State of the U.S. Postal Service Financial Condition

AUDIT REPORT

Report Number 23-167-R24 | June 21, 2024

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Highlights

Background

While the U.S. Postal Service is viewed by the American people as one of the most trusted government organizations, it has suffered a history of financial net losses dating back to 2007. The Postal Service sought to address these challenges through its 10-year strategic plan, Delivering for America (DFA); published in March 2021. The DFA plan calls for over $40 billion in capital investments and calculates projected savings through initiatives that include $24 billion in revenue improvements, $34 billion in management cost savings, $44 billion in regulatory changes, and $58 billion in legislative and administrative actions.

What We Did

Our objective was to evaluate the financial performance of the Postal Service in relation to its DFA plan financial projections.

What We Found

The DFA plan was developed during a time of considerable uncertainty, and conditions have evolved. The DFA plan projected positive net income starting in fiscal year (FY) 2023. Actual results show a net loss of $950 million from operations in FY 2022 and a $6.5 billion net loss in FY 2023. While actual revenue was higher than DFA plan projections, actual expenses exceeded expense projections and actual revenue in both years. The Postal Service stated the differences between actuals and projections were primarily attributed to higher than projected volume of mail, which led to higher expenses to process that volume, higher rates of inflation than projected, and slower than planned progress on DFA initiatives. We generally concur with these causes for the differences. There was higher-than-projected mail volumes; however, work hour reductions did not align with the volume decline as assumed in the Plan. Further, we could not conclude how the initiatives' progress compared to DFA projected savings because the Postal Service did not track initiatives' progress back to the DFA plan. Strategic plans can evolve, and opportunities exist for management to improve transparency by providing a comprehensive update to its DFA plan and communicating the outcomes.

Management Comments and Recommendations

We made two recommendations to update and communicate the DFA plan financial projections and develop a plan to track and communicate progress on the DFA plan initiatives. Management agreed with one recommendation and generally agreed with the other recommendation. The Office of Inspector General (OIG) considers management's comments responsive, as corrective actions should resolve the issues identified in the report. The Postal Service's comments and our evaluation are at the end the finding and recommendations. See Appendix C for management's comments in their entirety.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 21, 2024

MEMORANDUM FOR: LUKE GROSSMANN
FINANCE AND STRATEGY SENIOR VICE PRESIDENT

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

SUBJECT: Audit Report – State of the U.S. Postal Service Financial Condition (Report Number 23-167-R24)

This report presents the results of our audit of the state of the U.S. Postal Service financial condition.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

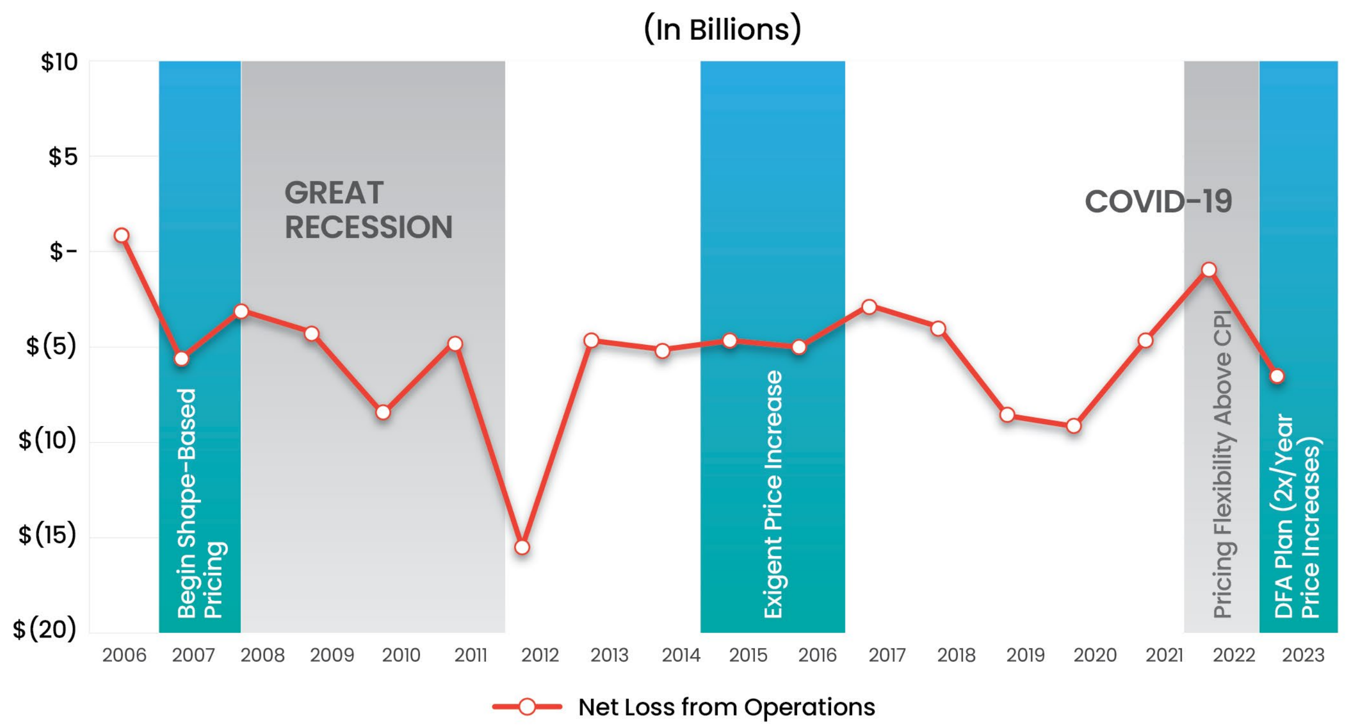
This report presents the results of our self-initiated audit of the State of the U.S. Postal Service Financial Condition (Project Number 23-167). Our objective was to evaluate the financial performance of the U.S. Postal Service in relation to its Delivering for America (DFA) plan financial projections. See Appendix A for additional information about this audit.

Background

The Postal Service continues to play a vital role in the U.S. economy. Consistently viewed by the American people as one of the most trusted government organizations, the Postal Service has the largest physical and logistical infrastructure of any non-military government institution and visits every home and business six days a week.

However, the Postal Service has a history of financial net losses dating back to 2007, when the Postal Accountability and Enforcement Act came into effect, which was then followed by the Great Recession, as seen in Figure 1. The losses from FY 2007 through FY 2023 totaled $98 billion.

Figure 1. Net Income (Loss) from Operations[1] Between FY 2006 and FY 2023[2]



Source: FY 2006 through FY 2023 Postal Service Form 10-Ks.

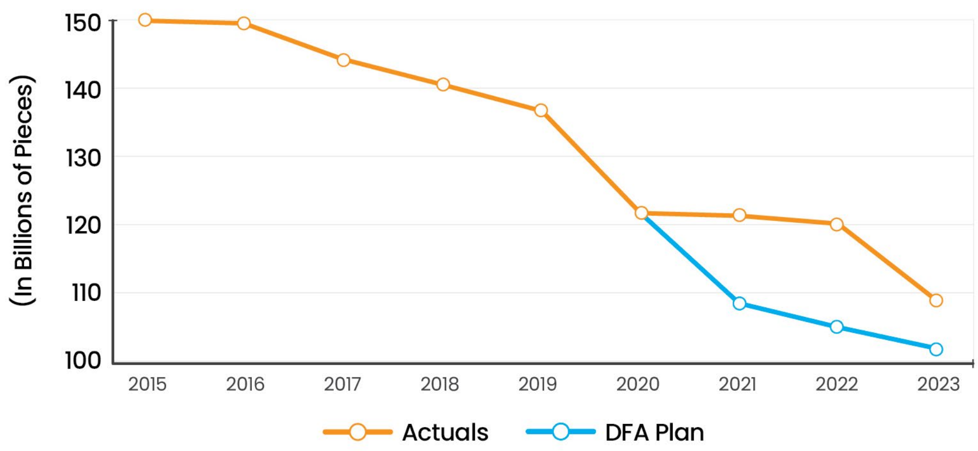
Consumer preferences driven by the arrival and acceptance of electronic correspondence and bill payment reinforced the decline of mail volume, as seen in Figure 2. To maintain liquidity, the Postal Service has not made certain annual amortization payments to the Office of Personnel Management for the Federal Employees Retirement System (FERS) or Civil Service Retirement System (CSRS) since 2014 and 2017 respectively.[3] In addition, prior to the passage of the Postal Service Reform

1 Excludes interest, investment income, and expense and impact of Postal Service reform legislation.
2 Shape-based pricing recognizes that each shape of a mail piece has substantially different handling costs and implemented pricing based on dimension, not just the weight of the mail piece.
3 Two of the U.S. government defined benefit pension programs, CSRS and FERS, provide retirement, death, and disability benefits for eligible employees based on specific eligibility and participation requirements, vesting periods, and benefit formulas. Each employee's participation in either plan is based on the starting date of employment with the Postal Service or another U.S. government entity.

Act of 2022, the Postal Service owed $57 billion to its Postal Service Retiree Health Benefit Fund (PSRHBF). In 2020, the COVID-19 pandemic accelerated mail mix changes, resulting in package volume continuing to grow and mail volume continuing to decline.

Figure 2. Actual and DFA Projected Declines of Market Dominant Mail Piece Volume Between FY 2015 and FY 2023

Source: OIG analysis of Postal Service volume data.

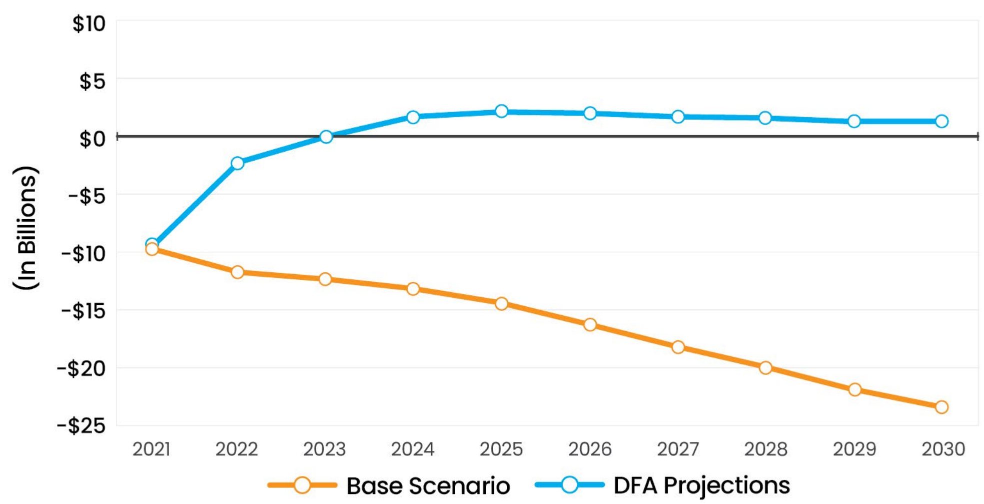


The Postal Service sought to address its financial and operational challenges through its 10-year strategic plan. The Postal Service's DFA plan was developed in 2020 under the direction of its new postmaster general and approved by the Board of Governors. It was published in March 2021 and constituted the Postal Service's compliance with the Government Performance and Results Act of 1993,[4] which requires a strategic plan that covers at least five years and is updated at least every three years.

The Postal Service stated in its DFA plan that its "business and operating models were unsustainable and out of step with the changing needs of the nation and its customers," and it outlined two scenarios with projected financial results and cash balances using 10-year profit and loss (P&L) and cash flow statements, as shown in Figure 3. The Postal Service started with a scenario where it did not take certain corrective actions[5] and projected results from 2021 through 2030. Then, the Postal Service added the impact of each DFA initiative on top of that scenario and projected those results, which became its DFA plan projections.

Figure 3. DFA Base and Plan Net Income (Loss) Projections for FY 2021 Through FY 2030

Source: OIG comparison of the Postal Service's DFA plan – Figures 28 and 35.



4 Public Law 103-62, § 7, 107 Stat. 285, 292 (codified as amended at 39 U.S.C. § 2802).

5 Actions include increasing operational efficiencies; using the Postal Regulatory Commission's new price cap on market dominant products; growing revenue from competitive products; and restructuring retiree liability funding requirements.

The initiatives to improve financial performance fall into four categories of expected savings: $24 billion in revenue improvements, such as pricing changes; $34 billion in management cost savings, such as mail processing changes; $44 billion in regulatory changes, such as pricing flexibility for market dominant products; and $58 billion in legislative and administrative actions, such as the CSRS funding reform.[6]

Finding Summary

The DFA plan was developed during the COVID-19 pandemic, a time of considerable uncertainty. Conditions have evolved significantly over the past three years since the initial DFA plan projections were published in 2021. The DFA plan and its projections no longer provide a reasonable basis for comparisons to future years' results, and we could not link current progress on initiatives back to the DFA plan projections. Opportunities exist for Postal Service communications to provide updates on progress of these initiatives so that stakeholders, such as Congress, mailers, unions, and the American public can have confidence in the DFA plan's progress and potential success. Transparency allows stakeholders to better understand and plan for upcoming Postal Service network and pricing changes.

6 The Office of Legal Counsel of the Department of Justice opined on March 26, 2024 that the Postal Service "is required to pay the full cost of CSRS benefits attributable to USPS's actions to increase its employees' pay since July 1, 1971, including with respect to increases in benefits accrued during those employees' years of service at Post Office Department."

Finding: DFA Financial Projections

We evaluated the financial performance of the Postal Service in relation to its DFA plan projections and determined that the projections are no longer relevant. The DFA plan assumed initiatives would begin in 2021, resulting in projected positive net income starting in FY 2023 or FY 2024.[7] However, two years after the issuance of the DFA plan, in its second-year progress report,[8] the Postal Service forecasted that it could achieve break-even operations by the end of DFA's 10-year period. But the Postal Service did not update its projected yearly financial results or cash balances through updated P&L or cash flow statements or demonstrate specifically how it would break-even by 2030. The opportunity exists to revise its financial projections to better understand how the Postal Service will achieve its break-even goal.[9]

In terms of actual performance over the last two years, the Postal Service reported a net loss of $950 million[10] from operations in FY 2022 and a $6.5 billion net loss in FY 2023.

Actual results varied from the DFA plan projections three years into the plan. In both FY 2022 and FY 2023, actual revenue was higher than the DFA plan projections by over $7.4 billion and $5.6 billion, respectively, but actual expenses also exceeded expense projections by $6 billion and $11.7 billion, respectively, as seen in Table 1.

Table 1. DFA Plan Projections Compared to Actual Results per P&L Category for FY 2022 and FY 2023 (in Billions)

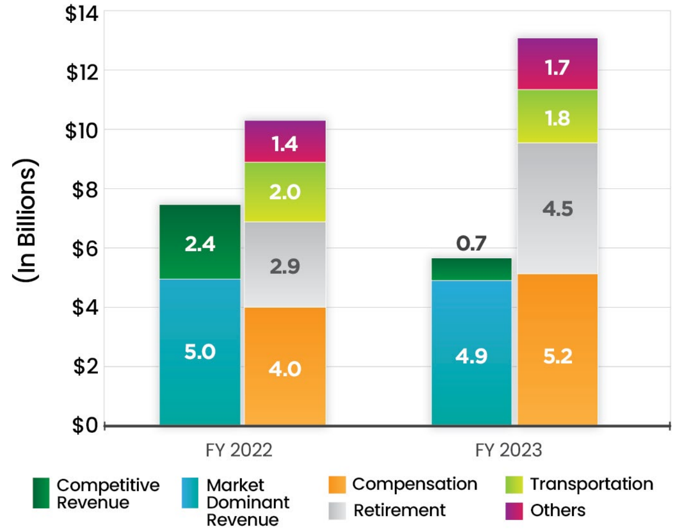
	FY 2022				FY 2023			
	DFA Projected Amounts	Actual Amounts	Variance	Percent Change	DFA Projected Amounts	Actual Amounts	Variance	Percent Change
Market Dominant Revenue	$40.5	$45.5	$5.0	12.4%	$40.9	$45.8	$4.9	12.0%
Competitive Revenue	$30.9	$33.3	$2.4	7.7%	$32.8	$33.5	$0.7	2.2%
Compensation & Benefits	$47.6	$51.5	$4.0	8.3%	$47.6	$52.9	$5.2	10.9%
FERS Normal Cost	$4.2	$4.5	$0.2	5.4%	$4.3	$4.9	$0.6	13.6%
FERS Amortization	$1.3	$1.6	$0.4	28.3%	$1.3	$2.1	$0.9	69.8%
CSRS Amortization	$0.0	$2.3	$2.3	N/A	$0.0	$3.0	$3.0	N/A
RHB Top-Up Payment	$0.8	$0.0	$0.8	100.0%	$0.8	$0.0	$0.8	100.0%
Transportation	$8.3	$10.3	$2.0	24.3%	$8.3	$10.1	$1.8	21.4%
Workers' Compensation[11] Cash Payment	$1.3	$1.3	$0.0	0.0%	$1.3	$1.5	$0.2	13.5%
Workers' Compensation[12] Non-Cash Component	0.0	($3.5)	3.5	N/A	$0.0	($0.9)	$0.9	N/A
Supplies & Services and Rent, Utilities & Other (Combined) + Depreciation	$10.1	$11.5	$1.4	13.7%	$10.2	$11.9	$1.7	17.1%

Source: OIG comparison of line items from the Postal Service DFA plan – Figure 35, the Postal Service Form 10-K – Statement of Operations for FY 2022 and FY 2023, and the Postal Service's *Revenue, Pieces & Weight (RPW)* report for FY 2023.

7 If all initiatives in the Plan are implemented on the assumed timeline.
8 Published in March 2023.
9 In its annual Integrated Financial Plan (IFP), the Postal Service only forecasts operations and cash for one year out.
10 This does not include the one-time, non-cash reversal of past due retiree health benefits obligations that were canceled by the Postal Service Reform Act of 2022 (PSRA).
11 The Postal Service recorded the cash portion of its workers' compensation expense, what it pays annually to the Department of Labor, in the Compensation and Benefit in the DFA P&L. For comparison purposes, we moved the $1.3 billion projected cash expense to the Workers' Compensation category.
12 The impact of changes in the interest (discount) rate, the actuarial valuation of new cases, revaluation of existing cases are components of the total workers' compensation expense recorded on the Postal Service's Form 10-K to agree with Generally Accepted Accounting Principles (GAAP).

Additionally, as seen in Figure 4, actual expenses also exceeded actual revenue in both of those years.

Figure 4. Revenue Variances Compared to Expense Variances for FY 2022 and FY 2023



Source: OIG comparison of select line items from the Postal Service DFA plan – Figure 35 and the Postal Service Form 10-K – Statement of Operations for FY 2022 and FY 2023.

The Postal Service stated the differences between actuals and projections were primarily attributed to higher than projected volume in market dominant and competitive mail volume leading to higher expenses to process that volume, higher rates of inflation than projected, and slower than planned progress on DFA initiatives.[13] Generally, we concur with the causes for the differences. The Postal Service experienced higher-than-projected mail volumes; however, when comparing the year over year rates of change between FY 2022 and FY 2023, we identified that the reduction in work hours did not align with the volume decline as assumed in the DFA plan. Further, we could not determine initiatives' progress because the Postal Service did not track specific initiative progress back to the DFA plan projected savings they determined under each P&L category, instead, tracking to its annual Integrated Financial Plan (IFP).

Higher than Projected Volume

In FYs 2022 and 2023, the Postal Service experienced higher-than-projected volumes in both the Market Dominant and Competitive mail categories, particularly in FY 2022, as seen in Table 2. The Postal Service stated that they planned in the DFA plan for mail volume to significantly drop in FYs 2021, 2022, and 2023 due to economic uncertainty caused by the COVID-19 pandemic. However, the economy rebounded from the COVID-19 pandemic and mail did not decrease as significantly as projected in the DFA plan. Further, management stated, the timing of the decrease started in FY 2023 rather than in FY 2021, for a large part because of the shift in advertising mail.

Table 2. Actual Mail Volume Difference (in Billions of Pieces) by Mail Category Compared to DFA Plan Projections

Mail Type	Fiscal Year	DFA Plan Volume	Actual Volume	Difference
Market Dominant	2022	105.5	120.6	15
	2023	102.4	109.4	7.0
Competitive	2022	6.4	6.9	0.5
	2023	6.5	6.7	0.2

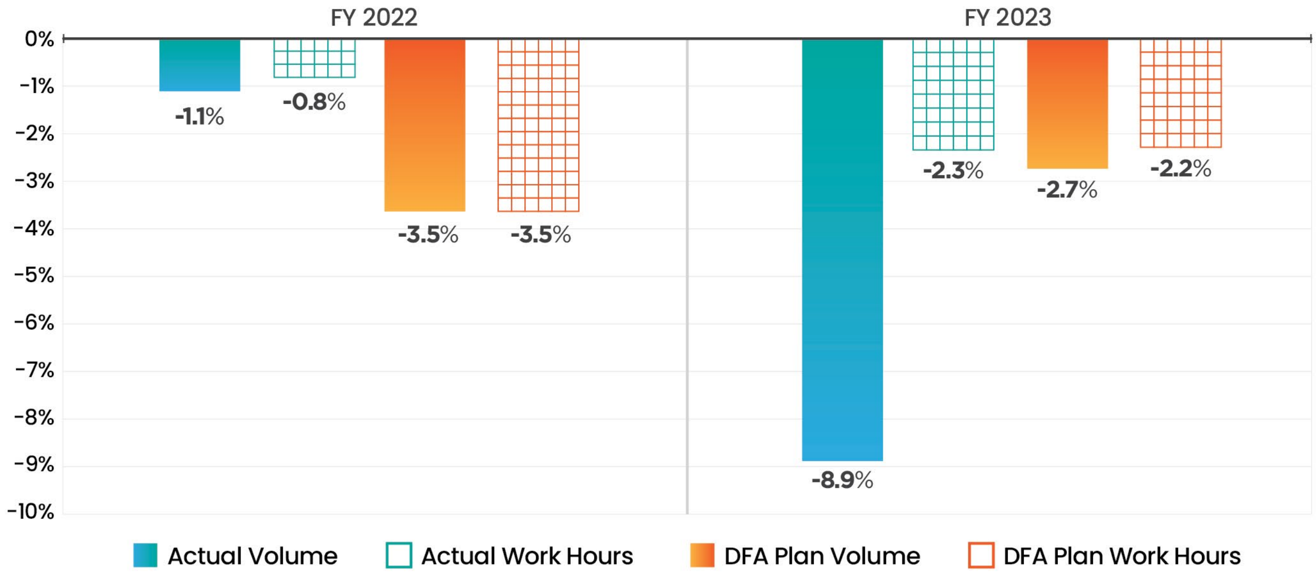
Source: OIG analysis of Postal Service volume data.

Aligning Work Hours with Volume

In the DFA plan, the Postal Service built its projections on the assumption that a decrease in volume would result in a comparable decrease in work hours, but actual results show that work hours were not reduced at the same rate as volume, as shown in Figure 5. Specifically, when comparing the year over year rates of change between FY 2022 and FY 2023, volume was projected to decrease at 2.7 percent and work hours were projected to decrease at 2.2 percent. However, we observed a more drastic rate of change for actual volume: 8.9 percent decrease in volume associated with a decrease of only 2.3 percent in actual work hours, signaling a reduction in workhour productivity.

13 Management included examples such as difficulty in reducing work hours due its current processing network, expenses related to the realignment of transporting mail from the air to ground network, and additional annexes.

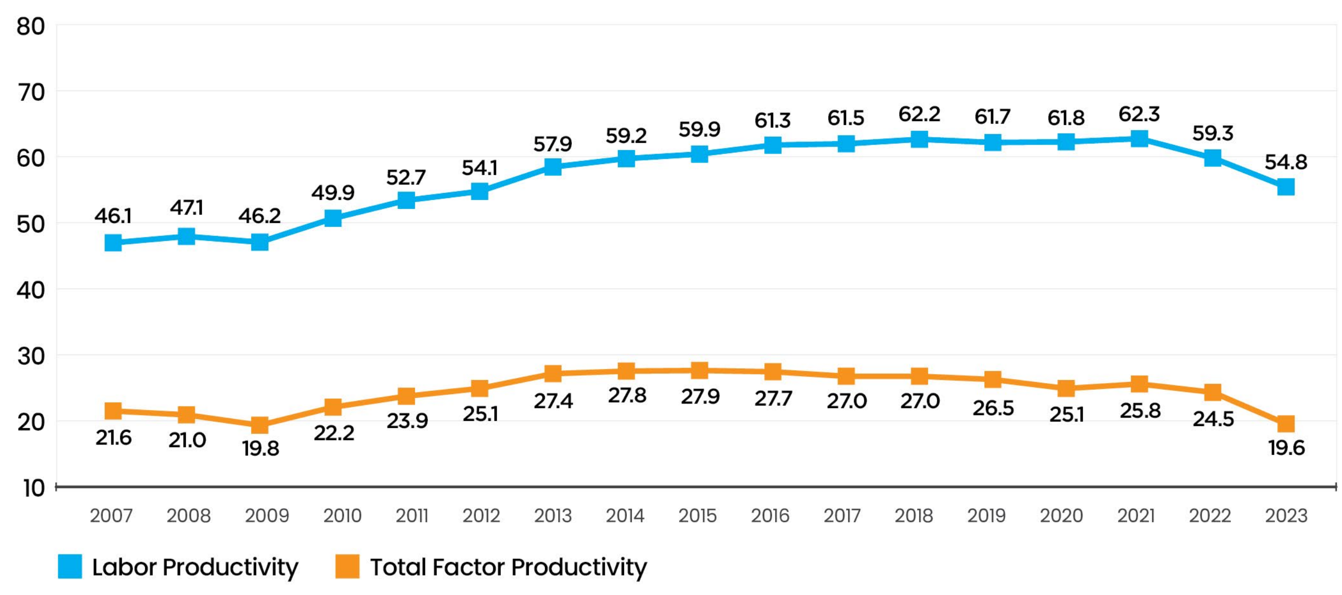
Figure 5. Volume and Work Hours Percentage Change Year over Year



Source: OIG analysis of Postal Service volume data.

This is consistent with what the Postal Service reported[14] to Congress in 2023 regarding its productivity. As seen in Figure 6, the Postal Service calculated a decade-high labor productivity in 2021, while it was processing the increase in but has calculated a decrease in 2022 and 2023. It is imperative that the Postal Service reduce its work hours in sync with volume declines, to save labor costs and ensure it is operating efficiently.

Figure 6. Cumulative Percent Change in Labor Productivity Since FY 2007



Source: *U.S. Postal Service FY 2023 Annual Report to Congress*.

14 *United States Postal Service Fiscal Year 2023 Annual Report to Congress*, December 2023

Inflation

During our scope period of FYs 2022 and 2023, the United States experienced year over year monthly inflation rates between 3.0 percent to 9.1 percent. This period marked one of the highest levels of inflation — as measured by the Consumer Price Index for All Urban Consumers Index (CPI-U)[15] — since the 1980s and much higher than the Postal Service projected in its DFA plan for revenue and expenses.

The higher-than-expected inflation positively affected revenue because Market Dominant services are subject to a price cap system that is linked to the CPI-U, and as seen in Table 3, during periods of higher inflation such as FY 2022 and 2023, the price cap for Market Dominant products rose higher than the Postal Service projected in its DFA plan.

Additionally, for competitive mail categories, the Postal Service increased its prices by 4.2 percent and 5.4 percent compared to its projected increases of 3.6 percent and 3.4 percent for FY 2022 and 2023, respectively.

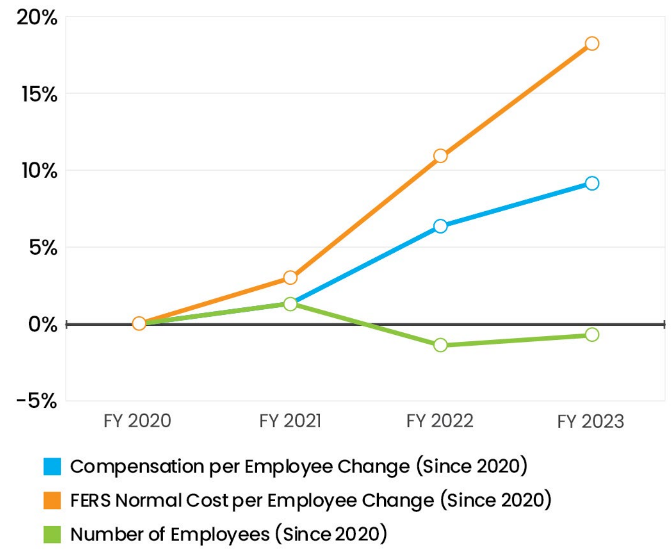
Table 3. DFA Projected CPI Increases Compared to Actual CPI Increases for Market Dominant Mail Categories

Fiscal Year	CPI Percent Increase Projected in the DFA Plan	Actual CPI Percentage Increase
2022[16]	1.0%	1.2%
		5.1%
2023	2.4%	4.2%
		3.4%

Source: OIG analysis on Postal Service inflation figures used to calculate the DFA plan.

However, inflation also impacted Postal Service expenses, it was most acute in the compensation and retirement expense categories. At the end of FY 2023, the total number of career employees at the Postal Service was approximately 525,000,[17] including an increase of approximately 29,000 (6 percent) employees due to career conversions.[18] As shown in Figure 7, compensation expense and FERS normal cost[19] expense, per employee, were dramatically higher by 9.1 percent and 18.2 percent, respectively, due primarily to the contractual cost-of-living adjustments for approximately 525,000 employees, which includes the 29,000 converted employees now eligible for employer retirement contributions.

Figure 7. Compensation and Benefits and Retirement Contributions for Postal Service Employees



Source: OIG analysis of Postal Service 10-Ks.

15 The most widely cited measure of inflation.
16 The first price increase was taken in August 2021, which was the end of FY 2021 and the second price increase was taken in July 2022.
17 Of which approximately 519,000 are FERS eligible employees.
18 Career employees are considered permanent and are entitled to a full range of benefits (health and retirement) and privileges.
19 The costs attributable for an employees' current year of service. It is actuarially determined by the Office of Personnel Management.

Initiatives

The Postal Service stated that achieving DFA plan projections and break-even cumulative net income over the 10 years of its DFA plan would happen only through the successful implementation of all initiatives outlined in the DFA plan. Management stated that slower than planned progress on the initiatives led to the variances between actuals and projections. However, we could not conclude how the initiatives' results or progress in FYs 2022 and 2023 compared to DFA projected savings because the Postal Service did not track specific initiatives' progress back to the projected savings they determined under each P&L category in the DFA plan projections. Instead, the Postal Service tracks its DFA initiatives to its annual IFP, which provides projections and targets for the next fiscal year. In FY 2023, the IFP was aligned to the strategic objectives but not the projections of the DFA plan. As we previously reported[20] in July 2022, as the Postal Service implements and revises its DFA plan, it is important to continue to assess its initiatives, monitor progress toward implementation, ensure organizational coordination, and evaluate results.

Additionally, we reviewed Postal Service communications released in FYs 2022 and 2023 (see full listing of communications in Appendix B) to determine if we could identify tracking or measurement of initiatives' progress. We found that none of the communications provided updates on the financial outcomes of all the active initiatives, and when included in Postal Service communications, only select initiatives were discussed.

Postal Service management stated that the DFA plan is a living plan, and initiatives have evolved due to changing circumstances and evolving market conditions. Initiatives are developed annually to align with the strategic objectives of the DFA plan and as operational opportunities arise. Management monitors the actual business impact of initiative outcomes, not how the outcomes are compared against the projections in the DFA plan.

While conditions have changed significantly since the development of the DFA plan, strategic plans can change over time, and it is appropriate for management to continuously update and refine plans. In compliance with the Government Performance and Results Act of 1993, the Postal Service stated it will release an update to the DFA plan in September 2024. This updated DFA plan provides an opportunity for the Postal Service to comprehensively update its financial projections, link initiatives' financial outcomes to the DFA plan, and communicate progress of initiatives and the initiatives' impact on DFA strategies and goals. Timely updates and adequate communication of changes to the DFA plan and initiatives' outcomes, enables transparency and stakeholders' confidence in the DFA plan's potential success.

Recommendation #1

We recommend the **Senior Vice President, Finance and Strategy**, update and communicate Delivering for America Plan financial projections based on current conditions and environment.

Recommendation #2

We recommend the **Senior Vice President, Finance and Strategy**, develop a plan to track, measure, and communicate progress on initiatives that result from the Delivering for America Plan.

20 *Assumptions and Metrics Underlying the Delivering for America 10-Year Plan* (Report Number 21-224-R22, dated July 2022).

Postal Service Response

Management agreed with recommendation 1 and generally agreed with recommendation 2. In a subsequent communication, management generally agreed with our finding but believes while current DFA plan projections are no longer relevant to the current environment, they are still relevant as management reassesses projections.

Regarding recommendation 1, management stated that by law, the Postal Service is directed to develop a strategic plan that covers at least five years and is updated and revised at least every three years. Consistent with this statutory obligation, the Postal Service has a goal to develop and release an updated DFA plan by the end of this fiscal year. Further, the Postmaster General has already laid out a rough framework for this update in his remarks to Congress and the Board of Governors.

Regarding recommendation 2, management stated they already have a system to track initiatives tied to each year's IFP. Management stated they cannot entirely predict the future financial, legislative, and operational conditions with which they will need to contend, so therefore, it is important that the DFA be a living plan. The initiatives management tracks support the goals of the DFA and are based on the opportunities and constraints that are faced in any given year. Management will articulate a plan as to how they track, measure, and communicate progress on initiatives.

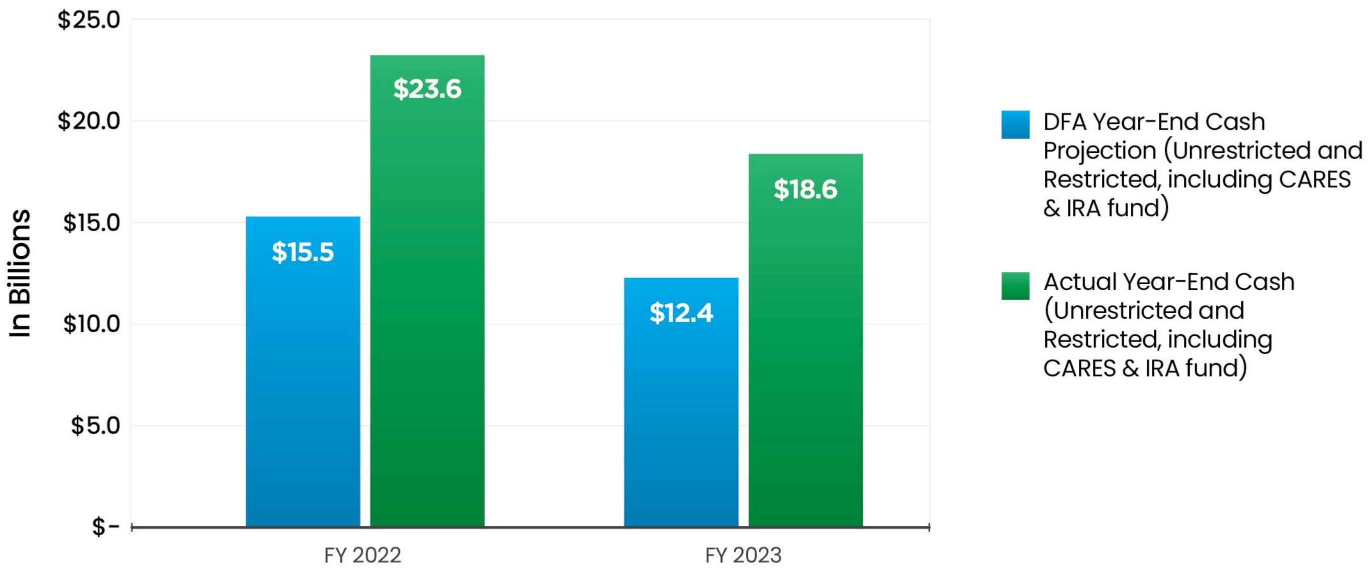
OIG Evaluation

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

Looking Forward

FYs 2022 and 2023 marked a $950 million operating loss and a $6.5 billion net loss, respectively, for the Postal Service. The Postal Service ended FYs 2022 and 2023 with more cash than projected due to higher cash generated from operating activities in those years, as seen in Figure 8.

Figure 8. DFA Plan Projected Cash Compared to Actual Year-End Cash for FY 2022 and FY 2023[21]



Source: OIG analysis of Postal Service Form 10-K and Integrated Financial Plans.

As of the end of FY 2023, the Postal Service has spent $6.7 billion and committed $12.4 billion out of the $40 billion in capital spending planned for in the DFA. The Postal Service is required by law and contractual agreement with its unions to participate in its two retirement funds, CSRS, FERS and its retiree health benefit fund the PSRHBF. The Postal Service has not paid $13.7 billion in outstanding liabilities to CSRS fund or $8.8 billion to FERS and has stated that its liquidity remains insufficient to pay all obligations, to make capital investments necessary for continuity of operations, and to prepare for unexpected contingencies. Additionally, the Postal Service also does not have control over the investment of its retirement funds, which by law are solely invested in U.S. Treasury bonds. This means that the Postal Service cannot diversify its investments into other assets that may see a higher rate of return and mitigate the impacts of inflation over the long term.[22]

Currently, the PSRHBF is paying and will continue to pay retiree premiums until the fund is exhausted. Once exhausted,[23] the Postal Service will need to return to a pay-as-you-go methodology for retiree health benefit premium and top-up payments[24] to the PSRHBF are required to begin as soon as 2026. These current and upcoming obligations put further pressure on the Postal Service to achieve financial stability and maintain the liquidity needed to finish its planned $40 billion in DFA capital spending. The Postal Service needs to be transparent with future years' projections and plan initiatives, so that stakeholders can understand goals and progress made.

21 Actual year-end cash is cash minus $3 billion in debt borrowed from the Federal Financing Bank under the Department of Treasury in FY 2023.
22 *Postal Retirement Funds in Perspective: Historical Evolution and Ongoing Challenges* (RISC-WP-24-002, January 2024). Additionally, please refer to this report for additional information on the Postal Service's constraints and obligations related to its retirement funds and retiree health benefit obligations.
23 The PSRHBF is projected to be exhausted in FY 2031.
24 The difference between annuitant premiums and net claims costs, should premium payments exceed the claims costs.

Appendices

Appendix A: Additional Information

Scope and Methodology

The scope of the audit included the financial performance of the Postal Service for FYs 2022 and 2023 in relation to its DFA plan's financial projections and performance.

To accomplish our objective, we:

- Interviewed Postal Service officials to gain an understanding of the DFA scenarios and projections, including how projections were developed and compared to actual results, to determine the Postal Service's rationale for its methods of building the projections and for selecting the inputs, such as initiatives, estimates, and other assumptions.
- Identified P&L line items and projections presented in the DFA plan; and conducted quantitative assessments of the line items to identify materiality and variances between projections and actuals and studied the variances.
- Reviewed spreadsheets that supported P&L line items to determine factors to the variances and potential causes.
- Identified additional financial data sources to evaluate the Postal Service's assumptions and projections, including industry benchmarking data and government official data.
- Validated and understood how the DFA P&L Statement and Cash Flow statements were built through reviewing the methods the Postal Service employed, identified variances, validated Postal Service-provided causes, and identified additional causes for the variances.
- Identified effects and impacts regarding how DFA projections and assumptions would need to be updated.

We conducted this performance audit from November 2023 through June 2024 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 objectives. We discussed our observations and conclusions with management on May 30, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the internal control structure over the development of the DFA plan and projections to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective: control environment, risk assessment, control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we did identify internal control deficiencies related to the components that were significant within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of reports and data by tracing variance data to projection workbooks, the DFA and audited Form 10-Ks, and projection data to base projections; and by recalculating how the initiative savings were added to calculate the DFA plan projections. 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
Assumptions and Metrics Underlying the Delivering for America 10-Year Plan.	Evaluate the Plan to determine if the underlying assumptions and projections were supported and whether metrics were established and reasonable.	21-224-R22	7/6/2022	None

Appendix B: Additional Communication Analysis

Figure 9. DFA plan Updates Through Postal Service Communications

Postal Service Communication	The DFA Plan	A DFA Plan Strategy	Financial Outcomes of Select Initiatives from the DFA Plan
The DFA Website, about.usps.com/what/strategic-plans/delivering-for-america	✓	✓	✗
DFA Progress Reports (FY 2022 and FY 2023)	✓	✓	✓
Annual Report to Congress (FY 2022 and FY 2023)	✓	✓	✗
Semiannual Reports to the Postal Regulatory Commission, President, and Congress to comply with Section 207 of the Postal Reform Act (FY 2022 and FY 2023)	✓	✓	✓
DFA Questions posted to the Postal Regulatory Commission	✓	✓	✓
Form 10-K (FY 2022 and FY 2023)	✓	✗	✗
Form 10-Q (All Quarters in FY 2022 and FY 2023)	✓	✗	✗
Board of Governors' Open Sessions FY 2022	✓	✓	✓
Board of Governors' Open Sessions FY 2023	✓	✓	✗
Integrated Financial Plan FY 2024	✗	✗	✗
Integrated Financial Plan FY 2023	✓	✓	✗
Integrated Financial Plan FY 2022	✓	✓	✓

Source: OIG review and analysis of Postal Service communications.

Appendix C: Management's Comments

LUKE T. GROSSMANN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

UNITED STATES
POSTAL SERVICE

June 17, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: *State of U.S. Postal Service Financial Condition (23-167)*

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *State of U.S. Postal Service Financial Condition.*

More than three years have passed since the development of the Delivering for America (DFA) plan and more than two years have passed since the passage of the *Postal Service Reform Act of 2022* (PSRA). In that time, we have:

- Delivered COVID test kits throughout our country in response to a national emergency.
- Worked with the executive branch to integrate our retiree health benefits plans with Medicare, as mandated by the PSRA, which will save the Postal Service, its annuitants and its employees billions of dollars.
- Generated revenue well in excess of our plan by utilizing the additional pricing authority granted by the Postal Regulatory Commission and leveraging our network to create new products.
- Reduced costs and our carbon footprint by transitioning more mail and packages from the air network to our more efficient surface network.
- Begun transforming our legacy processing network into a streamlined, efficient system, and activated Regional Processing and Distribution Centers and Sorting and Delivery Centers in a number of locations.
- Begun the electrification and modernization of our vehicle fleet.
- Reduced work hours and transportation cost and reduced a $160 billion projected loss from 2021 to 2030 by more than half.

These improvements have occurred despite record inflation. As the OIG notes in their report, this inflation was some of the highest in decades and well above what was expected at the time the DFA was published. Overall, inflation negatively impacted our income by about $8 billion from FY 2021 to FY 2023.

In the wake of our poor service performance during the December 2020 peak season, we invested heavily in our operations and our workforce to stabilize service. We worked with our unions to create more career positions, resulting in a more stable and effective workforce. We also invested in new, optimally-placed annexes to allow for more efficient product processing and transport across the country.

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The DFA plan, and the actions we are now taking to remedy the untenable financial, organizational, and operational condition of the Postal Service before the DFA, are the only strategies put forward that holistically address the legacy ailments within the constraints that exist and put us on the path to long-term viability. These are actions all should support – mailers, shippers, our workforce, our unions, and Congress – because they will enable the financial and operational survival of the Postal Service.

We remain firm in our position that the status quo is not an option if we want a financially self-sufficient Postal Service that provides the high-quality service expected of us far into the future. In the end, we will not only produce the operating and financial successes to which we aspire, but we will also advance the institutional culture of the organization, enabling us to engage in our future in a much more logical, organized, confident and successful manner.

Moreover, the Postal Service has been, and will continue to be, very transparent regarding the implementation of the DFA Plan, meeting and in fact exceeding our legal obligations in this regard. The Postal Service has published annual progress reports that have comprehensively explained our progress in implementing the DFA since it was published. In addition, and as noted below, we are currently preparing an updated DFA plan consistent with our statutory obligations.

Below are our comments on the two recommendations made by OIG in their report.

Recommendation [1]:
We recommend the **Senior Vice President, Finance and Strategy,** update and communicate Delivering for America Plan financial projections based on current conditions and environment.

Management Response/Action Plan:
Management **agrees** with this recommendation.

By law, the Postal Service is directed to develop a strategic plan that covers at least five years and is updated and revised at least every three years. 39 U.S.C. § 2802(b). Consistent with this statutory obligation, our goal is to develop and release an updated DFA plan by the end of this fiscal year. The Postmaster General has already laid out a rough framework for this update in his remarks to Congress and to our Board of Governors. We therefore agree with this recommendation.

Target Implementation Date: 12/31/2024

Responsible Official:
Senior Vice President, Finance and Strategy

Recommendation [2]:
We recommend the **Senior Vice President, Finance and Strategy,** develop a plan to track, measure, and communicate progress on initiatives that result from the Delivering for America Plan.

Management Response/Action Plan:
Management generally **agrees** with this recommendation.

The Postal Service already has a system to track initiatives tied to each year's Integrated Financial Plan. We cannot entirely predict the future financial, legislative, and operational conditions with which we will need to contend. It is therefore important that the DFA be a living plan. The initiatives we track support the goals of the DFA and are based on the opportunities and constraints that we face in any given year. We therefore generally agree with this recommendation and will articulate a plan as to how we track, measure, and communicate progress on our initiatives.

Target Implementation Date: June 15, 2025

Responsible Official:
Senior Vice President, Finance and Strategy

E-SIGNED by LUKE.T GROSSMANN
on 2024-06-17 15:34:40 EDT

Luke Grossmann
Senior Vice President, Financial and Strategy

cc: *Corporate Audit & Response Management*

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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