



September 25, 2009

VINCENT H. DEVITO, JR.  
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory - Financial Reporting Information Under the Postal Accountability and Enhancement Act of 2006  
(Report Number FT-MA-09-003)

This report presents the results of our review of financial reporting requirements established by the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006)<sup>1</sup> (Project Number 09BM001FT002). This self-initiated review addresses financial and strategic risks. See [Appendix A](#) for additional information about this audit.

## Conclusion

In general, the U.S. Postal Service, under the Postal Act of 2006, provides the appropriate amount and type of financial reporting information to stakeholders through its annual and quarterly Securities and Exchange Commission (SEC)-type reports, Forms 10-K, 10-Q, and 8-K.<sup>2</sup> Also, the Postal Act of 2006 gives the Postal Regulatory Commission (PRC) oversight over the Postal Service and, through that authority, requires the Postal Service to file three monthly financial reports with the PRC.<sup>3</sup> Management generally provides those reports in a timely manner, and we believe the PRC is entitled to the financial reporting information they request.

However, for non-regulatory stakeholders, we believe the PRC's disclosure of one of those monthly reports, the *USPS Preliminary Financial Information (unaudited)* report, is not appropriate because:

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<sup>1</sup> Public Law 109-435, signed on December 20, 2006, revises a number of provisions of the Postal Service's governing statute, codified in Title 39, U.S.C.

<sup>2</sup> See [Appendix C](#) for a definition of stakeholders.

<sup>3</sup> The *USPS Preliminary Financial Information (unaudited)* report contains both financial and operational information. While our review focused on disclosure of financial information (operating revenue and expenses as well as net financial information), we recognize the operational information in the report is preliminary and also subject to change. The *National Trial Balance* report lists account balances and monthly activity for all Postal Service financial accounts. The *Statement of Revenue and Expenses* report lists and compares year-to-date current and prior fiscal year balances for all Postal Service revenue and expense accounts.

- No publicly traded company or similar government agency of those we benchmarked<sup>4</sup> reported financial information more frequently than quarterly.
- The information has not been through the rigorous financial reporting processes similar to those that SEC-type reports have, including an independent review or other accountability, completeness, and accuracy controls to help ensure the integrity of the financial data. Therefore, the information is subject to greater risk of misinterpretation and misuse. Further, preparing this information with the same scrutiny as the SEC-type reports would place additional cost burdens on the Postal Service.
- The Postal Service is more likely to be at a competitive disadvantage when its competitors are not required to similarly report.

Two additional monthly reports, the *National Trial Balance* and *Statement of Revenue and Expenses* reports, were filed under seal<sup>5</sup> until August 2009 and, as a result, were not subject to the concerns associated with providing monthly financial information to non-regulatory stakeholders. However, under a new PRC rule,<sup>6</sup> the Postal Service recently requested withholding certain financial information from these two reports from public disclosure. In August, the PRC posted redacted versions of the June 2009 *National Trial Balance* report and the *Statement of Revenue and Expenses* report to its website. The U.S. Postal Service Office of Inspector General (OIG) believes complete or redacted versions of these reports should not be posted; rather, these reports should remain under seal, as the information is subject to the same concerns described for the *USPS Preliminary Financial Information (unaudited)* report.

### Amount and Type of Financial Reporting to the PRC

The PRC is entitled to the financial reporting information it requests. The financial reporting the Postal Service provides helps the PRC meet its statutory compliance determination obligations; enhances transparency and accountability; and facilitates timely, sufficient, and accessible information. Therefore, we believe the Postal Service is providing the appropriate type and amount of financial information to the PRC. See [Appendix B](#) for our detailed analysis.

### Amount and Type of Financial Reporting to Non-Regulatory Stakeholders

For non-regulatory stakeholders, we believe the disclosure of the operating expenses and revenue as well as net financial information in the Postal Service's *USPS*

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<sup>4</sup> Only the Bureau of the Public Debt (BPD) reports more frequently than quarterly, but it does not operate in a competitive environment like the Postal Service.

<sup>5</sup> The PRC does not post reports to the Internet or otherwise make them publicly available.

<sup>6</sup> Final Rule Establishing Appropriate Confidentiality Procedures, Order No. 225 (Docket No. RM2008-1) accepted June 19, 2009, obligates the PRC to balance the nature and extent of likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government organization which competes in commercial markets.

*Preliminary Financial Information (unaudited)* report is not appropriate because that information does not go through rigorous financial reporting processes to help ensure the integrity of the financial data. In addition, it is submitted on a more frequent basis than is required for similar government agencies and publicly-traded companies, so it is more likely to place the Postal Service at a competitive disadvantage.

## Legislative Intent

We determined that Congress enacted the Postal Act of 2006 in part to bring about greater financial transparency by reporting in a fashion similar to that of publicly traded companies. The Government Accountability Office noted in Congressional testimony that the Postal Service's annual, quarterly, and other periodic reports required by the SEC can provide a comprehensive understanding of the Postal Service's financial condition and outlook as well as enhance transparency and accountability for all stakeholders.<sup>7</sup>

## Benchmarking

The 13 organizations we analyzed to identify the amount and type of financial information they made available to the public all provided Forms 10-K, 10-Q, and 8-K, but none of them provided additional monthly financial information. Therefore, we believe it is appropriate for the Postal Service to provide only the SEC-type reports to the public. See [Appendix B](#) for our detailed analysis.

## Postal Service Position

Postal Service management and the former Chair of the U.S. Postal Service's Board of Governors (Governors) Audit and Finance Committee agreed the Postal Service should submit current financial reports to the PRC. However, they do not believe it wise to have such numbers posted publicly given that they are preliminary and without interpretation. See [Appendix B](#) for our detailed analysis.

## Stakeholder Positions

During our analysis, we also reviewed stakeholder congressional testimony and comments regarding PRC proposed rules as well as talked to stakeholders to determine their use of the data. We found there were opposing views about transparency and the level of Postal Service financial reporting. See [Appendix B](#) for our detailed analysis.

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<sup>7</sup> *Implementation of the Postal Accountability Act of 2006*, U.S. House of Representatives, Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, February 28, 2008.

## Blog Responses

Overall, our survey of public opinion<sup>8</sup> showed 187 of 237 voters believe the Postal Service is not disclosing the appropriate amount and type of financial information to the public. Further, when asked what reports must be disclosed to the public, 50 of 100 voters indicated the Postal Service needs to provide all the financial reports listed in the blog,<sup>9</sup> including the two that are sealed. However, our analysis of the results showed inconsistencies in responses and a general misunderstanding about the content of some reports.

## Regulation G Requirements

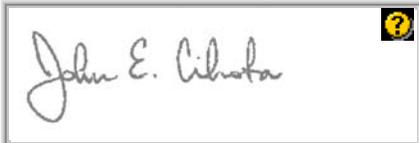
Regulation G requires SEC-regulated entities to ensure disclosures of unreviewed financial information are accompanied by:

- A presentation of the most directly comparable financial measure calculated and presented in accordance with generally accepted accounting principles (GAAP).
- A reconciliation of the quantitative differences between the non-GAAP financial measure disclosed and that most directly comparable financial measure calculated and presented in accordance with GAAP.

Regulation G also directs that a regulated entity shall not make public a financial measure that is misleading. If the Postal Service were to follow this regulation, it would need to expend additional funds to add the disclosures and perform the appropriate reconciliations on a monthly basis. We do not support that action.

We did not make any recommendations in this report. As a result, management chose not to respond formally to this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a black question mark.

John E. Cihota

Deputy Assistant Inspector General  
for Financial Accountability

## Attachment

<sup>8</sup> Obtained from a blog posting on June 29, 2009. The blog consisted of two questions and not all voters responded to both questions.

<sup>9</sup> Our blog identified seven reports: Form 10-K, Form 10-Q, Form 8-K, Integrated Financial Plan, *USPS Preliminary Financial Information (unaudited)* report, *National Trial Balance*, and *Statement of Revenue and Expenses*.

cc: Joseph Corbett  
Mary Anne Gibbons  
William A. Lyons  
Stephen J. Nickerson  
Steven R. Phelps  
Julie S. Moore  
Bill Harris

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Act of 2006 made significant changes to the financial reporting and governance responsibilities of the Postal Service and the PRC. The Postal Act of 2006 requires the Postal Service to file with the PRC multiple financial reports containing information prescribed by the SEC. The information in these reports is equivalent to the SEC's annual Form 10-K, quarterly Form 10-Q, and periodic Form 8-K, and are referred to as SEC-type reports. The Postal Service submitted its first SEC-type report, Form 8-K, on November 21, 2007.

The Postal Act of 2006 created the PRC as an independent regulatory agency with oversight of the Postal Service, including the development of accounting practices and procedures for the Postal Service and assurance of transparency through periodic reports.

In April 2009, the PRC issued rules<sup>10</sup> requiring the Postal Service to file the following three monthly financial reports in addition to the Forms 8-K, 10-Q, and 10-K:

- A report listing operating revenue and expenses, as well as net financial information and operational data.<sup>11</sup>
- A report listing account balances and monthly activity for all Postal Service financial accounts.<sup>12</sup>
- A report listing and comparing year-to-date current and prior fiscal year balances for all Postal Service revenue and expense accounts.<sup>13</sup>

Additional PRC rules<sup>14</sup> established procedures for assigning appropriate confidentiality for non-public materials filed with the PRC. Under the new rules, the PRC will balance the nature and extent of likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. The rules provide a mechanism for the PRC to create greater financial transparency<sup>15</sup> for matters relevant to the regulatory responsibilities of the PRC.

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<sup>10</sup> Final Rule Prescribing Form and Content of Periodic Reports, Order No. 203 (Docket No. RM2008-4), accepted April 16, 2009.

<sup>11</sup> *USPS Preliminary Financial Information (unaudited)* report.

<sup>12</sup> *National Trial Balance*.

<sup>13</sup> *Statement of Revenue and Expenses*.

<sup>14</sup> Final Rule Establishing Appropriate Confidentiality Procedures, Order No. 225 (Docket No. RM2008-1), accepted June 19, 2009.

<sup>15</sup> The SEC defines financial transparency as timely, meaningful, and reliable disclosures about a company's financial performance.

The Governors, particularly the Audit and Finance Committee, have taken interest in the amount, type, and frequency of financial reporting information the Postal Service should disclose to the public. To address this interest and support its due diligence responsibilities, the Governors received training in FY 2007 on the reporting requirements related to the Postal Act of 2006.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our review was to determine whether the Postal Service, as required by the Postal Act of 2006, is providing the appropriate amount and type of financial reporting information to its stakeholders. To address our objective, we:

- Reviewed information on 13 publicly traded organizations' websites to determine the amount and type of financial information they provide and whether the Postal Service reported in a similar fashion.
- Benchmarked with six government organizations to determine the amount and type of financial information they provide to the public.
- Reviewed stakeholder congressional testimony and comments regarding PRC proposed rules on form and content of periodic reports and procedures for confidentiality.
- Contacted PRC management, Postal Service management, the Audit and Finance Committee of the Postal Service's Board of Governors, and two mailing industry representatives to understand their positions related to financial reporting and transparency.
- Obtained public opinion using a blog.<sup>16</sup>
- Researched SEC Regulation G, which describes conditions for use of non-GAAP financial matters, for guidance on issues of data accuracy and misleading/misuse of data.

We conducted this review from May through September 2009 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our observations and conclusions with management officials on September 3, 2009, and included their comments where appropriate. We did not rely on computer generated data for this review.

## **PRIOR AUDIT COVERAGE**

The OIG has not performed prior audits related to this objective.

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<sup>16</sup> A blog is a brief Internet commentary on a subject and invites reader comments.

## APPENDIX B: DETAILED ANALYSIS

### Amount and Type of Financial Reporting to the PRC

The PRC has broad powers to obtain financial information from the Postal Service, including subpoena power. The Postal Act of 2006 requires the Postal Service to provide annual and quarterly SEC-type reports (Forms 10-K, 10-Q, and 8-K) as well as other annual financial reports. Further, under the Postal Act of 2006, the PRC can request any additional financial reporting information it deems necessary to perform its regulatory mission. The PRC has used this authority to request additional annual and monthly financial reports. The Postal Service files 11 financial reporting documents<sup>17</sup> with the PRC.

Name of Report	How Often Filed	Sealed?
Form 10-K	Annually	No
Form 10-Q	Quarterly	No
Form 8-K	As needed	No
Congressional Budget Submission	Annually	No
Annual Compliance Report	Annually	No
U.S. Postal Service Annual Report	Annually	No
Integrated Financial Plan	Annually	No
Tax on Competitive Products	Annually	No
<i>USPS Preliminary Financial Information (unaudited)</i>	Monthly	No
<i>National Trial Balance</i>	Monthly	No <sup>18</sup>
<i>Statement of Revenue and Expenses</i>	Monthly	No <sup>19</sup>

PRC officials told us they are satisfied with the overall level of financial reporting the Postal Service provides. Further, the PRC is accustomed to receiving monthly financial reports and due to the public's concern over the Postal Service's downward financial trend, required the Postal Service to submit additional monthly reports. According to the PRC, the financial information contained in these additional reports assists it in preparing the *Annual Compliance Determination* report.<sup>19</sup> They believe issues related to publicly posting these reports have been resolved due to the new confidentiality procedures now in place.

Based on its years of experience with the Postal Service preparing financial reports, PRC officials stated that the benefit mailers and others receive outweighs any risk of

<sup>17</sup> We defined a financial reporting document in this report as a document containing numerical measures of historical or future financial performance, financial position, or cash flows. It does not include numerical operational or statistical measures.

<sup>18</sup> Prior to August 2009, the PRC sealed these reports. In August 2009, PRC posted redacted versions of these reports.

<sup>19</sup> PRC's written determination on the Postal Service's compliance with applicable provisions of the Postal Act of 2006.

publishing unaudited or unreviewed financial information for non-regulatory stakeholders to view. They advised that, historically, errors and adjustments to financial reports have been minimal. The PRC believes more frequent reporting enhances transparency and accountability and stressed the criticality of timely, sufficient, and accessible information due to the recent financial and economic challenges facing the Postal Service. In addition, the PRC relies on the public to contact them if questions about interpreting the information arise.<sup>20</sup> The PRC added that publicly available monthly reports to Congress and the PRC will help keep Postal Service stakeholders informed of changes in trends and allow for prompt reaction to changing circumstances. The public representative appointed by the PRC also supported this position.

The PRC is entitled to the financial reporting information it requests. The financial reporting the Postal Service provides helps the PRC meet its statutory compliance determination obligations; enhances transparency and accountability; and facilitates timely, sufficient, and accessible information. Therefore, we believe the Postal Service is providing the appropriate type and amount of financial information to the PRC.

## Benchmarking

The 13 organizations<sup>21</sup> we analyzed to identify the amount and type of financial information they made available to the public all provided Forms 10-K, 10-Q, and 8-K, but none of them provided additional monthly financial information. One of the organizations had published monthly sales data but recently stopped to focus on the long term and escape the volatility of reporting monthly sales data. Its representative also stated this places them in line with most other large retailers.

Of the six government organizations<sup>22</sup> we benchmarked with to determine the amount and type of financial information they provided the public, we found that:

- All prepared the equivalent of Form 10-Ks.
- The BPD and Tennessee Valley Authority prepared Form 10-Q equivalents.
- None prepared Form 8-K equivalents.
- Only the BPD reported more frequently than quarterly.

The BPD prepared a monthly *Accountability Report* that included the core financial statements (Balance Sheet, Statement of Net Cost, Statement of Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity); however, the

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<sup>20</sup> The public can use an icon on the PRC website to contact the PRC with questions. The reports themselves do not specify who to contact should readers have questions or concerns regarding the data in the reports.

<sup>21</sup> These include two Fortune 500 companies and 11 large corporations across various sectors and numerous lines of business.

<sup>22</sup> The six reviewed were the BPD, Bureau of Engraving and Printing, U.S. Mint, Tennessee Valley Authority, Federal Deposit Insurance Corporation, and Pension Benefit Guaranty Corporation. The first three were selected to represent entities with high levels of public trust comparable to the Postal Service. The second three were selected to represent entities with market-oriented public service that were required to produce revenues to meet expenditures comparable to the Postal Service.

*Accountability Report* and accompanying financial statements are not audited by an independent body before publication. Even though the BPD publishes financial data monthly, it does not operate in a competitive environment like the Postal Service.

## Postal Service Position

The Postal Service informed us<sup>23</sup> that its Form 10-Q quarterly reports are more appropriate to provide to public, non-regulatory stakeholders than the monthly reports<sup>24</sup> because they include extensive narratives, undergo a financial reporting process, and are subject to key controls and independent review. Thus, the Form 10-Q reports are a more useful and accurate source of financial information.

Postal Service management also considers the two sealed monthly reports<sup>25</sup> inappropriate to provide to non-regulatory stakeholders because they expose the Postal Service to market/economic risk. For example, disclosing advertising expenditures could provide competitors with information on upcoming advertising campaigns and potentially allow them to counter such efforts. In addition, management believes the information in a third monthly report<sup>26</sup> could be very misleading. For example, economic events could occur during a given month or season of the year that may not occur again during the year. Additionally, as financial information becomes more resolute through the comprehensive quarterly closing process, the preliminary data in the first and second months may be adjusted in the last month of the quarter. This action effectively reduces the usefulness of the previous two monthly reports. Readers of Postal Service financial information may not recognize these nuances and may incorrectly extrapolate one-time or seasonal economic events to the whole fiscal year.

Further, since information in the *USPS Preliminary Financial Information (unaudited)* report does not have accompanying narratives and is not subject to independent review, it could be misused by those unfamiliar with the report. For example, the headline of a story posted June 30, 2009,<sup>27</sup> states “USPS Projects \$677 Million Net Loss for May” when actually it did not project anything. These types of misuse paint a financial picture for the Postal Service that can confuse and mislead the public.

Postal Service management also stated in its comments on PRC Order No. 104 that providing monthly financial data when competitors are not required to provide the same information would constitute a competitive disadvantage. Based on a federal court case,<sup>28</sup> the ruling judge commented “...there is even more evidence that Congress

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<sup>23</sup> Through interviews and our review of the Postal Service’s initial comments to PRC Order No. 104, “Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports” (Docket RM2008-4).

<sup>24</sup> The *USPS Preliminary Financial Information (unaudited)*, *National Trial Balance*, and *Statement of Revenue and Expenses* reports.

<sup>25</sup> The *National Trial Balance* and the *Statement of Revenue and Expenses* reports.

<sup>26</sup> The *USPS Preliminary Financial Information (unaudited)* report.

<sup>27</sup> FolioMag.com article at <http://www.foliomag.com/2009/usps-projects-677-million-net-loss-may>.

<sup>28</sup> *Areih Gildor v. United States Postal Service*, 491 F. Supp. 2d 305, 310 (N.D. N.Y.) April 27, 2007.

intended USPS to operate on a level playing field with its private competitors, through the enactment of the Postal Accountability and Enhancement Act.”

The former Chair of the U.S. Postal Service’s Board of Governors (Governors) Audit and Finance Committee, speaking for the committee, supported Postal Service management’s position, noting it was misleading and confusing to have monthly, inconclusive numbers made public and that the quarterly reports provide the public with accurate figures, careful analysis, and context. Further, the Audit and Finance Committee and Postal Service have no problem providing monthly numbers to the PRC; they just did not believe it wise to have such numbers posted publicly given that they are preliminary and without interpretation.

### Stakeholder Positions

During our analysis, we found there were opposing views about transparency and the level of Postal Service financial reporting. For example,

- One stakeholder supported monthly reporting rules because they:
  - establish a comprehensive system of periodic reporting requirements designed to satisfy the transparency and accountability objectives of the Postal Act of 2006;
  - ensure meaningful public access to, participation in, and understanding of the development of Postal Service prices.
- Another stakeholder believed monthly financial data is not needed, and providing financial data without explanation does little to promote transparency.
- Two stakeholders believed the Postal Service is providing the appropriate amount and type of financial reporting information. Both representatives were familiar with the monthly reports posted on the PRC website and used them for different purposes. One used the *USPS Preliminary Financial Information (unaudited)* report to get a sense of Postal Service’s financial health; the other focused on the operational data also contained in the report. Regarding the sealed monthly reports:
  - One representative said the sealed monthly *Statement of Revenue and Expenses* report would be useful to understand how the Postal Service is doing financially but was not interested in the sealed monthly *National Trial Balance* report.
  - The other representative felt neither sealed report would be useful and had found the more frequent the reporting period the less reliable the information.

## APPENDIX C: POSTAL SERVICE STAKEHOLDERS

For this review, we defined stakeholders as regulatory and non-regulatory. Regulatory stakeholders are federal Executive branch entities Congress creates to be independent of the executive departments, and to impose and enforce regulations free of political influence. Based on this definition, the PRC was the only federal entity we identified as a regulatory stakeholder of the Postal Service. Although Congress provides oversight, it does not meet the definition of a regulatory stakeholder for this review. However, financial information made available to the PRC is also reported and available to Congress. We considered all other stakeholders to be non-regulatory, to include Postal Service competitors, certain governmental entities, and mailing industry organizations.<sup>29</sup>

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<sup>29</sup> The specific stakeholders we considered during our review included those entities involved or referenced in testimony to Congress or comments to the PRC's proposed rules related to financial reporting under the Postal Act of 2006.