



Office of Inspector General | United States Postal Service

## Audit Report

# Pandemic Volume and Revenue Projected Scenarios

Report Number 21-037-R21 | February 10, 2021



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# Highlights

## Objective

The U.S. Postal Service develops a range of financial projections as part of its financial planning. A financial projection is an estimate or forecast of a future situation or trend based on a study of present and historical trends. The main projection the Postal Service completes is the annual financial plan, which estimates revenue, volume, and expenses for each fiscal year. The fiscal year (FY) 2020 plan was approved by the U.S. Postal Service Board of Governors in February 2020.

On March 13, 2020, the President of the United States issued the national emergency declaration concerning the COVID-19 pandemic (pandemic). During the ongoing pandemic, the Postal Service has provided essential services as part of the nation's critical infrastructure by continuously processing and delivering mail and packages. The pandemic continues to have an unpredictable impact on the economy, the Postal Service, and Postal Service finances.

Our objective was to evaluate the reasonableness of the Postal Service's projected financial scenarios as a result of the impact of the pandemic.

## Findings

In efforts to expeditiously respond to pandemic financial projection requests from Congress, Postal Service management did not always document processes or save supporting materials used for assumptions, inputs, and calculations. For example, management was unable to provide a documented methodology for how they determine volume projections. Further, management could not calculate any of the projected

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***“Management could not calculate any of the projected scenarios using existing models because they did not have enough historical data to reflect the economic impacts of the pandemic.”***

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scenarios using existing models because they did not have enough historical data to reflect the economic impacts of the pandemic. Therefore, to project the impact of the pandemic, management relied on a large degree of professional judgment.

While we agree that the decision to use professional judgement as described by Postal Service management was reasonable, we were unable to assess the reasonableness of the projected scenarios because documentation or a thorough explanation for key components of the methodology were not always provided or available for our review.

Although the full impact of the pandemic could not be accurately estimated by any agency, documenting assumptions and methodologies used to develop projections is important as the data collected from these events could be helpful in revising future assumptions and analyses, as well as identifying and developing plans for future financial impacts.

Additionally, while the Postal Service's Emergency Response Checklists suggest that conducting reviews after natural disasters to update plans, procedures, and contacts based on the experience of a particular event is necessary, there is no guidance that outlines what should be evaluated and included as a part of this review and management has not developed a checklist specific to financial or other unanticipated crisis.

Management stated there are no existing statutory or regulatory mandates that require them to conduct or document an After-Action Report (AAR). As the pandemic is still ongoing and continues to have an unpredictable impact on the national economy and the Postal Service, management is unable to develop an AAR at this time. We agree that it would be

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***“Management stated there are no existing statutory or regulatory mandates that require management to conduct or document an After-Action Report (AAR).”***

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too early to conduct an AAR at this time but believe that such a study would be valuable once the pandemic subsides. Having an AAR process would allow the Postal Service to develop financial scenarios during the pandemic to determine what decisions did and did not work to support decisions made in the event of a future financial crisis.

## Recommendations

We recommended management:

- Establish a process to document actions taken, such as assumptions and methodologies developed, during significant unanticipated or catastrophic events.
- Enhance the Postal Service's ability to respond to future significant, unanticipated events by requiring an AAR to include specific guidance outlining what needs to be examined and included.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

February 10, 2021

**MEMORANDUM FOR:** LUKE T. GROSSMANN  
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

A handwritten signature in black ink, reading "M Schoenberg", is positioned above the "FROM:" field.

**FROM:** Mitchell Schoenberg  
Deputy Assistant Inspector General  
for Finance and Pricing

**SUBJECT:** Audit Report – Pandemic Volume and Revenue  
Projected Scenarios (Report Number 21-037-R21)

This report presents the results of our audit of Pandemic Volume and Revenue Projected Scenarios.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sherry Fullwood, Director, Cost & Pricing, 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 Pandemic Volume and Revenue Projected Scenarios (Project Number 21-037). Our objective was to evaluate the reasonableness of the U.S. Postal Service's projected financial scenarios as a result of the impact of the pandemic. See [Appendix A](#) for additional information about this audit.

## Background

The Postal Service develops a range of financial projections as part of its annual financial planning. A financial projection<sup>1</sup> is an estimate or forecast of a future situation or trend based on a study of present and historical trends. Businesses rely on projections to present an unbiased view of their company's economic status and future operations. A projection allows businesses to establish benchmarks and translate a company's goals into specific targets to ensure the business is operating as predicted. This practice provides flexibility to make changes to business decisions when benchmarks are not being met.

The main projection the Postal Service completes is the annual Integrated Financial Plan (IFP).<sup>2</sup> In its fiscal year (FY) 2020 IFP, the Postal Service anticipated the overall economy would show continued growth in employment, wages, and disposable income, leading to continued growth in consumer spending and Gross Domestic Product (GDP).<sup>3</sup> However, it also reported continued financial challenges, resulting in a projected net loss of \$7.6 billion in FY 2020. The Postal Service's Chief Financial Officer, the Postmaster General, and the Board of Governors review and approve all Postal Service publicly available projections.

On March 13, 2020, the President of the United States issued the national emergency declaration concerning the COVID-19 pandemic (pandemic). The pandemic continues to have unpredictable impacts on the national economy and the Postal Service. Quarantines, stay-at-home orders, and travel restrictions have

affected retail and commercial customers, suppliers, and mail service providers, which ultimately created a shift in the volume of some Postal Service products. For example, while First-Class Mail volumes declined greatly, package mail volume increased far above expectations.

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***“Although in previous years the IFP has been historically accurate and a good predictor of the Postal Service’s actual finances, because of the pandemic and its significant economic consequences, it quickly became apparent that most, if not all, FY 2020 IFP revenue and volume projections would be impacted.”***

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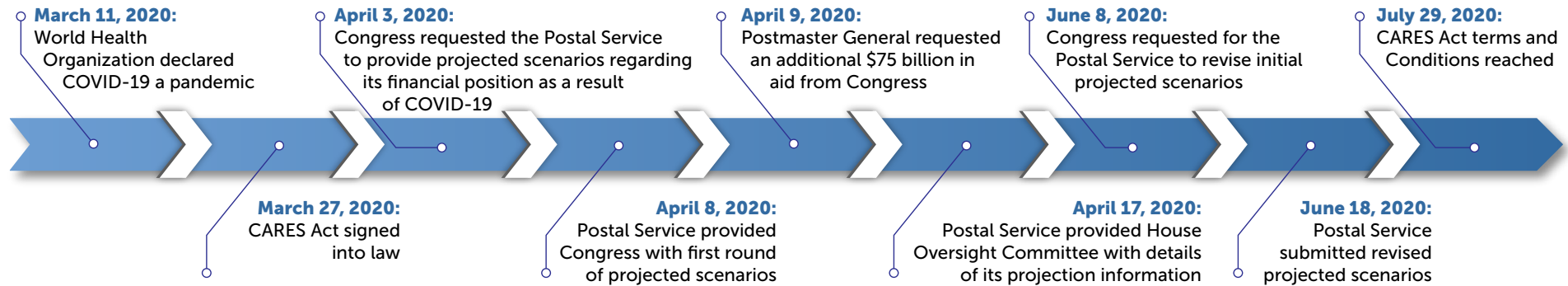
Although in previous years the IFP has been historically accurate and a good predictor of the Postal Service's actual finances, because of the pandemic and its significant economic consequences, it quickly became apparent that most, if not all, FY 2020 IFP revenue and volume projections would be impacted. Therefore, congressional staff requested the Postal Service provide an estimate of the potential financial impact of the pandemic to be considered for any relief in the stimulus bills proposed in March, April, and May 2020. Management recognized and reacted to the urgency to create projected scenarios. Postal Service management stated that as a result of unprecedented changes in the environment, they were unsure what the impact on mail volume and revenue would be. The pandemic led to a series of Postal Service-projected financial scenarios and interactions with Congress, shown in Figure 1.

<sup>1</sup> For the purposes of this report, “projections” refers to estimates, forecasts, and scenarios that predict future events.

<sup>2</sup> The IFP is generally released in mid-November but was released in February 2020 for FY 2020 because the Board of Governors directed management to reevaluate the initial proposed plan.

<sup>3</sup> A monetary measure of the market value of all the final goods and services produced in a specific time.

**Figure 1. Timeline of Postal Service Pandemic Projected Scenarios**



Source: Timeline developed by the U.S. Postal Service Office of Inspector General (OIG) based on information provided by the Postal Service and Congress.

## Finding Summary

On April 3, 2020, Congress requested the Postal Service provide detailed, updated projected financial scenarios as shown in [Appendix B](#), Table 2. These projections were prepared in late March/early April and based on three weeks of data, beginning March 15 through April 4, 2020, as the pandemic was developing. The initial projected scenario was extremely preliminary and based on limited data. On April 17, 2020, the Postal Service expanded on the original April 8, 2020 projection to indicate future short-, medium-, and long-term impacts as shown in [Appendix B](#), Table 3. The Postal Service continued to provide Congress with weekly updates on volume levels for various products after the April 2020 projected scenario. When it became clear the April 2020 projected scenario did not reflect actual conditions, Congress requested revised financial projections on June 8, 2020. The Postal Service acknowledged that revenue loss would not be as great as originally projected and the continued increase in package volume could not have been anticipated.

On June 18, 2020, the Postal Service revised its projected financial scenarios to reflect the change in mail volume and revenue. The June projections consisted of two different scenarios as shown in [Appendix C](#):

- An extended economic recovery scenario which assumed mail volume and revenue would recover at a slower pace over a 10-year span.
- A rapid economic recovery scenario which assumed mail volume and revenue would recover at a faster pace over a 10-year span.

Management could not calculate any of the projected scenarios using the IFP econometric models because they did not have enough historical data to reflect the economic impacts of the pandemic. Management stated the use of full historical data would have distorted the limited pandemic data and would not have illustrated the magnitude of the pandemic impact. Therefore, to project the full impact of the pandemic, management used their professional judgment to estimate volume outputs, which they then multiplied by anticipated annual price increases to determine projected revenue. [Appendix B](#) and [Appendix C](#) outline the categories of assumptions management used for the April and June 2020 projected scenarios.

The Postal Service's projected scenarios in April and June 2020 estimated an overall downward trend in its financial position as a result of the pandemic. Since the beginning of the pandemic, management's assumptions have held relatively true; however, the following were higher than anticipated:<sup>4</sup>

4 The actual weekly volume data mentioned below was captured from the Postal Service's eFlash system and may not align with the data in the Postal Service's 2020 Report Form 10-K. The eFlash application is a weekly operating reporting management system. It combines data from Delivery, Mail Processing, Employee Relations, Labor Relations, and Finance to generate reports used as management tools for various functional areas.

- Revenue: For June 2020, total revenue was \$5.93 billion, which was 10.7 percent higher than the same period last year (SPLY).<sup>5</sup> From March through June 2020, revenue exceeded the SPLY except for the month of April 2020. For year to date, FY 2020, Quarter (Q) 3 total revenue was \$54.9 billion compared to \$54.4 billion during the SPLY.

***“For FY 2020, the Postal Service projected revenue between \$67.1 and \$70.2 billion, however, the actual FY 2020 revenue was \$73.1 billion.”***

- Mail volume: There has been a significant decline in mail volume as a result of the pandemic; however, the level of permanent decline may be lower than management had previously assumed. The first week of March 2020 showed the beginning of the decrease in mail volume, with the lowest point of 27 percent being lower than the SPLY in April FY 2020. However, beginning in mid-May, mail volume pace of decline lessened. Mail volume was about 10 and 11 percent lower than the SPLY for June and July, respectively, and about 16 percent lower than the SPLY in August 2020.
- Package volume: Package volume increased consistently from late March until mid-May. Management’s projections that increased volume would not continue were partially accurate. During the third week of May, package volume began to decrease slightly. Package volume from June to September had an overall downward trend; however, package volume has remained significantly higher than pre-pandemic levels. Package volume in August of FY 2020 was about 33 percent higher than the SPLY.

Although no organization could accurately estimate the full impact of the pandemic, these trends suggest mail and package volume and revenue may not be permanently impacted to the extent that the Postal Service projected in its scenarios. However, as the pandemic is ongoing, it is too early to assess the full

extent of the impact or its permanence. For FY 2020, the Postal Service projected revenue between \$67.1 and \$70.2 billion; however, actual FY 2020 revenue was \$73.1 billion (see Table 1). This is between \$2.9 and \$6 billion greater than the projected revenue.

**Table 1. FY 2020 Total Revenue and Volume (in billions)**

|                | Initial Plan | Pandemic Projections | Actual |
|----------------|--------------|----------------------|--------|
| <b>Revenue</b> | \$71.8       | \$67.1 – \$70.2      | \$73.1 |
| <b>Volume</b>  | 138.1        | 115.6 – 122.8        | 129.2  |

Source: Postal Service’s FY 2020 Integrated Financial Plan, FY 2020- Projected Scenarios - Presentation by the Postal Service COVID-19 Impact on Near-term Liquidity, FY 2020 Actuals - Report on Form 10-K - United States Postal Service.

## **Finding #1: Projected Scenarios’ Documentation**

In an effort to expeditiously respond to pandemic financial projection requests from Congress, Postal Service management did not always document processes and methodologies; or save supporting materials for assumptions, inputs, and

calculations. For example, management stated that they considered mailer feedback on the pandemic’s impact on mail volume when estimating future volume; however, they did not document these communications. In addition, management was unable to provide a documented methodology that included specific steps and assumptions they applied to determine volume projections.

***“Management was unable to provide a documented methodology that included specific steps and assumptions applied to determine volume projections.”***

<sup>5</sup> The accounting period (or other period) compared with the same period of the previous year.



The Postal Regulatory Commission (PRC)<sup>6</sup> reviewed all pandemic projections created by the Postal Service and provided to Congress. However, the PRC could not assess the reasonableness of the pandemic projected financial scenarios because it did not receive inputs to the calculations or detailed analysis from the Postal Service. Further, while we agree that the decision to use professional judgment as described by Postal Service management was reasonable, like the PRC, we could not assess the reasonableness of the

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***“Documenting assumptions and methodologies used to develop projections is important as the data collected from these events could be helpful in revising future assumptions and analyses and identifying and developing preparedness plans for future exigent events.”***

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projected scenarios because documentation for components of the methodology were not always provided. In addition, management did not always provide thorough explanations regarding the professional judgement used for assumptions, inputs, and calculations applied to methodologies.

Documenting assumptions and methodologies used to develop projections is important as the data collected from these events could be helpful in revising future assumptions and analyses and identifying and developing preparedness plans for future exigent events.<sup>7</sup>

#### **Recommendation #1**

We recommend the **Senior Vice President, Finance and Strategy**, establish a process to document actions taken, such as assumptions and methodologies developed during significant unanticipated or catastrophic events.

## **Finding #2: After-Action Report**

The Postal Service’s Emergency Response Checklists require reviews after natural disasters to update plans, procedures, and contacts based on the experience of a particular event. However, there is no guidance that outlines what should be evaluated and included as a part of this review. Further, there is no checklist specific to financial or other unanticipated crisis. Management stated there are no existing statutory or regulatory mandates that require management to conduct or document an After-Action Report (AAR)<sup>8</sup>.

Best practices for conducting an AAR are centered around four questions:

- What was expected to happen?
- What occurred?
- What went well and why?
- What can be improved and how?

As the ongoing pandemic continues to have unpredictable impacts on both the national economy and the Postal Service, management is currently unable to develop an AAR. We agree that it would be too early to conduct an AAR at this time but believe that such a study would be important once the pandemic subsides. However, implementing an AAR process would allow the Postal Service to evaluate various financial scenarios during the pandemic to determine what decisions did and did not work in order to support decisions in the event of future exigent events.

#### **Recommendation #2**

We recommend the **Senior Vice President, Finance and Strategy**, enhance the Postal Service’s ability to respond to future significant, unanticipated, or catastrophic events by requiring After-Action Reports to include specific guidance outlining what needs to be examined and included.

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<sup>6</sup> An independent federal agency that provides transparency and accountability of Postal Service operations.

<sup>7</sup> An event requiring immediate aid or action.

<sup>8</sup> A detailed critical summary or analysis of a past event created to re-assess decisions and consider possible alternatives for future scenarios.

## Management's Comments

Management agreed with all recommendations presented in this report.

Regarding recommendation 1, management agreed with the recommendation to provide additional detail for significant unanticipated or catastrophic events. Management stated they have a well-developed process to obtain and vet relevant and quantifiable information affecting the expected volumes of each major mail class. This process includes econometric models and qualitative feedback from customers. However, the Postal Service will formalize existing data sources into a checklist that can be consulted when developing forecasts during future significant catastrophic events. The target implementation date for this checklist is July 1, 2021.

Regarding recommendation 2, management agreed with the recommendation to develop an outline that would guide future after-action reports based on future significant, unanticipated events. Management stated, if faced with the same situation, there is little they would change to their process and quick actions; however, they will develop an after-action report at the conclusion of the COVID pandemic. The after-action report will consider the availability and utility of various data sources, an evaluation of the techniques used to estimate volumes and revenues in the COVID pandemic and consideration of the potential utility of these techniques for future exigent events. The target implementation date to develop an outline for future after-action reports is July 1, 2021.

Management also asserted in their comments that their projected scenarios did not have the benefit of hindsight, nor historical data, as the OIG did in writing this report. They also indicated that data captured during these events would only be useful for future use. Finally, management stated that OIG's assertion that the level of permanent mail volume decline and package volume increases was also made with the benefit of hindsight and may not align with management's assumptions in their scenarios as the OIG also concluded it is still too early to assess the full extent of the volume impact.

See [Appendix D](#) for management's comments in their entirety.

## Evaluation of Management's Comments

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

Regarding management's comments, we partially agree that we benefitted from hindsight in writing this report and it being too early to assess the full impact of the pandemic on mail volume. In the report we never asserted the assumptions and scenarios developed were inaccurate or unreasonable. Our report only stated we agreed with the need for professional judgement in the face of extremely limited historical data, but without sufficient documented support for components of the methodology applied, we could not assess the reasonableness of the scenarios provided. Further, in our assessment of 3rd and early 4th quarter mail volumes we specifically stated that although mail volumes did not always align with management's assumptions and scenarios, as the pandemic is ongoing, it is too early to assess the impact or its permanence.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 2 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.

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

The scope of our audit is February through September 2020. To perform this audit, we:

- Evaluated financial forecasts provided to the public to identify changes in forecasting methodology as pandemic progressed and additional data was available.
- Developed a timeline of the events of projections during the pandemic.
- Reviewed and evaluated potential funding and legislation related to the pandemic.
- Researched and identified assumptions and inputs into pandemic projections.
- Conducted a comparative analysis of pre- and post-pandemic projections.
- Conducted stakeholder interviews.

We conducted this performance audit from July 2020 through February 2021 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 objective. We discussed our observations and conclusions with management on January 19, 2021 and included their comments where appropriate.

We assessed the reliability of mail volume and revenue from eFlash and the Revenue and Volume Comparison report by testing the completeness and reasonableness of the data and confirmed it with Postal Service management knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

The OIG did not identify any prior audits or reviews directly related to the objective of this audit within the last five years.



# Appendix B: April Projected Scenario

Table 2 shows the Postal Service's April 8, 2020 projected revenue and volume for FYs 2020 and 2021. The Postal Service estimated total FY 2020 revenue of [REDACTED] billion, a [REDACTED] billion reduction in revenue expectations from the IFP. Further, total volume was projected to be [REDACTED] billion in FY 2020, a [REDACTED] billion reduction from IFP projections. This projected decline was primarily because of an assumed decrease in First-Class mail and Marketing mail volume.

**Table 2. First Projected Scenario – Revenue and Volume (in billions)**

| Mail Type           | FY 2020 Revenue | FY 2021 Revenue | FY 2020 Volume | FY 2021 Volume |
|---------------------|-----------------|-----------------|----------------|----------------|
| First-Class Mail    | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| Marketing Mail      | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| Periodicals         | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| Shipping & Packages | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| International       | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| Other               | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |
| <b>Total</b>        | [REDACTED]      | [REDACTED]      | [REDACTED]     | [REDACTED]     |

Source: Presentation by the Postal Service COVID-19 Impact on Near-term Liquidity.

On April 17, 2020, the Postal Service responded to the congressional request for more details about the financial scenario provided to Congress on April 8, 2020. Management's response expanded on the original projection to indicate future short-, medium-, and long-term impacts as shown in Table 3.

**Table 3. Future Financial Impact of Pandemic (Updates to Preliminary Scenario)**

| Short-Term Impact<br>(April - September 2020)                                | Medium-Term Impact<br>(October 2020 - September 2021)                                                                                                                                                                                                                                                                                                                                              | Long-Term Impact<br>(FY 2022 and Beyond)                                                                                                                      |
|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Projected declines of about 50 percent in volume in Q3 and 57 percent in Q4. | <ul style="list-style-type: none"> <li>Projected gradual return of volume beginning in Q1, FY 2021, to about 60 percent of corresponding pre-COVID levels in Q1.</li> <li>For the rest of FY 2021, volume will gradually return to about 74 percent of pre-COVID volume levels.</li> <li>For the entirety of FY 2021, total volume will be about 70 percent of pre-COVID volume levels.</li> </ul> | Projected return to a "new normal" of about 75 percent of pre-COVID volume levels; then, projected gradual volume declines will resume for the next 10 years. |

Source: Postal Service April 17 response to House Oversight Committee.

The professional judgment used to determine volume projections in the April 2020 scenario was based on assumptions made by the Postal Service that were specific to the postal sector and the economy as a whole. Specifically:

9 All numbers in this table were provided by the Postal Service. Due to rounding, totals may not add up.

## Postal Sector Assumptions

1. **Changes in Mail and Package Volume:** The Postal Service's projected scenario was based on total mail volume from the first weeks of the pandemic from mid-March through early April 2020.<sup>10</sup> During this period, there was a decline across mail products from 5.3 percent to 32.2 percent compared to the SPLY and growth in packages from negative 1 percent to 20.7 percent compared to the SPLY.

Management projected that package volume [REDACTED]

2. **Great Recession:**<sup>11</sup> During the great recession in 2008-2009, the Postal Service lost significant mail volume that never returned. The larger decline occurred from 2007 to 2009, with a more gradual decline since. Before the recession, in FY 2007, the Postal Service had total mail volume of 212 billion pieces compared to 168 billion pieces in FY 2011, a decline of 20.7 percent and \$9.2 billion in total revenue. Based on its historical experience regarding the impact of the great recession on mail and package volume, the Postal Service anticipated a slightly greater decline of 25 percent in mail volume compared to FY 2019 because of the pandemic.
3. **Mailer's Communications:** Management stated that they spoke with several major mailers who communicated that they expected to reduce their mailings in the short-term<sup>12</sup> because of the pandemic and its economic impact. Postal Service management projected the decrease in Marketing mail will be permanent based on these communications with mailers, the great recession's impact on Marketing mail, and their professional judgement.

## Nationwide Economic Assumptions

Management used various estimates in categories which were unclear as the pandemic progressed, including GDP value, the unemployment rate, business and consumer confidence and investment spending, and the timing of the reopening segments of the economy. As the future value of these factors were more difficult to estimate, the Postal Service used its professional judgement to estimate these inputs into its projected scenario.

The following three components of the pandemic made its effects extremely difficult to quantify:

- Depth of the short-term impact on the economy;
- Duration of the economic impact; and
- Volume levels after the pandemic ends.

<sup>10</sup> Data was extracted from the Revenue, Pieces, and Weight (RPW) system - a postal information system that uses samples of the mailstream to measure statistically its contents in terms of volume, work content, and revenue. RPW reports are published periodically and posted online for the public.

<sup>11</sup> The great recession refers to the economic downturn from 2007 to 2009 after the bursting of the U.S. housing bubble and the global financial crisis. At the time, the great recession was the most severe economic recession in the U.S. since the great depression of the 1930s.

<sup>12</sup> The Postal Service indicated that the "short term" was a month or two from April 2020. Mailers did not provide longer term expectations.

# Appendix C: June Rapid Recovery and Extended Recovery Scenarios

To support the June 2020 rapid and extended recovery projected scenarios, the Postal Service incorporated additional knowledge and information gained since the beginning of the pandemic to enhance its assumptions. In addition to the assumption categories used for the April 2020 scenario, management included the following additional categories for macroeconomic assumptions:<sup>13</sup>

- Consumer Price Index (CPI) – a measure of economy-wide inflation used to develop expected future price increases for Postal Service products.
- Exports – sales of all U.S. goods to foreign consumers to develop expected volume of international products.
- Imports – sales of all foreign goods to U.S. consumers to develop expected volume of international products.
- Exchange rate – the rate at which one currency will be exchanged for another to develop expected volume of international products.

In addition to macroeconomic assumptions, the Postal Service also assumed the following:

- There would be no substantive regulatory changes impacting its finances (including changes to the price cap<sup>14</sup> on market-dominant products).
- Employees and retirees would continue to participate in federal health and retirement plans with contributions at mandated rates.
- Workforce mix would remain relatively stable and future wages would increase at historical rates.

Further, outlined below are assumptions made specifically to the rapid and extended recovery projected scenarios.

## Rapid Recovery

The June 2020 rapid recovery scenario projected a 10-year increase in net losses of \$17.3 billion. This includes a \$6.9 billion increase in net losses from FY 2020 through FY 2021, compared to the FY 2020 IFP. Postal Service management stated this meant the Postal Service would reach insolvency in October 2021, assuming there is no federal assistance. This scenario is based on the following assumptions:

- A quicker economic recovery.
- Consumers continuing to order online despite the economy and discretionary income quickly improving.
- Package volumes [REDACTED] through FYs 2020 and 2021, staying [REDACTED]
- All domestic mail category volumes [REDACTED]
- Management applying [REDACTED], respectively, for January 2021 and subsequent years.

Tables 4 and 5 shows the rapid recovery 10-year projected scenario and the percentages used as the rapid recovery macroeconomic assumptions are detailed below.

<sup>13</sup> A relevant group of aggregated economy wide data that should be put into an econometric model.

<sup>14</sup> Price-cap regulations set a cap on the price that a provider can charge. The cap is set according to several economic factors, such as the price cap index, expected efficiency savings and inflation.

**Table 4. Rapid Recovery – 10-Year Projection (in billions of dollars)**

|                       | FY<br>2020 | FY<br>2021 | FY<br>2022 | FY<br>2023 | FY<br>2024 | FY<br>2025 | FY<br>2026 | FY<br>2027 | FY<br>2028 | FY<br>2029 | 10 YR<br>Total |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|----------------|
| <b>Mail Volume</b>    | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■              |
| <b>Package Volume</b> | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■              |
| <b>Other</b>          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■              |
| <b>Total Volume</b>   | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■              |
| <b>Total Revenue</b>  | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■          | ■              |

Source: USPS Strategic Business Financial Plan.

**Table 5. Rapid Recovery Macroeconomic Assumptions (% change)**

|                       | FY<br>2020 | FY<br>2021 | FY<br>2022 | FY<br>2023 | FY<br>2024 | FY<br>2025 | FY<br>2026 | FY<br>2027 | FY<br>2028 | FY<br>2029 |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>CPI</b>            | 0.90%      | 0.80%      | 1.70%      | 1.10%      | 1.00%      | 1.80%      | 2.20%      | 2.50%      | 2.50%      | 2.30%      |
| <b>GDP</b>            | -4.60%     | 2.40%      | 5.60%      | 2.80%      | 2.50%      | 2.30%      | 1.90%      | 1.90%      | 1.80%      | 1.70%      |
| <b>Retail Sales</b>   | -8.70%     | 0.90%      | 9.80%      | 4.40%      | 4.20%      | 4.10%      | 3.90%      | 3.90%      | 3.90%      | 3.90%      |
| <b>E-Commerce</b>     | 47.80%     | 9.60%      | 8.50%      | 6.90%      | 7.60%      | 7.40%      | 7.00%      | 7.00%      | 6.80%      | 6.70%      |
| <b>Employment</b>     | -7.50%     | -0.20%     | 7.50%      | 2.80%      | 0.50%      | 0.40%      | 0.40%      | 0.40%      | 0.50%      | 0.50%      |
| <b>Investment</b>     | -12.80%    | 9.40%      | 5.30%      | 2.30%      | 2.70%      | 2.90%      | 2.40%      | 2.30%      | 2.30%      | 2.20%      |
| <b>Exports</b>        | -10.00%    | 3.10%      | 10.40%     | 5.30%      | 4.00%      | 3.20%      | 3.10%      | 3.10%      | 3.00%      | 2.90%      |
| <b>Imports</b>        | -14.10%    | 1.90%      | 13.00%     | 2.80%      | 3.50%      | 2.80%      | 2.40%      | 2.60%      | 2.90%      | 3.20%      |
| <b>Exchange Rates</b> | 5.70%      | -0.90%     | -2.00%     | -1.00%     | -0.60%     | -0.50%     | -0.40%     | -0.40%     | -0.30%     | -0.10%     |

Source: Postal Service Strategic Business Financial Plan.



## Extended Recovery

Table 6 shows the extended recovery projections each year for a 10-year period.

The June 2020 extended recovery scenario projected a 10-year increase in net losses of \$52.4 billion. This included a \$16.8 billion increase in net losses from FYs 2020 – 2021, compared to the FY 2020 IFP. Postal Service management stated that this meant the Postal Service would reach insolvency<sup>15</sup> in March 2021, assuming there is no federal assistance. This was based on the following assumptions:

- A slower economic recovery.
- Consumers beginning to return to in-person shopping because of economic impacts; therefore, package volume ██████████

pre-pandemic levels by FY 2020, Q4 and ██████████ to pre-pandemic levels in FY 2021.

- All domestic mail category volumes continuing to decline. For example, in FY 2020, Q4 First-Class Mail is assumed to be down 16 percent from pre-pandemic levels, then remain 25 percent below pre-pandemic levels (permanent decline).
- Management applying current prices for FY 2020 projected scenarios and assuming a specific price percentage increase for market dominant and competitive products using ██████████, respectively, for January 2021 and subsequent years.

Tables 6 and 7 shows the extended recovery 10-year projections and the percentages used as the extended recovery macroeconomic assumptions below.

**Table 6. Extended Recovery – 10-Year Projection (in billions)**

|                | FY<br>2020 | FY<br>2021 | FY<br>2022 | FY<br>2023 | FY<br>2024 | FY<br>2025 | FY<br>2026 | FY<br>2027 | FY<br>2028 | FY<br>2029 | 10 YR<br>Total |
|----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|----------------|
| Mail Volume    | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████           |
| Package Volume | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██             |
| Other          | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██         | ██             |
| Total Volume   | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████       | ████           |
| Total Revenue  | ██████     | ██████     | ██████     | ██████     | ██████     | ██████     | ██████     | ██████     | ██████     | ██████     | ██████         |

Source: Postal Service Strategic Business Financial Plan.

<sup>15</sup> A term describing an individual or company that can no longer meet their financial obligations to lenders as debts become due.

**Table 7. Extended Macroeconomic Assumptions FY 2020 – FY 2029 (% change)**

|                | FY<br>2020 | FY<br>2021 | FY<br>2022 | FY<br>2023 | FY<br>2024 | FY<br>2025 | FY<br>2026 | FY<br>2027 | FY<br>2028 | FY<br>2029 |
|----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| CPI            | 0.90%      | 0.80%      | 1.70%      | 1.10%      | 1.00%      | 1.80%      | 2.20%      | 2.50%      | 2.50%      | 2.30%      |
| GDP            | -7.00%     | -0.70%     | 7.50%      | 3.60%      | 2.90%      | 2.30%      | 2.20%      | 2.50%      | 2.40%      | 2.20%      |
| Retail Sales   | -10.80%    | -4.90%     | 10.10%     | 4.80%      | 3.80%      | 3.50%      | 3.50%      | 3.60%      | 3.60%      | 3.80%      |
| E-Commerce     | 47.80%     | 9.20%      | 9.10%      | 7.10%      | 6.80%      | 6.50%      | 6.30%      | 6.40%      | 6.30%      | 6.40%      |
| Employment     | -8.20%     | -4.50%     | 8.80%      | 3.60%      | 0.70%      | 0.50%      | 0.50%      | 0.50%      | 0.60%      | 0.60%      |
| Investment     | -21.40%    | 0.80%      | 12.30%     | 7.00%      | 4.70%      | 2.30%      | 2.80%      | 3.30%      | 3.00%      | 2.50%      |
| Exports        | -9.90%     | 1.20%      | 12.20%     | 5.90%      | 5.20%      | 3.80%      | 3.20%      | 3.20%      | 3.10%      | 3.00%      |
| Imports        | -16.80%    | -8.60%     | 22.00%     | 6.90%      | 4.50%      | 3.40%      | 2.70%      | 2.60%      | 2.30%      | 2.70%      |
| Exchange Rates | 5.70%      | -0.90%     | -2.00%     | -1.00%     | -0.60%     | -0.50%     | -0.40%     | -0.40%     | -0.30%     | -0.10%     |

Source: Postal Service Strategic Business Financial Plan.

# Appendix D: Management's Comments

LUKE T. GROSSMANN  
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY



February 4, 2021

JOSEPH WOLSKI  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Pandemic Volume and Revenue Projected Scenarios (Report Number 21-037-DRAFT)

We have reviewed the subject draft report.

The Postal Service was tasked with developing estimates in early April as to the impact of the pandemic, when less than a month of contemporaneous volume data was available. At the time we released the first projections, Marketing mail had declined in the most recent week by approximately 39% FCM declined by 15.7% and packages showed an increase of 11.7%. As a result of limited data management was forced to make *assumptions* about scenarios that *could* happen, which were shared with Congress along with detailed explanations of the inherent unknowns within the numbers presented which were detailed in a letter to Congressional leadership. In that letter we shared our expectation that, "new information will necessitate updates to our forecasts, and the Postal Service will incorporate on an ongoing basis any relevant new information as it becomes available to ensure we have the most updated assessment of the pandemic on our financial condition." It was explained to the OIG on numerous occasions that the methodology utilized assumed reduced volumes as possible outcomes utilizing management judgement and the information available to the Postal Service at the time the scenarios were developed. We did not have the benefit of hindsight, nor historical data that related the impact of a pandemic on volume levels.

The OIG correctly states that data collected during these events could be helpful in revising future assumptions and analyses, however, the potential usefulness of volume and revenue data captured can only be for future use as opposed to scenarios developed during a period when no such data existed.

In addition, the OIG asserts that the level of permanent mail volume decline may be less than assumed in the management scenarios; however, the OIG is operating with the benefit of hindsight and provide little justification for this conclusion. The OIG also cited subsequent months' volume data, which do show a decreasing volume loss trend, but they fail to indicate how the significant growth in political and election mail volumes during those months may have influenced their volume comparisons. Likewise, the OIG suggests that package volume may remain at elevated levels for the foreseeable future. Again, this assertion, made with the benefit of hindsight, is not supported as the OIG later states in the report that it is too early to assess the full extent of the volume impact.

OIG's recommendations and management's responses are as follows:

#### Recommendation 1

Establish a process to document actions taken, such as assumptions and methodologies developed, during significant unanticipated or catastrophic events.

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#### Management Response

The Postal Service agrees with the recommendation to provide additional detail for significant unanticipated or catastrophic events. Finance and Strategy already has a well-developed process to obtain and vet relevant and quantifiable information affecting the expected volumes of each major mail class. This process includes well-developed econometric models; however, during periods of dramatic change, qualitative feedback from customers supplied by our sales and marketing organizations is also given significant consideration. We shall formalize these already-existing data sources into a checklist that can be consulted to ensure that all possible relevant information sources are considered when developing forecasts during future significant catastrophic events.

#### Target Implementation Date

July 1, 2021

#### Responsible Official

Director, Strategic Business & Financial Planning

#### Recommendation 2

Enhance the Postal Service's ability to respond to future significant, unanticipated events by requiring an after-action report to include specific guidance outlining what needs to be examined and included.

#### Management Response

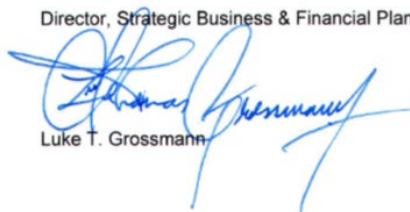
We had little data and the direction and duration of the Pandemic was unknowable at the time we made our estimates. If faced with the same situation there is little we would change as to our process and quick actions; however, the Postal Service agrees with this recommendation. The Postal Service will develop an outline that will guide future after-action reports based on future significant, unanticipated events. We anticipate that the report will consider the availability and utility of various data sources, an evaluation of the techniques used to estimate volumes and revenues in the COVID pandemic and consideration of the potential utility of these techniques for future exigent events.

#### Target Implementation Date

July 1, 2021

#### Responsible Official

Director, Strategic Business & Financial Planning



Luke T. Grossmann



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**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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