

# IRET Congressional Advisory

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## **NEW GAO STUDY INDICATES NEED FOR MORE FINANCIAL TRANSPARENCY AT THE POSTAL SERVICE**

### *Executive Summary*

*A new study by the U.S. General Accounting (GAO) examines the timeliness and completeness of the financial information that the U.S. Postal Service releases during the year. The GAO finds that the Postal Service's financial reporting, while better than a few years ago, is still not adequate to properly inform the Congress, mail users, and the public of the condition of the Service. Furthermore, the reporting remains less transparent than that typically provided by publicly traded companies in the private sector. The GAO is also concerned that the Postal Service is not releasing more information about the eventual cost of post-retirement health benefits for its workers.*

The U.S. General Accounting Office (GAO) finds in a new study that there is less financial transparency at the Postal Service than at most publicly traded companies.<sup>1</sup> The GAO reported in earlier work that the Postal Service has, in the past, failed to produce quarterly reports, issued periodic reports with inadequate detail concerning various product lines, and presented information in inconsistent formats that made it impossible to track developments over time. The GAO now reports that, in response to its earlier prodding, the Postal Service has begun releasing more information than previously. However, it is still not providing the sort of timely, consistent and detailed information that is required of and generally provided by private sector companies.

The GAO report points out that the Service's estimates of its financial outlook sometimes swing wildly. Between Nov. 2000 and Feb. 2001, the Postal Service raised its estimate for its fiscal year 2001 deficit from \$480 million to between \$2

billion and \$3 billion "with little or no public explanation."<sup>2</sup> (The actual loss turned out to be \$1.7 billion.) Similarly, in fiscal year 2002, the Postal Service initially estimated that it would lose \$1.35 billion during the year but "then stated, in May 2002, that its net loss for the year could have reached \$4.5 billion."<sup>3</sup>

The GAO observes that "these significant changes in financial outlook were not evident from publicly available information and came as a surprise to many stakeholders."<sup>4</sup> Later, the GAO remarks that the "type of explanatory information" which is missing from the Postal Service's disclosures and which might have made sense of changes like those above "is typically provided in quarterly financial reports of publicly traded companies."<sup>5</sup>

The Postal Service now generates regular quarterly reports and posts them on its web site, as recommended by earlier GAO studies. This

constitutes some improvement in timeliness and accessibility. But according to the GAO, the reports are lacking in quality:

[W]e do not believe that the quarterly financial reports provided to date meet the intent of our recommendations, because the Service provided only limited analysis and explanations to help stakeholders understand what had changed, why it had changed, and how these changes affected the Service's current financial situation and expected outlook.<sup>6</sup>

In contrast, the GAO notes that the quarterly reports of publicly traded companies normally furnish detailed discussions and analyses regarding recent performance, what factors caused actual results to differ from expected results, and what events may have a material impact on operations in the future. Because the Postal Service omits key financial information, stakeholders attempting to monitor its performance in real time often lack the roadmap for doing so.

Moreover, although the Postal Service has improved the timeliness with which it reports financial information, it still lags below the standard set by the private sector. For instance, the GAO notes:

During the fall of 2001, when the Service ... requested additional appropriations from Congress, readily available and detailed information on the Service's changing financial situation was scarce... [T]he Service did not publicly release its monthly statements for the last accounting period of fiscal year 2001 and for the first three accounting periods of fiscal year 2002.... [M]ore timely availability of monthly and quarterly reports, even if they contain preliminary data subject to revision, would be useful to improve transparency for congressional oversight, the stakeholder community, and the public.<sup>7</sup>

Another problem is that "the Service's quarterly reports have not been consistent in format and

content."<sup>8</sup> This has made it "difficult to compare results and analyze trends over time."<sup>9</sup> Nor has periodic financial information been as accessible to the public as it should be. On examination, the GAO determined that the Postal Service provides less financial information on its Web site than its major private-sector competitors post on their Web sites.

These limitations in consistency, accessibility, and detail are worrisome, writes the GAO, because "[s]ufficient, consistent, and accessible financial information helps provide the necessary transparency and accountability that are fundamental principles in ensuring public confidence in an organization and proper oversight."<sup>10</sup> In addition to being needed for adequate accountability, timely and high quality information would provide the Postal Service with an extremely valuable management tool.

Several months ago, an IRET Advisory commented that the Postal Service should release detailed financial information about each of its products. That information would give monopoly-bound consumers better protection from being forced to cross-subsidize other Postal Service products.<sup>11</sup> It is clear from the GAO's latest report that the Postal Service fails to meet this standard. It should be disclosing more about both its overall financial performance and its various products.

The GAO report provides examples to illustrate that private businesses routinely offer detailed explanations of why their revenue and income estimates have varied from quarter to quarter, why actual results have departed from forecasts, and which products or services were responsible for the swings. These "Management's Discussion and Analysis" sections of private firms' reports are extremely helpful to the public in understanding the reasons for the changing fortunes of the business and in grasping the condition and outlook of the companies.

In fact, these management explanations in annual and quarterly reports actually serve two purposes. They better inform shareholders and creditors of the company's condition and outlook.

In addition, the very effort of compiling the information and the need to explain and analyze the results is an important spur to management to keep on top of events and adopt policies that create efficiency and produce good financial outcomes.

The GAO is also concerned that the Postal Service is not releasing more information about the eventual cost of post-retirement health benefits for its workers. The GAO has been calling for greater disclosure in this area at least since the early 1990s. In response, the Postal Service argues that "public discussion" of its post-retirement obligations "must be undertaken with great care" because of "the potential for large numbers" that could be "taken out of context" and are "highly sensitive to assumptions".<sup>12</sup> The GAO replies, "[W]e agree that greater public understanding of these obligations is important *and that the Service can help accomplish this through enhanced disclosure in its financial and related statements.* [Emphasis added.]"<sup>13</sup>

In other words, the Postal Service should try extra hard to explain the issue precisely because it involves large numbers and is complex. The GAO recommends that the government-owned Postal Service follow the example set by many publicly traded businesses and the government as a whole:

[W]e believe that the Service needs to enhance its disclosure of its postretirement health obligations in its financial reports. Importantly, a number of major employers have provided disclosures relating to these types of obligations for several years. In addition, the consolidated financial statements of the U.S. government include extensive disclosure of the obligations of a government-wide basis. Without sufficient disclosure of these obligations in the Service's financial statements of the related footnotes, neither Congress nor stakeholders can have adequate information needed to make appropriate decisions related to these issues."<sup>14</sup>

The GAO is right to be concerned. It reports that, in May 2002, it asked the Federal Office of

Personnel Management (OPM) to estimate how much of the underfunding in the federal pension system was due to the Postal Service. In response, the OPM has revealed the surprising result that the contributions imposed to meet the Postal Service's obligations for its share of the pension system would overfund the benefits owed by some \$71 billion dollars over the benefit period. Consequently, if the Congress is willing to reduce the statutory contributions required of the Postal Service to match the reduced funding needs, the Service might be able to defer further rate increases until 2006. Until the total financial picture becomes less murky, further wide swings can be expected as more surprises come to light. Hopefully, they will all be positive, but that is unlikely.

It would have been nice to have had this information before the last rate increase was approved by the Postal Rate Commission and implemented. The Postal Service was not the source of the delayed recomputation of its pension liability, but one wonders why the Postal management was not paying more attention to the issue, asking for more timely information from OPM, and thereby looking out for its interests (and its customers' interests) a bit better.

In the Postal Service's defense, government entities often keep books that are more reminiscent of Tyco or Enron than the typical publicly traded business. For instance, Amtrak, which resembles the Postal Service in that it is also a government enterprise but differs in that it has failed to come close to breaking even, still has not released its 2001 annual report. As another example, in looking at financial management at 26 government departments and agencies (not including the Postal Service), the Office of Management and Budget reported in early 2002 that 21 were unsatisfactory, 4 were mixed, and only 1 was satisfactory.<sup>15</sup> Compared to what is often seen in government, the Postal Service is not doing badly.

Nevertheless, the Postal Service's relative lack of transparency is the opposite of what would have been expected — if the government practices what it preaches. Washington, the financial community, and private investors have recently been very

concerned that private-sector businesses have been releasing too little information about their finances. The state of the Postal Service's financial reports is certainly deserving of equal attention, in light of its size and importance to the economy. Given the Postal Service's mandate to operate in the public interest, it ought to be providing an exemplary level of financial transparency. However, in a head-to-head contest with publicly traded, private-sector

businesses, it is the government enterprise that comes up short. Indeed, the thrust of the GAO study is that the Postal Service should be taking lessons on financial disclosure from what most publicly traded, private-sector companies are already doing.

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### *Endnotes*

1. U.S. General Accounting Office, "U.S. Postal Service Actions To Improve Its Financial Reporting," GAO-03-26R, November 13, 2002, accessed on the Internet at <http://gao.gov/new.items/d0326r.pdf>
2. *Ibid.*, p. 1.
3. *Ibid.*
4. *Ibid.*
5. *Ibid.*, p. 6.
6. *Ibid.*, pp. 3-4.
7. *Ibid.*, p. 5.
8. *Ibid.*, p. 6.
9. *Ibid.*, p. 13.
10. *Ibid.*, p. 6.
11. Michael Schuyler, "Transparency: Using Financial Openness At The Postal Service To Protect Consumers And Taxpayers," *IRET Congressional Advisory*, No. 125, March 27, 2002
12. "Comments From The U.S. Postal Service," in Enclosure IV of GAO, *op. cit.*, p. 73. Post-retirement obligations include both contributions to retirees' pensions and contributions for retiree's health benefits.
13. *Ibid.*, p. 4.
14. *Ibid.*
15. U.S. Office of Management and Budget, *Budget Of The United States Government*, Fiscal Year 2003 (Washington, DC: Government Printing Office, 2002), pp. 46-50.