure, and Headquarters are three separate groups reporting to the vice president, Finance and Planning.

[4] Corporate Treasury manages the Postal Service's money. The group is responsible for developing new electronic payment technologies, developing and maintaining bank relationships, managing an annual cash flow of $100 billion, investing and borrowing for the Postal Service, evaluating the financial aspect of new products and services, and ensuring compliance with federal regulations.

(executive leaders or ELT).[5] Once the ELT approves the financial plan, the CFO presents it to the governors for final approval.

After the governors' approval, the execution and oversight of the budget is the responsibility of Finance (Operations, Infrastructure,[6] and Headquarters) groups. Headquarters, area, and district[7] personnel assess budget performance throughout the year. The Corporate Budget Office[8] and Corporate Accounting[9] have a financial reporting process in place to compare actual results to budget performance based on revenue and expense items and to look for errors and abnormalities. See Appendix C for a flowchart of the budget department organization structure.

Conclusion

This report documents the budget formulation and execution process. We found the Postal Service budget formulation and execution process has sufficient documented measures in place for managing and monitoring the budget process.

Budget Formulation

The budget formulation process generally begins in February — prior to the start of the fiscal year — with the revenue and volume forecasting process and continues through development of operating expense budgets, a capital investment plan, and a financing plan. The process generally culminates in November — following the start of the fiscal year — with approval of the financial plan.

Revenue and Volume Forecasting

The Postal Service's budget process starts in February with the projection of revenue and mail volumes for the next fiscal year. The Revenue and Volume Forecasting Group and program managers hold meetings to determine whether any changes in postage rates that can affect revenue will occur. The volume projection model[10] is updated with the most recent quarter's actual revenue and volumes, provided by the Statistical Program group.[11] Historical mail volumes, along with economic projections and other

[5] The ELT consists of Postal Service senior executives: the postmaster general (PMG), deputy PMG, chief operating officer, chief information officer, CFO, general counsel, chief marketing and sales officer, and chief Human Resources officer.
[6] Finance Infrastructure is dedicated to ensuring that future capital investments are aligned with the Postal Service strategic goals to foster growth by increasing the value of products and services, managing costs and building stronger relationships with customers and employees.
[7] District personnel include district managers, finance managers, postmasters, plant managers, and designated supervisors.
[8] The Postal Service is responsible for creating, updating, analyzing, and reporting on the Postal Service's budget. The Corporate Budget Office creates budgets within several sub-ledger systems. Budget components are created within the sub-ledger systems and consolidated to the National Budget System.
[9] Their mission is the efficient management of systems, processes, and transactions in compliance with established policy to provide timely, accurate, and reliable reporting and management information to all stakeholders.
[10] The volume projection model is based on economic assumptions using indicators such as gross domestic product, retail sales, consumer price index, inflation, and so on, to estimate mail volume according to mail class.
[11] The Statistical Program Group provides statistically reliable, accurate, and timely estimates of revenue, volume, cost, and transit time for domestic and international mail.

relevant data, are used as a basis for projecting revenue and volumes according to mail class[12] for the upcoming year. Once revenue projections are calculated, they are presented to headquarters product managers[13] for review and discussion. The projected volumes for each class of mail are multiplied by the average revenue for each of the mail products to determine total estimated revenue for the upcoming year. Projected volume, by mail class, is one of the primary drivers for workload expenses[14] for the field. Other economic indicators[15] used to develop the expense projections are discussed in the Operating Budget Plan section. The actual revenue and mail volume for FYs 2010 through 2012, and planned for FY 2013, are listed in Table 1.

Table 1. Postal Service Revenue and Mail Volume FYs 2010 through 2013 (in Billions) by Category

Category	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Planned
Revenue	$67.1	$65.7	$65.2	$64.9
Mail Volume	170.6	167.9	159.9	153.1

Source: Financial plan – FYs 2011 through 2013.

Operating Budget Plan

The Operating Budget Plan is developed during March through June by the managers of Finance Operations, in conjunction with the manager of Finance Headquarters. The managers apply the projected revenue and mail volume forecasted to a separate expense forecasting model[16] to determine personnel and additional costs necessary for field offices to meet operational needs as described below. The Operating Budget Plan is comprised of four components, listed and further explained below:

1. Field Expenses.
2. Service-Wide Expenses.
3. Headquarters Budget.

Field Expenses

Upon completion of revenue and mail volume projections, the Field Budget Group uses the expenses forecasting model to develop the personnel expenses associated with the personnel workload and wage and benefits costs. Using the mail volume projections for each class and piece of mail as well as inflation factors and savings from cost-reduction

[12] Examples of mail class are Express Mail, First-Class Mail, Priority Mail, Standard Mail, and Package Service.
[13] Headquarters' product managers include the managers of Retail, Commercial, and Marketing. The responsibilities include knowledge of each mail revenue class and factors that could affect revenue projections.
[14] Workload expenses are comprised of three components: network cost and originating and destinating workload.
[15] Economic indicators such as high unemployment rate and slow economic growth continue to impact consumer confidence, increasing economic risk. The Postal Service's business, financial position, and results of operations will continue to be adversely impacted to the extent that the U.S. experiences slow economic growth.
[16] The expense forecasting model projects expenses using projected year-end actual expenses as a base.

and productivity enhancement initiatives, the group projects personnel related expenses for the year for each Postal Service area.

The Field Budget Group also estimates expenses not specifically attributable to personnel activity, such as transportation, depreciation, rent, travel, equipment, and office supplies. Inflationary impacts on these expenses and changes from cost-saving initiatives are also considered in developing the non-personnel related portion of the budget. Area budget personnel then allocate their respective budgets to each district, which, in turn, develops budgets down to the finance number level. Personnel costs represent the majority of the total operating budget plan.

Service-Wide Expenses

Service-wide expenses are costs incurred at the corporate or national level that cannot be isolated and charged directly to individual operating or administrative units. Service wide expense budgets are developed by Corporate Accounting and Corporate Budget groups using the prior year-end actual totals as the base. Examples include worker's compensation administrative fees, retiree health benefits (RHB) premiums, interest expenses, life insurance payments, and future RHB.

Headquarters Budget

The headquarters budgeted expenses are calculated and measured separately from field expenses by the manager, Corporate Budget. Headquarters expenses include the cost of headquarters organizations such as Corporate Accounting and Corporate Treasury; field support units, such as General Counsel Field Units, accounting service centers (ASC), and the U.S. Postal Inspection Service; and the U.S. Postal Service Office of Inspector General (OIG). Headquarters expenses also include information technology and program activities. Program activity expenses include costs associated with the credit card program, stamp printing, the Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiative,[17] advertising, and marketing. These costs are estimated based on prior year amounts and expected increases in labor and non-personnel costs, offset by cost savings. Estimates and business cases are developed for each program by their program manager. The field support units make up the largest percentage of the headquarters budget. Actual total expenses for FYs 2010 through 2012, and planned for FY 2013, are listed in Table 2.

[17] A management process the Postal Service is using to improve business strategy development and execution. As of June 10, 2013, DRIVE is focused on a portfolio of 24 key initiatives the Postal Service will implement to meet its ambitious performance and financial goals. The relationship between the DRIVE initiative goals and the four core business strategies are very closely linked but do not have clear one-to-one correspondence and are not clearly aligned to performance metrics.

Table 2. Postal Service Expenses FYs 2010 through 2013 (in Billions) by Category

Category	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Planned
Expenses	$67.6	$67.9	$67.5	$66.7
Separation Costs[18]	-	-	0.1	0.2
RHB Pre-Funding	5.5	0	11.1	5.6
Non-Cash Workers' Compensation Adjustment[19]	2.5	2.9	2.4	To Be Determined[20]
Total Expenses	**$75.6**	**$70.8**	**$81.1**	**$72.5**

Source: Financial plan – FYs 2011 through 2013.

Capital Commitments Investment Plan

The manager, Finance Infrastructure, ensures that the capital commitments investment plans are estimated to align with the Postal Service's *5-Year Strategic Plan*. Capital investments include equipment, facilities, infrastructure, and support. The review process of the capital commitments investment plan begins in March or April each year. Each functional area[21] submits their capital expenditure requests by project to the manager, Finance Infrastructure, for review. Requests include the project type by location, cost, and any potential savings. The executive leaders prioritize their capital commitment projects based on the expected return on investment and whether it will improve the customers' experience and support key initiatives.[22] Finance Infrastructure reviews the requests and recommends projects for budget inclusion based on the executive leaders' prioritizations by the end of June. The requests are returned to the executive leaders for approval and inclusion in the capital commitments investment plan. The actual capital cash outlay for FYs 2010 through 2012, and planned for FY 2013, is listed in Table 3.

[18] Costs associated with separation incentives offered to employees resulting from the consolidation of facilities planned for FY 2013.
[19] Non-cash effects of discount rate, actuarial valuations, and contingency.
[20] Costs associated with Non-Cash Workers' Compensation adjustments will be determined by changes in interest rates and long-term workers' compensation claims during 2013 and are too volatile to accurately forecast. Past integrated financial plans state the same factor and determine the dollar amount at year end.
[21] Functional areas include performance clusters, districts, plants, areas, headquarter units, and national programs.
[22] Key initiatives include network updates for customer facing technology improvements, retail terminal replacements, mail acceptance system simplification, enhancements to mail scanning and tracking systems, and facilities and equipment needs.

Table 3. Postal Service Capital Cash Outlay FYs 2010 through 2013 (in Billions) by Category

Capital Cash Outlays	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Planned
Facilities	$0.6	$0.6	$0.4	$0.4
Equipment	0.6	0.4	0.3	0.2
Infrastructure and Support	0.2	0.2	0.1	0.4
Total	**$1.4**	**$1.2**	**$0.8**	**$1.0**

Source: Financial plan for FYs 2012 through 2013.

Financing Plan

Corporate Treasury develops the financing plan, with input from Finance Infrastructure and Corporate Budget. The financing plan describes the Postal Service's fiscal year projected cash flow and the effect on the debt of the organization. Corporate Treasury makes liquidity projections using current year results and the projected revenue, expenses, and capital cash outlays for the next fiscal year. Collectively, Corporate Treasury, the vice president of Finance and Planning, the CFO, the PMG, and the governors review and approve the liquidity projections. The financing plan is finalized in late summer/early fall and is updated monthly throughout the year by representatives in the Finance and Planning area.

As of September 30, 2012, the Postal Service had reached its statutory debt limit of $15 billion with the U.S. Department of Treasury and maintained a cash balance of $2.1 billion. Management estimated at the time the FY 2013 IFP was developed that the Postal Service would end FY 2013 with a positive cash balance of about $0.8 billion. However, management understood that if legislation did not resolve outstanding issues with the legally mandated retiree health benefits prefunding requirements, the Postal Service would be forced to default on the $5.6 billion payment due on September 30, 2013.[23] According to the Postal Service, the planned $0.8 billion is a dangerously low level of liquidity and is equivalent to less than 4 days of operating costs. The actual financing plan for FYs 2010 through 2012, and planned for FY 2013, is listed in Table 4.

[23] Under the Postal Accountability and Enhancement Act of 2006, the Postal Service is required to pre-fund retiree health benefits.

Table 4. Postal Service Financing Plan – FYs 2010 through 2013 (in Billions) by Category

Category	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Planned
Revenue	$67.1	$65.7	$65.2	$64.9
Expenses	75.6	70.8	81.1	72.5
Net Loss	**$(8.5)**	**$(5.1)**	**$(15.9)**	**$(7.6)**
Adjustments to Financing Plan[24]	3.8	4.4	14.7	6.3
Cash Used in Operations	**(4.7)**	**(0.7)**	**(1.2)**	**(1.3)**
Cash at Start of Year	3.9	1.0	1.3	2.1
Borrowing During the Year	1.8	1.0	2.0	0.0
Cash Balance at End of Year	**$1.0**	**$1.3**	**$2.1**	**$0.8**

Source: Financial plan – FYs 2011 through 2013.

Integrated Financial Plan

Once all the revenue and expenses have been projected for the next fiscal year (by about August), the manager, Finance Headquarters, prepares a profit and loss statement to present to the CFO. Upon CFO approval, the manager, Finance Headquarters, prepares the financial plan. The financial plan is an executive summary document which includes the operating plan, capital investment plan, and financing plan for the fiscal year. The financial plan is forwarded to the executive leaders for review and approval. Upon their approval, the financial plan is presented to the governors for their review and approval, usually in October or November. The financial plan provides the governors with a basis for assessing the Postal Service's estimated business needs and results. It allows them to continually monitor, evaluate, and make decisions on issues relating to the Postal Service's financial and operational conditions throughout the fiscal year.

Budget Allocation Process

The Finance Operations group begins the initial budget allocation in July, to each of the seven postal areas and headquarters after the determination of revenue and mail volume projections. The initial budget for field locations and headquarters is generally allocated between August and September to ensure the continuation of business from

[24] Adjustments to the Financing Plan include RHB – pre-funding – not paid, depreciation, non-cash workers' compensation adjustments, and other items such as additional (27) pay days, Federal Employees Retirement System withholding (payment), and an increase in pre-paid postage.

one fiscal year to the next. The initial budget can be adjusted as valid changes arise.[25] The headquarters budget is placed in the Corporate Budget System and the field location's budget is placed in the National Budget System. The information from both systems is linked at the Eagan ASC and automatically recorded in the Accounting Data Mart (ADM) system[26] for review by managers.

Budgeted amounts are further allocated by the seven areas to their subordinate units. During the budget allocation process, both headquarters and area offices may retain a small portion (no more than about 1 percent) of the total budget amount for distribution at a later date to assist with any unexpected budget changes. Headquarters does not issue guidance on whether areas should or should not retain a percentage of their budgets for distribution to affected units when unforeseen circumstances arise. The decision-making authority for intra-area budget decisions rests with the area vice presidents. The headquarters-retained amount is held to assist in unexpected or irregular occurrences, such as a natural disaster, unanticipated increase or decrease in workload, or implementation of new initiatives that were not fully developed at the time the budget was issued. When something unexpected occurs, headquarters may transfer funds as needed without affecting amounts previously allocated to area offices. If nothing unexpected occurs, headquarters may not distribute and not expend the amount originally retained. In addition, area offices that retained a similar percentage of their total budget allocation may distribute that amount among their districts or elect to not distribute the amount and, therefore, not expend any of the retained amount. The area vice president is responsible for making that decision.

Budget Execution

Each month management examines and reports on execution of the budget for the preceding month. This process allows the Postal Service to make adjustments needed based on operating results and organization needs. Finance and Planning and Corporate Accounting use the ADM system to monitor and analyze actual versus planned budget performance for headquarters and field units. Within ADM, budget data is compiled in a report referred to as the *Financial Performance Report* (FPR).[27] This report compiles data for each location in a format that is similar to an income statement,[28] with revenue and expense account information. The Headquarters Finance Operations group and Corporate Accounting will run the FPR for revenue and expense lines and investigate any large differences between budgeted and actual numbers.

[25] Examples of changes in the budget include, but are not limited to, automation, unit closures, unexpected increase or decrease in productivity or population, fuel or transportation expenses, and erroneous budget information.
[26] ADM is the repository for all accounting and finance related data for the Postal Service that is part of the Enterprise Data Warehouse system.
[27] A report prepared after general ledger processing is completed. The FPR shows items such as current and year-to-date revenue and expenses. It segregates activities by category, such as total workhours, revenue, and salary and benefits.
[28] A financial statement showing profit or loss sustained by a company during a particular period, including all items of income and expenditure.

Headquarters Budget Monitoring

Each month, staff members within the Corporate Budget Office review the performance report and track each of the headquarters functional units'[29] budget performance by expense type. They also notify the respective headquarters functional group of any variance exceeding planned performance indicators.[30] If any unexpected variances are discovered, the Corporate Financial Operations Analysis and Reporting Group[31] will notify the respective headquarters functional group personnel to determine the reason(s) for the variance. The Corporate Budget Office consolidates the variance responses from the units and submits them to the Corporate Financial Operations Analysis and Reporting Group for review and submission to the CFO.

Field Budget Monitoring

The Field Budget Group[32] uses a similar approach to oversee and monitor areas', districts', and postal units' budget performance. Field budget personnel at various levels of the organization (including district, area, and headquarter budget personnel) perform budget evaluations on their respective offices to determine whether a variance to budget is evident. If an unusual or irregular item is discovered, budget personnel will contact the respective unit personnel to determine the nature of the item. Area managers are required to submit field variance reports to Corporate Accounting with explanations for any variance, plus or minus, that is greater than $1 million. Corporate Accounting reviews the reports and follows up on any discrepancy or unusual item with the respective area office. If any fraudulent irregularities are uncovered or suspected, they will be reported to the OIG for further investigation.

Budget Performance Evaluation and Review

Corporate Accounting holds monthly meetings to inform the CFO of the reported financial results and provide the reasons for expense and revenue variances. Monthly meeting attendees include personnel from Corporate Finance and Reporting, Finance (Operations and Headquarters), and Corporate Treasury. The purpose of the meeting is for personnel to assess the reported actual versus plan budget variances. On a quarterly basis, the CFO meets with the governors' Audit and Finance Committee and presents a quarterly financial report. The report includes a comparison of the reported actual versus planned budget variances as established in the financial plan. The expense and revenue information is reported in actual amounts and percentage variances that compare current results to same period last year data. In addition, the

[29] Functional units include Corporate Accounting and Corporate Treasury; field support units, such as General Counsel Field Units, ASCs, and the Postal Inspection Service; and the OIG.
[30] Performance measurements are established at the corporate and unit levels. Targets are defined for each level and are communicated to all employees at the beginning of the year.
[31] This group monitors financial performance and provides in-depth analysis on a wide range of operational functions for both internal and external customers. Key components of the reporting portfolio include total factor productivity and key financial indicators.
[32] The Field Budget Group is material in distributing, overseeing and monitoring the budget to postal areas, districts, and units.

information illustrates current year volume changes compared to the same period last year.

Budget Close-Out Process

On a monthly basis, all headquarters and service-wide adjustments or changes to budgets are summarized and reconciled by Corporate Budget staff prior to the accounts being closed to ensure the budget is accurately stated in the national system. On September 30 of each year, the Corporate Accounting group and the ASCs begin closing out the fiscal year budget and analyze the financial ledgers to determine whether there are any variances or irregular information. The fiscal year financial statements[33] are not closed out until all issues have been resolved. The normal monthly closing time period is 7 days; however, the time frame could be extended to ensure all financial data are correctly reported. At year's end, the closing is not completed until the annual financial statement audit is conducted and completed by the independent certified public accounting firm. Once all issues have been resolved, Corporate Accounting prepares a financial report for review and approval by the controller, the vice president of Finance and Planning, and the CFO. Once approval has been obtained, the fiscal year is closed out and the next year begins.

The Postal Service budget has been exempted from the federal government general budget and funding laws since the Postal Reorganization Act of 1970. However, beginning with FY 2008, the Postal Service is required to file quarterly Form 10-Q reports and annual Form 10-K financial reports with the Postal Regulatory Commission (PRC). These reports are required to comply with Securities and Exchange Commission reporting guidelines. The financial reporting process involves the financial statements, 10-Q/10-K (including financial statement footnotes and Management's Discussion and Analysis), and Form 8-K reporting.[34]

Recommendation

This document was prepared to describe the budget formulation and execution process. Therefore, we made no recommendations. Because we did not make any recommendations, management chose not to respond formally to this report.

[33] Financial statements are prepared in accordance with generally accepted accounting principles.
[34] Office of Management and Budget (OMB) Circular A-11, Preparation, Submission, and Execution of the Budget, Part 2, Section 25.1, applies to the Postal Service. This requires the Postal Service, even though it is expressly excluded from executive review of the budget request, to submit budget information for inclusion in the OMB database.

Appendix A: Additional Information

Background

The Postal Reorganization Act of 1970 transformed the Post Office Department into the U.S. Postal Service, an independent agency of the executive branch. In 1989, the Postal Service was designated as an off-budget entity.[35] The Postal Service uses the sale of postage, mail products, and services for revenue to cover its operations as required by law. In 1992, the maximum amount the Postal Service could borrow from the U.S. Department of Treasury was set at $15 billion.

FY 2010 through 2012 trends in revenue, expenses, net income, and mail volume are presented in Table 1. For FY 2012, the Postal Service incurred a $15.9 billion loss, mainly attributed to its legislatively mandated requirement to pre-fund its future RHB, but also attributed to a decline in revenue due to decreasing mail volume. At the end of FY 2012, the Postal Service reached the Treasury's borrowing limit of $15 billion.

The financial plan for FY 2013, approved by the governors on November 15, 2012, included the following:

- An estimated loss of $7.6 billion that excludes the potential impact of legislative changes,[36] and the non-cash workers' compensation adjustment is projected.
- A projected $1.3 billion in estimated net cash used for Postal Service operations.
- A $5.6 billion expense for pre-funding RHB; however, the Postal Service does not have sufficient liquidity to pay this obligation, so it is excluded from cash used for operations.
- A beginning cash balance of $2.1 billion, which leaves $0.8 billion of cash available at the end of the year (or about 3 days of operations).

Table 5 provides information on actual and planned revenue, expenses, losses, and mail volumes.

[35] Postal Service receipts and disbursements are not considered part of the congressional and executive budget.
[36] Legislative changes include RHB, Federal Employee Retirement System refund, 5-day delivery, and Postal Health Plan.

Table 5. Actual Postal Service Revenue, Expenses, Mail Volume FYs 2010 through 2012 and Planned for FY 2013 (in Billions) by Category

Category	FY 2010	FY 2011	FY 2012	FY 2013
Revenue	$67.1	$65.7	$ 65.2	$64.9
Expenses	67.6	67.9	67.5	66.7
Separation Costs	-	-	.1	0.2
Operating Income (Loss)	**$(0.5)**	**$(2.2)**	**$(2.4)**	**$(2.0)**
RHB Pre-Funding	(5.5)	0	(11.1)	(5.6)
Workers' Compensation Adjustment [37]	(2.5)	(2.9)	(2.4)	TBD
Net Income (Loss)	**$(8.5)**	**$(5.1)**	**$(15.9)**	**$(7.6)**
Mail Volume	170.6	167.9	159.9	153.1

Source: Financial plan FYs 2011 through 2013.

Objective, Scope, and Methodology

Our objective was to document and analyze the budget formulation and execution process. To accomplish our objective, we reviewed budget data for the last 3 fiscal years. We reviewed Postal Service handbooks and memorandums to determine current policies and procedures related to the budget process. We interviewed Postal Service managers at Postal Service Headquarters and area management[38] to obtain an understanding of current policies and procedures and noted their comments, where appropriate.

We conducted this review from July 2012 through August 2013, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on July 23, 2013, and included their comments where appropriate.

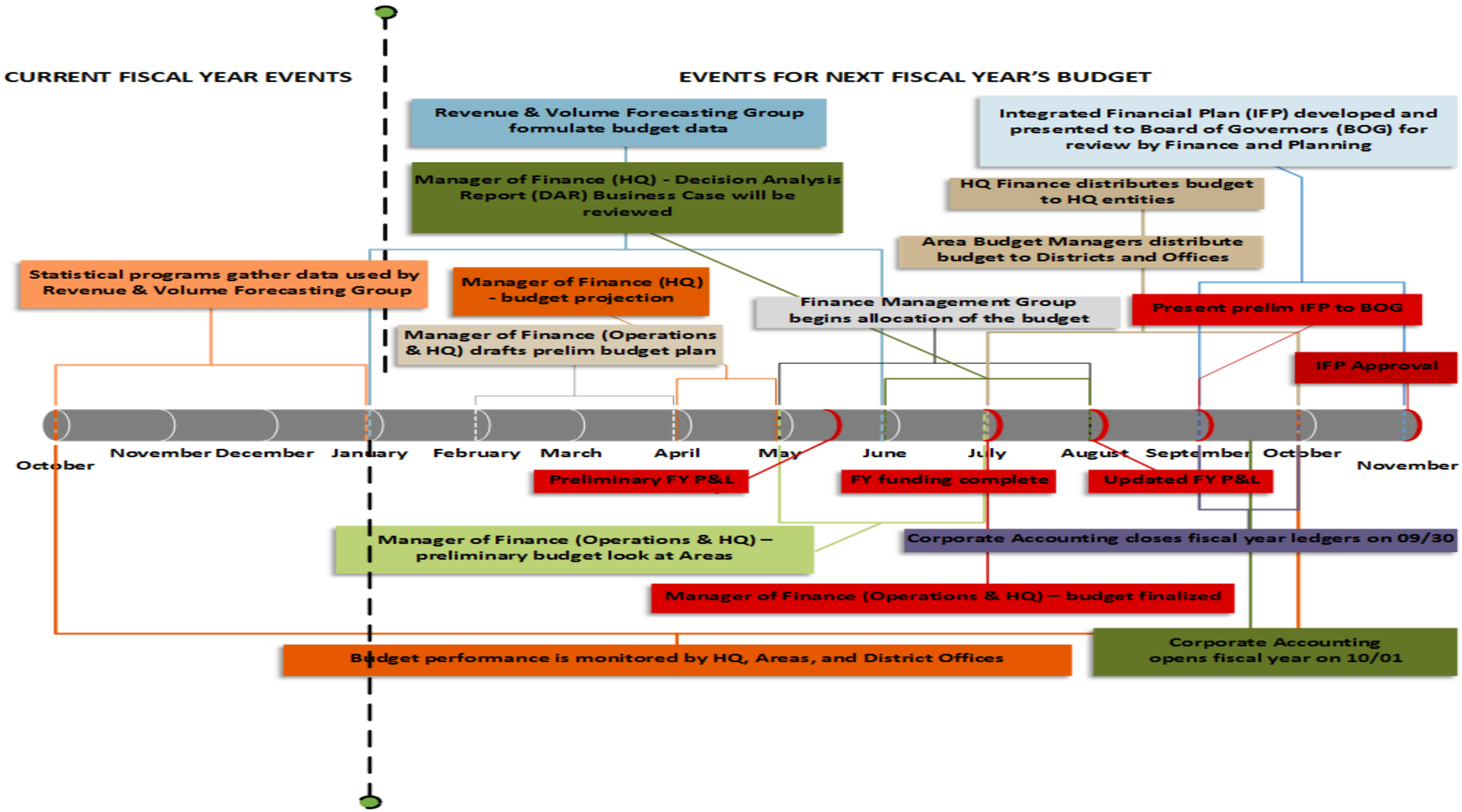
We did not use or rely on computer-generated data to support our conclusion.

[37] Workers' compensation adjustments are primarily determined by changes in interest rates during the applicable fiscal year and are difficult to accurately predict.
[38] We interviewed Finance and Budget personnel in Capital Metro, Western, and Pacific Area offices.

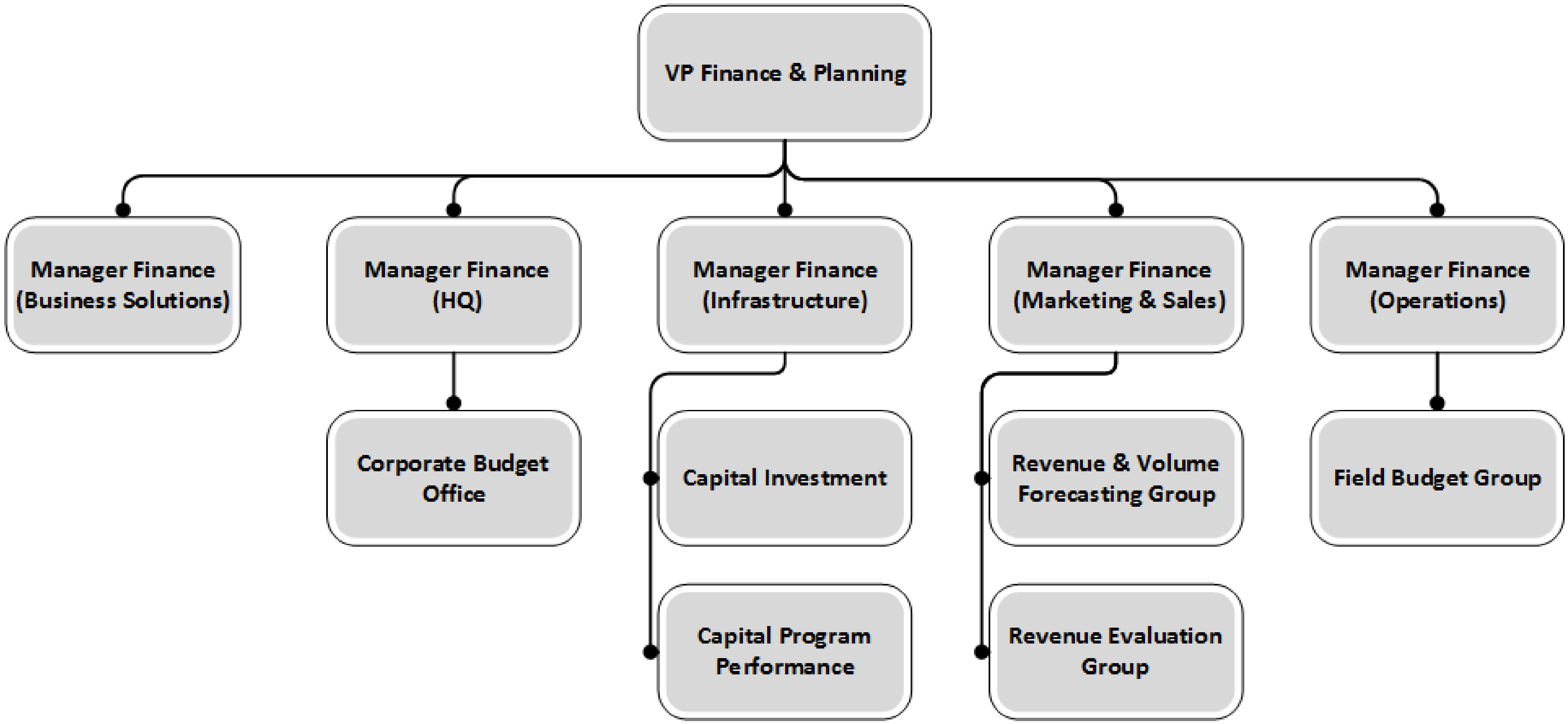
Prior Audit Coverage

The Postal Service's *Budget Enforcement Procedures and the Postal Service* (Report Number RARC-WP-12-007, dated February 22, 2012) found that the Postal Service report is a self financing entity and should be entirely off-budget and its legislative agenda should not be stymied by budget scoring. Such a treatment is in keeping with the Postal Reorganization Act intention to make the Postal Service finances independent from the federal government.

Appendix B: Budget Formulation and Execution Process Flowchart



Appendix C: Budget Formulation and Execution Organization Chart



Source: Headquarters, manager Finance Operations.