



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

---

# **Postal Service Five-Year Financial Plan**

## **Management Advisory**

August 18, 2011

---

**Report Number FT-MA-11-004**



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

# HIGHLIGHTS

**IMPACT ON:**

The U.S. Postal Service's April 2011 Five-Year Financial Plan to overcome obstacles and return to profitability.

**WHY THE OIG DID THE REVIEW:**

Our objective was to evaluate the reasonableness of assumptions used to create the Five-Year Financial Plan.

**WHAT THE OIG FOUND:**

Overall, the assumptions used in the Postal Service's Five-Year Financial Plan are reasonable. However, we did note some areas to consider for future plan updates: (1) Overall revenue has fallen below expected levels projected in the plan; however, although noted, declining revenue trends were not incorporated into the numerical projections of the plan. (2) The plan includes various marketing initiatives to generate future additional revenue. Management revised their performance measurement methodology for these initiatives. These revisions, together with recent volume and revenue trends and the recent organizational re-design, could affect future revenue projections from these marketing initiatives. (3) At the time of our data request, personnel

August 18, 2011

## Postal Service Five-Year Financial Plan

Report Number FT-MA-11-004

could not support savings from the closure of Post Offices and were not aware of the methodology or assumptions used to calculate the estimate. Therefore, the Postal Service had to prepare a revised estimate of the savings. (4) Management included the Postal Service's estimated savings related to implementation of 5-day delivery and did not consider the impact of its difference with the Postal Regulatory Commission's estimate. (5) The OIG has identified other cost-saving opportunities with significant potential monetary impact that were not considered in the plan.

**WHAT THE OIG RECOMMENDED:**

We are providing this information to assist the Postal Service in improving future updates to its Five-Year Financial Plan. As a result, we are not making any recommendations.

**WHAT MANAGEMENT SAID:**

Since we are not making any recommendations, management chose not to formally respond to this report.

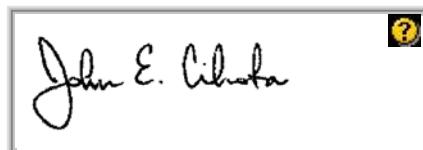
*[Link to review the entire report](#)*



OFFICE OF  
INSPECTOR  
GENERAL  
UNITED STATES POSTAL SERVICE

August 18, 2011

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



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

**SUBJECT:** Management Advisory – Postal Service  
Five-Year Financial Plan (Report Number FT-MA-11-004)

This report presents the results of our review of the U.S. Postal Service's Five-Year Financial Plan (Project Number 11BM001FT002).

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

Attachments

cc: Patrick R. Donahoe  
Joseph Corbett  
Cynthia Sanchez-Hernand  
Anthony E. Mazzei  
Corporate Audit and Response Management

## **TABLE OF CONTENTS**

Introduction .....	1
Conclusion .....	1
Postal Service's Five-Year Financial Plan.....	1
Recommendation .....	3
Appendix A: Additional Information .....	4
Background .....	4
Objective, Scope, and Methodology .....	4
Prior Audit Coverage .....	5

## Introduction

This report presents the results of our review of the U.S. Postal Service's Five-Year Financial Plan, dated April 2011 (Project Number 11BM001FT002).<sup>1</sup> This review was conducted at the request of Postal Service management. The objective of our review was to evaluate the reasonableness of assumptions used to create the plan. The plan's components include Management's Plan, Additional Management Initiatives, and Legislative Changes. Management drafted the Five-Year Financial Plan in response to the Postal Service's recent economic hardship. This review addresses financial risk. See [Appendix A](#) for additional information.

The Postal Service continues to face considerable financial challenges due to the recent economic recession, the diversion of letter mail to electronic alternatives, and the legislative requirement to fund future postal retiree health benefits. In June of 2011, management suspended employer contributions to the Office of Personnel Management for the defined benefit portion of the Federal Employees Retiree System funding requirement. Management also anticipates it will have insufficient funds to meet its prefunding requirements for retiree health benefits due September 30, 2011. It also anticipates having a critically low level of cash and liquidity by the middle of October 2011, when it is required to make a payment on its workers' compensation obligation. Management developed this Five-Year Financial Plan to illustrate how the Postal Service proposes to overcome these obstacles and return it to profitability.

## Conclusion

Overall, the assumptions used in the Postal Service's Five-Year Financial Plan are reasonable. However, we did note some areas the Postal Service should consider when updating future plans.

## Postal Service's Five-Year Financial Plan

Based on our review of the Postal Service's Five-Year Financial Plan, we believe the information presented was generally reasonable. Management presented the Plan to congress in support of its March 2, 2011, testimony presented to the Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy of the Committee on Oversight and Government Reform, U.S. House of Representatives. Should the Postal Service use this or a similar plan in the future, we noted the following items for consideration.

- Overall revenue has fallen below expected levels projected in the plan. Specifically, fiscal year (FY) 2011 revenue through the second quarter was \$941 million (or 3 percent) less compared to the same period last year; and \$664 million (or 2 percent) below forecasted revenue contained in the Five-Year Financial Plan.

---

<sup>1</sup> The official name of the document is *USPS Five-Year Financial Plan*. It is hereafter referred to as the Five-Year Financial Plan or the Plan. This Plan is one of several the Postal Service prepared during FY 2011 and includes its own set of assumptions.

Management anticipated a revenue shortfall and included a statement in the narrative section of the Plan, but did not incorporate recent declining revenue trends into the numerical projections of the Plan. Management informed us that the revenue projections they used were designed to be more optimistic than recent trends. We believe management should consider incorporating declining revenue trends into future updates of the Plan or, as appropriate, consider including information such as the achievability of the projections to add perspective to the readers.

- The Plan includes various marketing initiatives to generate future additional revenue. During the course of our review, management revised their methodology to measure performance from these initiatives against their respective target revenue goals. Management should consider the potential effect of these revised measurement methods on future revenue projections from these marketing initiatives. Additionally, similar to updating revenue trends, future target revenue plans should reflect updated volume and revenue trends and the impact of the recent organizational re-design, as these recent developments may have a significant impact on the outlook of revenue targets.
- At the time of our data request, personnel could not support the \$1.551 billion savings from the closure of Post Offices and were not aware of the methodology or assumptions used to calculate the estimate. Therefore, management prepared a revised estimate of \$1.485 billion. Management should maintain adequate supporting documentation for the Plan and other critical estimates to ensure credibility and avoid expending valuable time and resources to re-create.
- Management included \$3.0 billion in annual savings based on implementing 5-day delivery, beginning in year 2 of execution. The Postal Regulatory Commission (PRC) estimated \$1.7 billion will be achieved beginning in year 3. The Postal Service and the PRC used different methodologies to reach their estimated savings and both parties presented extensive analysis in support of their respective calculations. Management did not consider the impact of the \$1.3 billion difference in the Plan. They stated their plan should include their estimates and did not believe the difference would significantly alter the result. We believe discussion on the impact of the difference could provide additional perspective to stakeholders.
- The U.S. Postal Service Office of Inspector General (OIG) has identified cost-saving opportunities with significant potential monetary impact in recent audit reports. Management should consider incorporating these and other future cost-saving opportunities identified by the OIG or other organizations (for example, the Government Accountability Office) into future updates of the plan.

**Recommendation**

We are providing this information to assist the Postal Service in improving future updates to the Five-Year Financial Plan. As a result, we are not making any recommendations.

## Appendix A: Additional Information

### Background

In recent years, the Postal Service has faced unprecedented challenges. It has experienced a substantial reduction in mail volume resulting from a major recession the nation recently confronted and from diversion of letter mail to electronic alternatives. The effect of these two conditions has been a substantial drop in revenue, resulting in the Postal Service facing dire financial circumstances.

The Postal Service prepared an action plan titled the *USPS Five-Year Financial Plan – April 2011* to illustrate the current financial situation and how future activities may impact the Postal Service's financial condition. The Five-Year Financial Plan includes:

- A management plan with actions underway or that management can take to increase revenue and reduce expenses.
- Additional management initiatives addressing cost reductions that are within management's authority but might require support from others, including labor organizations and other stakeholders.
- Legislative changes requiring revisions to statutes to reduce costs and recover overpayments related to employee retirement.

Management based the Five-Year Financial Plan on its 2011 *Integrated Financial Plan*<sup>2</sup> released in November 2010. The Five-Year Financial Plan incorporates changes in the economic outlook and reflects changes in assumptions since March 2010,<sup>3</sup> primarily in areas where further management actions or assumed negotiated settlements affected the 5-year outlook. Nonetheless, the Five-Year Financial Plan recognizes the risks of uncertainty associated with forecasting.

Management presented the Five-Year Financial Plan to congress in support of its March 2, 2011, testimony presented to the Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy of the Committee on Oversight and Government Reform, U.S. House of Representatives.

### Objective, Scope, and Methodology

The objective of our review was to evaluate the reasonableness of assumptions used to create the Five-Year Financial Plan. To address our objective, we:

- Reviewed baseline projections for revenue and expenses, revenue growth initiatives, and cost-reduction initiatives.

---

<sup>2</sup> The *Integrated Financial Plan* consists of the operating, capital, and financing plans for FY 2011.

<sup>3</sup> On March 2, 2010, the Postal Service released its Action Plan for the Future. With an emphasis on the plans to be implemented during the next 5 years, management refreshed the financial analysis of the 2010 Action Plan and completed their 2011 Five-Year Financial Plan.

- Obtained explanations and support for the Five-Year Financial Plan from management.
- Evaluated related documentation to include the PRC's *Advisory Opinion on Elimination of Saturday Delivery* and the Postal Service's response to that opinion.
- Assessed the reasonableness of retirement benefit amounts in the Five-Year Financial Plan's requested legislative changes.
- Assessed the reasonableness of amounts presented in the management plan and additional management initiatives.
- Evaluated additional potential legislative changes to determine whether they merit inclusion in the Five-Year Financial Plan.

We conducted this review from April through August 2011 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 August 2, 2011. We did not rely on computer-generated data.

#### Prior Audit Coverage

The OIG reported on a study<sup>4</sup> by the George Mason University School of Public Policy (GMU) that examined the financial sustainability of the Postal Service under various volume scenarios. GMU's study concluded the Postal Service would need to raise prices above the rate of inflation to achieve breakeven at 150 billion, 125 billion, and 100 billion pieces. Down to 100 billion, the price increase needed to break even would raise prices to a level that is substantially lower than the highest prices observed in developed countries. Therefore, the Postal Service would be financially sustainable down to 100 billion pieces. The criterion for sustainability does not state whether the Postal Service would be sustainable below 100 billion pieces. Further, the study concluded that assuming volume continues to decline to the levels examined, the current Postal Accountability and Enhancement Act of 2006 price caps will not permit the Postal Service to remain financially sustainable.

---

<sup>4</sup> *Implications of Declining Mail Volumes for the Financial Sustainability of the Postal Service* (Report Number RARC-WP-10-006, dated September 29, 2010).