OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Revenue Forgone

Audit Report

Report Number
FT-AR-16-006

May 3, 2016

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

Background

When Congress put the U.S. Postal Service on a self-sustaining basis in 1971, it continued to subsidize the mailing costs of such groups as the blind, non-profit organizations, local newspapers, and educational material publishers by providing an appropriation to the Postal Service to cover the revenues that were given up, or “forgone,” in charging below-cost rates to these groups.

The Revenue Forgone Reform Act of 1993 (Act) eliminated appropriations to support reduced rates for non-profits, transferring costs to other mailers. The Act retained free postage for the blind and overseas absentee balloting. The Act required annual appropriations of $29 million from fiscal years (FY) 1994 through 2035, totaling $1.218 billion, for revenue forgone, deferring payments to the Postal Service for services it provided in FYs 1991 through 1993 and during the phase-in period through FY 1998 for non-profits and other mailers impacted by the Act.

The U.S. Postal Service Office of Inspector General recently issued a report discussing the history of revenue forgone and the challenges with the appropriations process.

Our objective was to examine revenue forgone for discounted and free public services mandated by the Act.

What The OIG Found

The Act deferred reimbursement in full to the Postal Service until FY 2035 and provided no provision for interest on the $1.218 billion in revenue forgone related to mailings from selected organizations. As of FY 2016, the Postal Service was reimbursed $562 million. However, the Postal Service did not receive the full annual $29 million appropriation in 7 FYs from 2000 to 2011 or any of the $29 million annual appropriation in FYs 2012 through 2014, totaling $105 million.

We believe revenue foregone should be treated as a traditional loan with interest, similar to the process the Postal Service follows for its borrowings. The Postal Service has borrowed $15 billion from the U.S. Department of the Treasury (Treasury) and is paying interest on the outstanding amount. Using the same interest rates charged to the Postal Service on 1-year Treasury loans, the most conservative rate, the $1.218 billion, less appropriations made through FY 2016, would be $1.6 billion as of FY 2016. Due to the uncertainty of the annual appropriations since FY 2000, we suggest full repayment be made, eliminating the need for future appropriations.

The Postal Service was entitled to receive appropriations as a result of the Act. The $1.6 billion impact described is not considered a loss to the Postal Service. The Postal Service participates in the annual appropriations process but does not control annual appropriated amounts and does not have the authority to change legislation. Therefore, management must work with Congress to implement this change to prevent future issues.

What The OIG Recommended

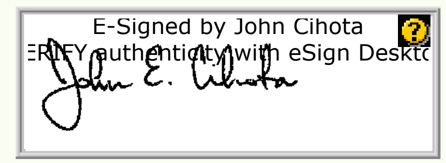
We recommended management pursue legislative changes that would allow $1.6 billion – the remaining amount owed plus interest through FY 2016 – to be applied against the Postal Service's outstanding loans from the Treasury.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 3, 2016

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



FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance, Pricing, and Investments

SUBJECT: Audit Report–Revenue Forgone
(Report Number FT-AR-16-006)

This report presents the results of our audit of Revenue Forgone (Project Number 16BR005FT000).

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

Attachment

cc: Corporate and Audit Response Management

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Findings

The Revenue Forgone Reform Act of 1993 required annual appropriations of $29 million from FY 1994 through FY 2035, totaling $1.218 billion.

We believe revenue foregone should be treated as a traditional loan with interest, similar to the process the Postal Service follows for its borrowing.

Introduction

This report presents the results of our self-initiated audit of Revenue Forgone (Project Number 16BR005FT000). Our objective was to examine revenue forgone for discounted and free public services mandated by Congress. See Appendix A for additional information about this review.

When Congress put the U.S. Postal Service on a self-sustaining basis in 1971,[1] it continued to subsidize the mailing costs of such groups as the blind, non-profit organizations, local newspapers, and publishers of educational material by providing an appropriation to the Postal Service to cover the revenues that were given up, or “forgone,” in charging below-cost rates for these services.

The Revenue Forgone Reform Act of 1993[2] (Act) eliminated appropriations to support reduced rates for non-profits, transferring the costs to other mailers. The Act continued to provide free postage only for the blind and for overseas absentee balloting materials. When the Act was passed, the Postal Service was still owed substantial amounts because appropriations did not cover the full cost of revenue forgone from fiscal years (FY) 1991 through 1993.[3] To reimburse the Postal Service for this shortfall and losses it would sustain during implementation of the Act, the Act required annual appropriations of $29 million from FY 1994 through FY 2035, totaling $1.218 billion.

Summary

The Act deferred reimbursement in full to the Postal Service until FY 2035 and provided no provision for interest on $1.218 billion in revenue forgone related to mailings from selected organizations. As of FY 2016, the Postal Service was reimbursed $562 million. However, the Postal Service did not receive the full annual $29 million appropriation in 7 FYs from 2000 to 2011 or any of the $29 million annual appropriation in FYs 2012 through 2014, totaling $105 million. Additionally, the Postal Service is still due $656 million in appropriations through FY 2035.[4]

We believe revenue foregone should be treated as a traditional loan with interest, similar to the process the Postal Service follows for its borrowing. The Postal Service has borrowed $15 billion from the U.S. Department of Treasury (Treasury) and is paying interest on the outstanding amount. Using the same interest rates charged to the Postal Service on 1-year Treasury loans, the $1.218 billion in revenue forgone, less appropriations made through FY 2016, would grow to about $1.6 billion as of FY 2016. We used the 1-year Treasury loan rate as it is the most conservative. Due to the uncertainty of the annual appropriations since FY 2000, we suggest full repayment be made, eliminating the need for future appropriations.

The Postal Service was entitled to receive appropriations as a result of the Act. The $1.6 billion impact described is not considered a loss to the Postal Service. The Postal Service participates in the annual appropriations process but does not control annual appropriated amounts and does not have the authority to change legislation. Therefore, management must work with Congress to implement this change to prevent future issues.

1 Postal Reorganization Act of 1970 (PRA); 39 U.S.C. § 101 et seq.
2 Pub. L. 103-123 (1993).
3 Postal Service would incur additional costs during the phase-in period through FY 1998 for non-profits and other mailers impacted by the Act.
4 Includes the $105 million in appropriations not made through FY 2016 plus $551 million due from FY 2017 through FY 2035.

The Postal Service did not receive the full amount in 7 FYs from 2000 to 2011 and received no appropriations for FYs 2012 through 2014, totaling $105 million.

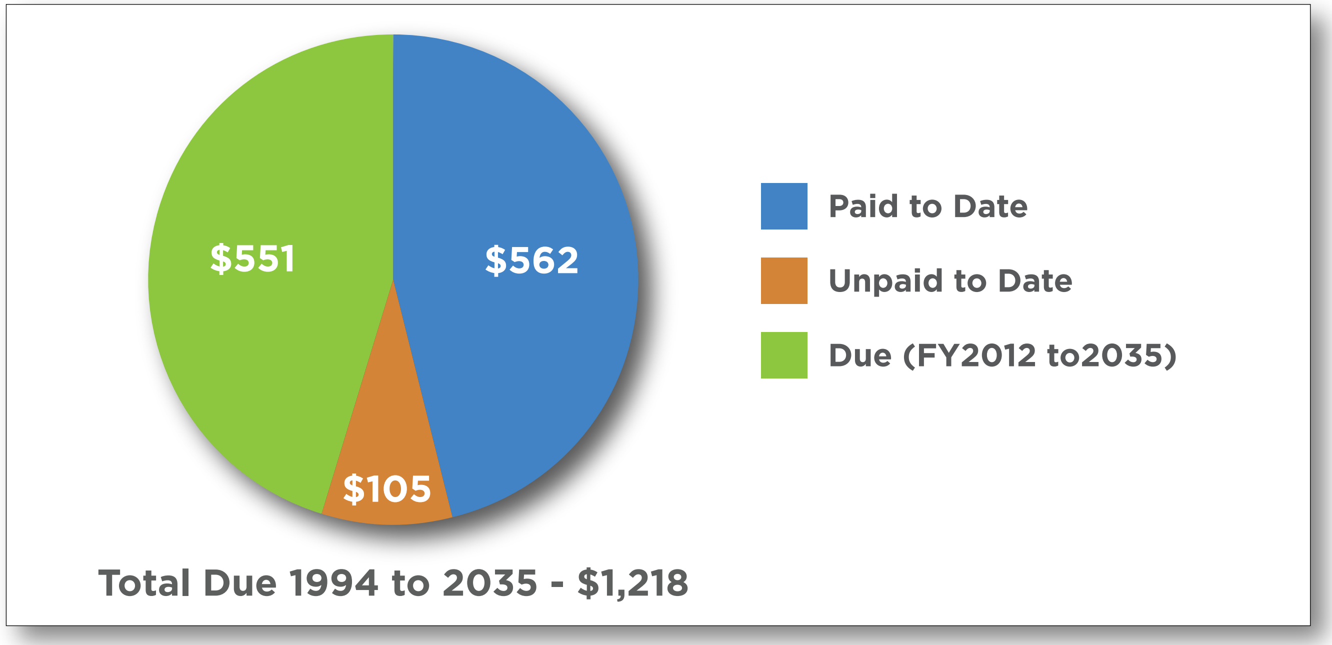
The Postal Service provided a 42-year interest-free loan to the Treasury.

Revenue Forgone Status

The Act deferred payments for services the Postal Service provided in the past for organizations such as the blind and non-profits. The Act required an annual appropriation of $29 million to the Postal Service each year for 42 years beginning in FY 1994, totaling $1.218 billion, for forgone revenue not paid in FYs 1991 through 1993 and for additional revenue forgone during the phase-in period.

As shown in Figure 1, the Postal Service has received $562 million in appropriations through FY 2016. The Postal Service did not receive the full amount in 7 FYs from 2000 to 2011[5] and received no appropriations for FYs 2012 through 2014, totaling $105 million.[6] See Appendix B for detailed appropriations paid from FYs 1994 to 2016. From FYs 2017 through 2035, the Postal Service is due a total of $551 million, resulting in a total amount yet to be appropriated to the Postal Service per the Act of $656 million.

Figure 1. Revenue Forgone Status (in millions)



Source: OIG analysis.

Interest Rates

The Act includes no provisions for interest on forgone revenue. In effect, the Postal Service provided a 42-year interest-free loan to the Treasury. At the same time, the Postal Service is paying interest on the $15 billion it borrowed from the Treasury for its operations and other needs. Also, the Postal Service is required by the Prompt Payment Act[7] to pay interest on its late payments. It is common in the lending industry to charge interest to cover the risk of a loan. Interest should be charged to mitigate the risk of loss in financial position.

5 FYs 2000, 2001, 2003 through 2006, and 2011.
6 Appropriations were received in FYs 2015 and 2016.
7 31 U.S.C. § 3902.

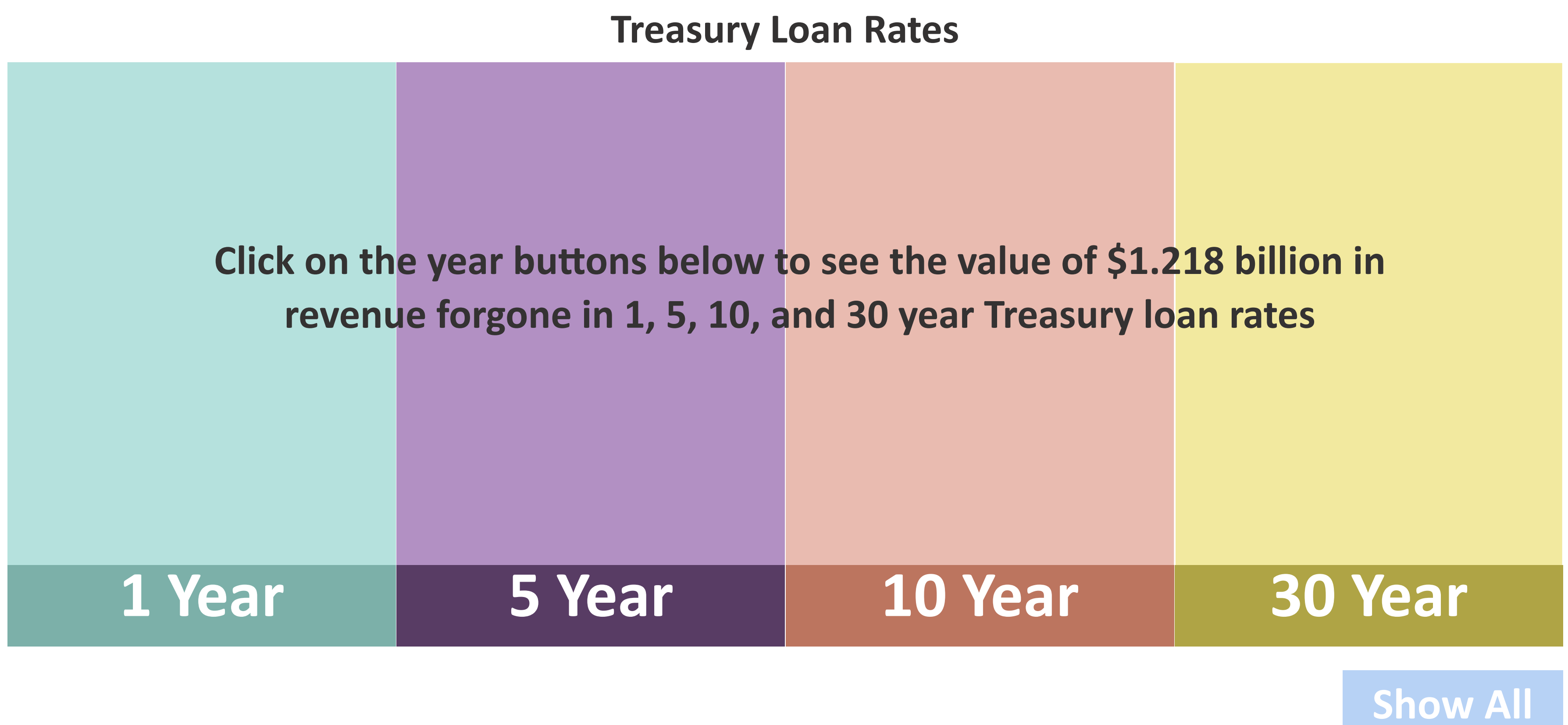
The Postal Service borrows from the Federal Financing Bank[8] at Treasury rates plus a 0.125 percent administrative fee (Treasury loan rate), depending on the payment terms and timeframe of the initial loan.[9] We identified 1-year, 5-year, 10-year, and 30-year Treasury rates ranging from 0.23 to 8.07 percent, including the administrative fee. See Appendix C for details.

The value of $1.218 billion in revenue forgone, less appropriations made through FY 2016, would have grown to about $1.6 billion as of FY 2016.

Calculations

Using the same interest rates charged to the Postal Service on 1-year Treasury loans, the value of $1.218 billion in revenue forgone, less appropriations made through FY 2016, would have grown to about $1.6 billion as of FY 2016. We selected the 1-year Treasury loan rate as it is the most conservative of the available rates. However, we also calculated the amount using 5-year, 10-year, and 30-year Treasury loan rates as shown in Table 1.

Table 1. Revenue Forgone Current Value



Source: OIG analysis and calculations.

Our calculation assumes that interest accumulated on the outstanding balance each year[10] at the 1-year Treasury loan rate for FYs 1994 through 2016. Instead of compounding interest daily, we applied the annual Treasury loan rate to the outstanding balance at the beginning of each fiscal year because the appropriation is only received once a year. We believe this methodology aligns with the expectation that the appropriation be paid in full during FY 2016, as opposed to 5, 10, or 30 years in the future. See Appendix C for details.

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8 The Federal Financing Bank was created to centralize, reduce the cost of, and efficiently manage federal borrowing.
9 The Postal Service pays interest on its outstanding loans to the Treasury at rates between 4.6 and 9.1 percent, depending on the loan.
10 As of October 1 of each fiscal year.

Due to the uncertainty of the annual appropriations since FY 2000, we suggest full repayment during FY 2016. This amount could be applied against the Postal Service's outstanding loans from the Treasury and would eliminate the need for future appropriations.

The U.S. Postal Service Office of Inspector General (OIG) recently issued a report[11] discussing the history of revenue forgone and the challenges with the appropriations process. Reduced or full appropriations were provided annually through FY 2011. However, no appropriations were made from FYs 2012 through 2014. While appropriations resumed in FYs 2015 and 2016, $105 million is past due, and there is always a risk that appropriations could stop again. One solution is to offset the remaining amount owed with interest against the Postal Service's current debt to the Treasury.

Postal Service management stated they do not consider revenue forgone a bad debt and that only three full appropriations[12] and one partial appropriation[13] have not been provided of the 23 due through FY 2016. In addition, they stated they do not have the legal right to offset the revenue forgone receivable with the debt owed to the Treasury.

11 *Is Revenue Forgone a Bad Debt?* (Report Number RARC-WP-16-004, dated February 22, 2016).
12 FY 2012 through FY 2014.
13 There were seven partial appropriations between FY 2000 through FY 2011; management did not mention six smaller partial appropriations ranging from $63,800 to $290,000.

Recommendation

We recommend the remaining amount owed plus interest, be applied against the U.S. Postal Service's outstanding loans from the Treasury.

We recommend the chief financial officer:

1. Pursue changes to the Revenue Forgone Reform Act of 1993 to allow the remaining amount owed plus interest, totaling about $1.6 billion, be applied against the U.S. Postal Service's outstanding loans from the U.S. Department of the Treasury.

Management's Comments

Management agreed with the recommendation. Management will request an amendment to legislation to be paid interest for each year there is an outstanding balance. Furthermore, management will request that the entire amount owed ($1.6 billion, including interest) be applied to the Postal Service's outstanding borrowings owed to the Treasury. The Postal Service will make these requests by September 1, 2016.

Management disagreed with the monetary impact and stated the Postal Service complied with all policies, procedures, agreements, requirements, and good business practices. Therefore, the monetary impact does not meet the definition of revenue loss. Management stated the appropriations committee exercised its authority to withhold appropriations to the Postal Service and required some appropriated amounts be returned under government-wide rescissions, both of which were outside management's control.

See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

Regarding monetary impact, we recognize that management complied with all policies, procedures, agreements, requirements, and good business practices, and does not control annual appropriated amounts; however, the OIG's definition does not specify the Postal Service must be the cause of revenue loss. Accordingly, we believe the amount appropriately meets the requirements of the definition.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

The PRA, as amended, established the Postal Service as an independent entity with a mandate to operate as a business and cover its expenses through postal revenues. Prior to the PRA, the Post Office was an executive branch department, and Congress was heavily involved in such basic decisions as mail classes, postage rates, and annual wage increases. Postage rates were set by law, and because raising them was politically difficult, the substantial annual postal deficit was covered by appropriated funds.

When Congress put the Postal Service on a self-sustaining basis in 1971, it continued to subsidize the mailing costs of such groups as the blind, non-profit organizations, local newspapers, and publishers of educational material by providing an appropriation to the Postal Service to cover the revenues that were given up, or "forgone," in charging below-cost rates for these services.

The Act eliminated appropriations to support reduced rates for non-profits, transferring the costs to other mailers. The Act retained free postage only for the blind and for overseas absentee balloting materials. The Postal Service continued to provide services during FYs 1991 through 1993, even though it was still owed substantial amounts, because prior appropriations did not cover the full cost of revenue forgone. Also, the Postal Service incurred additional costs during the period when reduced rates for nonprofits were being phased out. The Act required an appropriation be made to the Postal Service of $29 million each year for 42 years[14] to pay off the $1.218 billion in forgone revenue.

Objective,Scope, and Methodology

Our objective was to examine revenue forgone for discounted and free public services mandated by Congress. To achieve our objective, we:

- Calculated the revenue forgone to include interest using the 1-year, 5-year, 10-year and 30-year Treasury loan rates from 1994 to 2016.
- Reviewed the Act and other documents related to revenue forgone.
- Reviewed the Prompt Payment Act.
- Reviewed OIG report entitled *Is Revenue Forgone a Bad Debt*? (Report Number RARC-WP-16-004, dated February 22, 2016).
- Assessed whether the administration fee should be included yearly when calculating the revenue forgone.
- Verified the revenue forgone calculations.

We conducted this audit from February through May 2016 in accordance with generally accepted government auditing standards except for the level of testing of internal controls. 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 finding and conclusion based on our audit objective. We discussed our observations and conclusions with management on April 6, 2016, and included their comments where appropriate.

14 Beginning in FY 1994 and ending in FY 2035.

We did not audit the effectiveness of the internal controls over revenue forgone. Our objective was to assess the cost of revenue forgone not to provide assurance on the level of internal controls surrounding it. This did not significantly affect our audit conclusions. We also did not assess the reliability of any computer-generated data for the purposes of this report. The scope of this audit was to review the cost of revenue forgone and calculate the amount the Postal Service would have received had interest been included. We did not plan to consider or report on the reliability of the data summarized from previous OIG reports or published in Treasury information.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Is Revenue Forgone a Bad Debt?	RARC-WP-16-004	2/22/2016	$0

Report Results: Congress agreed to pay for charitable and nonprofit mail subsidies. A 1993 law provided for paying the cumulative $1.218 billion over 42 years, at $29 million per year, without interest. However, starting in FY 2011, appropriations were reduced or skipped for 4 years. While appropriations have resumed, $105 million is unpaid, and there is always a risk that appropriations could stop again. If appropriations stop permanently, the Postal Service will have to declare a bad debt on its bottom line. One solution is to offset the remaining amount owed with interest, $1.6 billion, against the Postal Service's current debt to Treasury. Postal Service management reaffirmed their position that they do not consider revenue forgone a bad debt and noted they received two consecutive $29 million appropriations for FYs 2015 and 2016. They also stated they do not have the legal right to offset the revenue forgone receivable with the debt owed to Treasury.

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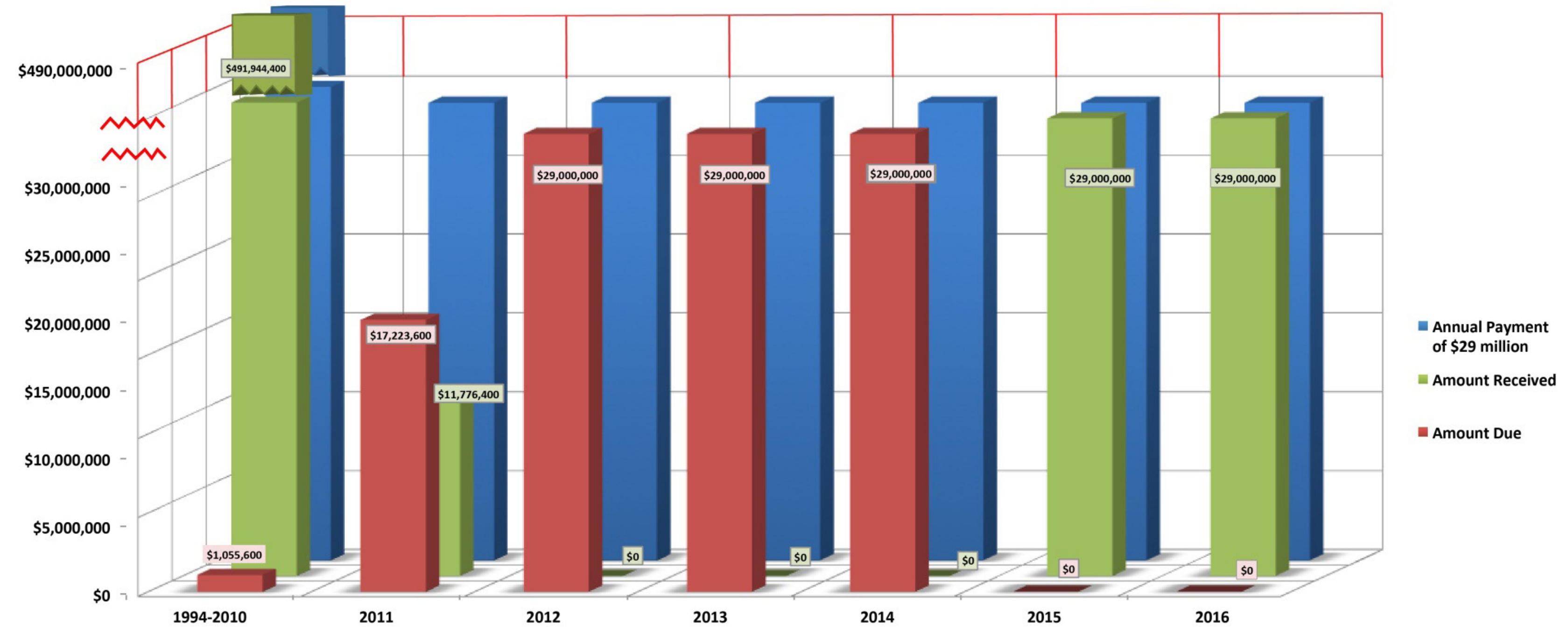
Appendix B: Revenue Forgone Appropriations Through FY 2016



Source: *Is Revenue Forgone a Bad Debt?* (Report Number RARC-WP-16-004, dated February 22, 2016).

Appendix C: Calculations

1-year Treasury rate (includes administrative fee of 0.125 percent)

FYs	Amount Unpaid	Annual Appropriation	Interest Rate	Loan Balance	Loan Balance (Annual-Missed Appropriation)	Cumulative Interest (Loan Balance x Interest Rate)	Current Balance (Loan Balance + Cumulative Interest)
1994		$29,000,000	3.52%	$1,218,000,000	$1,189,000,000	$41,793,350	$1,230,793,350
1995		$29,000,000	6.24%	$1,230,793,350	$1,201,793,350	$74,931,815	$1,276,725,165
1996		$29,000,000	5.72%	$1,276,725,165	$1,247,725,165	$71,307,493	$1,319,032,659
1997		$29,000,000	5.68%	$1,319,032,659	$1,290,032,659	$73,209,353	$1,363,242,012
1998		$29,000,000	5.59%	$1,363,242,012	$1,334,242,012	$74,517,416	$1,408,759,428
1999		$29,000,000	4.25%	$1,408,759,428	$1,379,759,428	$58,570,788	$1,438,330,216
2000	$110,200	$29,000,000	5.56%	$1,438,330,216	$1,409,440,416	$78,294,415	$1,487,734,831
2001	$63,800	$29,000,000	6.14%	$1,487,734,831	$1,458,798,631	$89,497,296	$1,548,295,927
2002		$29,000,000	2.46%	$1,548,295,927	$1,519,295,927	$37,298,715	$1,556,594,642
2003	$188,500	$29,000,000	1.78%	$1,556,594,642	$1,527,783,142	$27,118,151	$1,554,901,293
2004	$171,100	$29,000,000	1.38%	$1,554,901,293	$1,526,072,393	$20,983,495	$1,547,055,888
2005	$232,000	$29,000,000	2.36%	$1,547,055,888	$1,518,287,888	$35,755,680	$1,554,043,568
2006	$290,000	$29,000,000	4.31%	$1,554,043,568	$1,525,333,568	$65,665,610	$1,590,999,178
2007		$29,000,000	5.14%	$1,590,999,178	$1,561,999,178	$80,208,658	$1,642,207,836
2008		$29,000,000	4.23%	$1,642,207,836	$1,613,207,836	$68,158,031	$1,681,365,867
2009		$29,000,000	1.55%	$1,681,365,867	$1,652,365,867	$25,529,053	$1,677,894,920
2010		$29,000,000	0.50%	$1,677,894,920	$1,648,894,920	$8,162,030	$1,657,056,950
2011	$17,223,600	$29,000,000	0.36%	$1,657,056,950	$1,645,280,550	$5,840,746	$1,651,121,296
2012	$29,000,000	$29,000,000	0.24%	$1,651,121,296	$1,651,121,296	$3,880,135	$1,655,001,431
2013	$29,000,000	$29,000,000	0.31%	$1,655,001,431	$1,655,001,431	$5,047,754	$1,660,049,185
2014	$29,000,000	$29,000,000	0.25%	$1,660,049,185	$1,660,049,185	$4,067,121	$1,664,116,305
2015		$29,000,000	0.23%	$1,664,116,305	$1,635,116,305	$3,679,012	$1,638,795,317
2016		$29,000,000	0.39%	$1,638,795,317	$1,609,795,317	$6,197,712	$1,615,993,029

Source: OIG Analysis.

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5-year Treasury rate (includes administrative fee of 0.125 percent)

FYs	Unpaid Amount	Annual Appropriation	Interest Rate	Loan Balance	Loan Balance (Annual-Missed Appropriation)	Cumulative Interest (Loan Balance x Interest Rate)	Current Balance (Loan Balance + Cumulative Interest)
1994		$29,000,000	4.84%	$1,218,000,000	$1,189,000,000	$57,488,150	$1,246,488,150
1995		$29,000,000	7.53%	$1,246,488,150	$1,217,488,150	$91,615,983	$1,309,104,133
1996		$29,000,000	5.99%	$1,309,104,133	$1,280,104,133	$76,614,232	$1,356,718,366
1997		$29,000,000	6.40%	$1,356,718,366	$1,327,718,366	$84,907,589	$1,412,625,955
1998		$29,000,000	6.06%	$1,412,625,955	$1,383,625,955	$83,778,552	$1,467,404,507
1999		$29,000,000	4.31%	$1,467,404,507	$1,438,404,507	$61,923,314	$1,500,327,821
2000	$110,200	$29,000,000	6.16%	$1,500,327,821	$1,471,438,021	$90,567,010	$1,562,005,031
2001	$63,800	$29,000,000	5.91%	$1,562,005,031	$1,533,068,831	$90,527,714	$1,623,596,545
2002		$29,000,000	4.04%	$1,623,596,545	$1,594,596,545	$64,341,971	$1,658,938,516
2003	$188,500	$29,000,000	3.07%	$1,658,938,516	$1,630,127,016	$49,963,393	$1,680,090,409
2004	$171,100	$29,000,000	3.32%	$1,680,090,409	$1,651,261,509	$54,739,319	$1,706,000,828
2005	$232,000	$29,000,000	3.48%	$1,706,000,828	$1,677,232,828	$58,283,841	$1,735,516,669
2006	$290,000	$29,000,000	4.46%	$1,735,516,669	$1,706,806,669	$76,038,237	$1,782,844,906
2007		$29,000,000	4.82%	$1,782,844,906	$1,753,844,906	$84,447,632	$1,838,292,538
2008		$29,000,000	4.33%	$1,838,292,538	$1,809,292,538	$78,251,902	$1,887,544,440
2009		$29,000,000	2.86%	$1,887,544,440	$1,858,544,440	$53,061,444	$1,911,605,884
2010		$29,000,000	2.46%	$1,911,605,884	$1,882,605,884	$46,217,974	$1,928,823,859
2011	$17,223,600	$29,000,000	1.31%	$1,928,823,859	$1,917,047,459	$25,017,469	$1,942,064,928
2012	$29,000,000	$29,000,000	1.19%	$1,942,064,928	$1,942,064,928	$23,013,469	$1,965,078,397
2013	$29,000,000	$29,000,000	0.84%	$1,965,078,397	$1,965,078,397	$16,408,405	$1,981,486,802
2014	$29,000,000	$29,000,000	1.50%	$1,981,486,802	$1,981,486,802	$29,623,228	$2,011,110,030
2015		$29,000,000	1.68%	$2,011,110,030	$1,982,110,030	$33,200,343	$2,015,310,373
2016		$29,000,000	1.52%	$2,015,310,373	$1,986,310,373	$30,092,602	$2,016,402,975

Source: OIG Analysis.

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10-Year Treasury Rate (includes administrative fee of 0.125 percent)

FYs	Unpaid Amount	Annual Appropriation	Interest Rate	Loan Balance	Loan Balance (Annual-Missed Appropriation)	Cumulative Interest (Loan Balance x Interest Rate)	Current Balance (Loan Balance + Cumulative Interest)
1994		$29,000,000	5.46%	$1,218,000,000	$1,189,000,000	$64,859,950	$1,253,859,950
1995		$29,000,000	7.87%	$1,253,859,950	$1,224,859,950	$96,335,235	$1,321,195,185
1996		$29,000,000	6.17%	$1,321,195,185	$1,292,195,185	$79,663,833	$1,371,859,018
1997		$29,000,000	6.66%	$1,371,859,018	$1,342,859,018	$89,367,268	$1,432,226,286
1998		$29,000,000	6.16%	$1,432,226,286	$1,403,226,286	$86,368,578	$1,489,594,864
1999		$29,000,000	4.67%	$1,489,594,864	$1,460,594,864	$68,136,750	$1,528,731,614
2000	$110,200	$29,000,000	6.25%	$1,528,731,614	$1,499,841,814	$93,665,121	$1,593,506,935
2001	$63,800	$29,000,000	5.87%	$1,593,506,935	$1,564,570,735	$91,762,074	$1,656,332,809
2002		$29,000,000	4.70%	$1,656,332,809	$1,627,332,809	$76,403,275	$1,703,736,085
2003	$188,500	$29,000,000	4.08%	$1,703,736,085	$1,674,924,585	$68,253,177	$1,743,177,761
2004	$171,100	$29,000,000	4.44%	$1,743,177,761	$1,714,348,861	$76,031,372	$1,790,380,233
2005	$232,000	$29,000,000	4.22%	$1,790,380,233	$1,761,612,233	$74,251,956	$1,835,864,189
2006	$290,000	$29,000,000	4.59%	$1,835,864,189	$1,807,154,189	$82,858,020	$1,890,012,209
2007		$29,000,000	4.86%	$1,890,012,209	$1,861,012,209	$90,352,143	$1,951,364,351
2008		$29,000,000	4.66%	$1,951,364,351	$1,922,364,351	$89,486,061	$2,011,850,412
2009		$29,000,000	3.95%	$2,011,850,412	$1,982,850,412	$78,223,449	$2,061,073,861
2010		$29,000,000	3.53%	$2,061,073,861	$2,032,073,861	$71,630,604	$2,103,704,464
2011	$17,223,600	$29,000,000	2.67%	$2,103,704,464	$2,091,928,064	$55,749,883	$2,147,677,947
2012	$29,000,000	$29,000,000	2.28%	$2,147,677,947	$2,147,677,947	$48,859,673	$2,196,537,620
2013	$29,000,000	$29,000,000	1.88%	$2,196,537,620	$2,196,537,620	$41,185,080	$2,237,722,701
2014	$29,000,000	$29,000,000	2.74%	$2,237,722,701	$2,237,722,701	$61,201,716	$2,298,924,417
2015		$29,000,000	2.43%	$2,298,924,417	$2,269,924,417	$55,045,667	$2,324,970,084
2016		$29,000,000	2.20%	$2,324,970,084	$2,295,970,084	$50,396,543	$2,346,366,627

Source: OIG Analysis.

30-Year Treasury rate (includes administrative fee of 0.125 percent)

FYs	Unpaid Amount	Annual Appropriation	Interest Rate	Loan Balance	Loan Balance (Annual-Missed Appropriation)	Cumulative Interest (Loan Balance x Interest Rate)	Current Balance (Loan Balance + Cumulative Interest)
1994		$29,000,000	6.07%	$1,218,000,000	$1,189,000,000	$72,112,850	$1,261,112,850
1995		$29,000,000	8.07%	$1,261,112,850	$1,232,112,850	$99,369,901	$1,331,482,751
1996		$29,000,000	6.50%	$1,331,482,751	$1,302,482,751	$84,596,255	$1,387,079,006
1997		$29,000,000	6.94%	$1,387,079,006	$1,358,079,006	$94,182,779	$1,452,261,785
1998		$29,000,000	6.46%	$1,452,261,785	$1,423,261,785	$91,871,548	$1,515,133,333
1999		$29,000,000	5.14%	$1,515,133,333	$1,486,133,333	$76,312,947	$1,562,446,280
2000	$110,200	$29,000,000	6.39%	$1,562,446,280	$1,533,556,480	$97,917,581	$1,631,474,061
2001	$63,800	$29,000,000	5.93%	$1,631,474,061	$1,602,537,861	$94,950,368	$1,697,488,230
2002		$29,000,000	5.45%	$1,697,488,230	$1,668,488,230	$90,849,184	$1,759,337,414
2003	$188,500	$29,000,000	5.45%	$1,759,337,414	$1,730,525,914	$94,227,136	$1,824,753,050
2004	$171,100	$29,000,000	5.45%	$1,824,753,050	$1,795,924,150	$97,788,070	$1,893,712,220
2005	$232,000	$29,000,000	5.45%	$1,893,712,220	$1,864,944,220	$101,546,213	$1,966,490,432
2006	$290,000	$29,000,000	5.45%	$1,966,490,432	$1,937,780,432	$105,512,145	$2,043,292,577
2007		$29,000,000	4.98%	$2,043,292,577	$2,014,292,577	$100,211,056	$2,114,503,633
2008		$29,000,000	4.90%	$2,114,503,633	$2,085,503,633	$102,085,403	$2,187,589,035
2009		$29,000,000	4.30%	$2,187,589,035	$2,158,589,035	$92,711,399	$2,251,300,434
2010		$29,000,000	4.32%	$2,251,300,434	$2,222,300,434	$95,892,264	$2,318,192,698
2011	$17,223,600	$29,000,000	4.00%	$2,318,192,698	$2,306,416,298	$92,141,331	$2,398,557,629
2012	$29,000,000	$29,000,000	3.26%	$2,398,557,629	$2,398,557,629	$78,073,051	$2,476,630,680
2013	$29,000,000	$29,000,000	3.03%	$2,476,630,680	$2,476,630,680	$74,918,078	$2,551,548,758
2014	$29,000,000	$29,000,000	3.81%	$2,551,548,758	$2,551,548,758	$97,086,430	$2,648,635,189
2015		$29,000,000	3.17%	$2,648,635,189	$2,619,635,189	$82,911,454	$2,702,546,642
2016		$29,000,000	3.02%	$2,702,546,642	$2,673,546,642	$80,607,431	$2,754,154,073

Source: OIG analysis.

Appendix D: Management's Comments

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER
EXECUTIVE VICE PRESIDENT

UNITED STATES POSTAL SERVICE

April 27, 2016

LORI LAU DILLARD
DIRECTOR AUDIT OPERATIONS

SUBJECT: Revenue Forgone (Draft Audit Report Number FT-AR-16-DRAFT)

Thank you for the opportunity to respond to the final review draft of the audit report of Revenue Forgone, (project number 16BR005FT000).

Recommendation 1: Pursue changes to the Revenue Forgone Reform Act of 1993 to allow the remaining amount owed plus interest, totaling about $1.6 billion, be applied against the U.S. Postal Service's outstanding loans from the U.S. Department of the Treasury.

Management Response: Management agrees with the recommendation. Management will request from the Chairmen of the House and Senate appropriations committees that the Revenue Forgone Act of 1993 be amended. Specifically we will request that the legislation provide appropriations totaling $1.218 billion for revenue forgone by the Postal Service for the years 1991-1998. Additionally we will request that interest at the one-year U.S. Department of Treasury loan rate be paid for each year there is a balance outstanding. We will further request that the legislation be amended to allow the entire amount outstanding from the federal government (calculated at $1.616 billion including interest) to be applied to the outstanding borrowings of $15 billion that the Postal Service owes to the U.S. Treasury.

Target Implementation Date: September 1, 2016

Responsible Management Official: Joseph Corbett

Monetary Impact: Management disagrees with the Monetary Impact of Revenue Loss of $1,615,993,029. This does not meet the definition, as defined by the OIG, of "an amount the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed."

The Postal Service complied with all policies, procedures, agreements, requirements and good business practices. The House and Senate appropriations committees exercised their authority under the law in choosing not to appropriate funds for revenue forgone for the years 2011-2014. Furthermore the amounts showing as missed appropriations in the Appendix C Calculations for the years 2000-2006 were received by the Postal Service and then returned to the U.S. Treasury as required under government-wide appropriation rescissions for those years. All of these actions were required by statute and outside of management's control.

Joseph Corbett

cc: Manager, Corporate Audit & Response Management

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