



June 2018

U.S. POSTAL SERVICE

Projected Capital Spending and Processes for Addressing Uncertainties and Risks

Accessible Version

GAO Highlights

Highlights of [GAO-18-515](#), a report to congressional requesters

Why GAO Did This Study

USPS faces significant financial challenges as it continues to experience declining mail volumes and revenues. Capital spending is needed to support USPS's operations, but can be affected by various uncertainties and risks, such as those related to future business activities and revenues. In the past, USPS has reduced its capital spending in response to declining revenues.

GAO was asked to review USPS's capital-spending plans and examine how its capital-spending processes address uncertainties and risks. This report: (1) describes USPS's projected capital spending over the next 10 years and (2) assesses whether USPS's processes support its ability to address uncertainties and risks that affect its capital spending.

GAO reviewed USPS data and information on actual capital spending from fiscal years 2007 to 2017 and projected capital spending for fiscal years 2018 through 2028. GAO also reviewed USPS reports on 14 approved capital projects in fiscal years 2017 and 2018, selected to provide a mix of project type and value; examined documentation related to USPS's processes that affect capital spending and compared USPS's processes to internal control standards adopted by USPS; and interviewed USPS

View [GAO-18-515](#). For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

June 2018

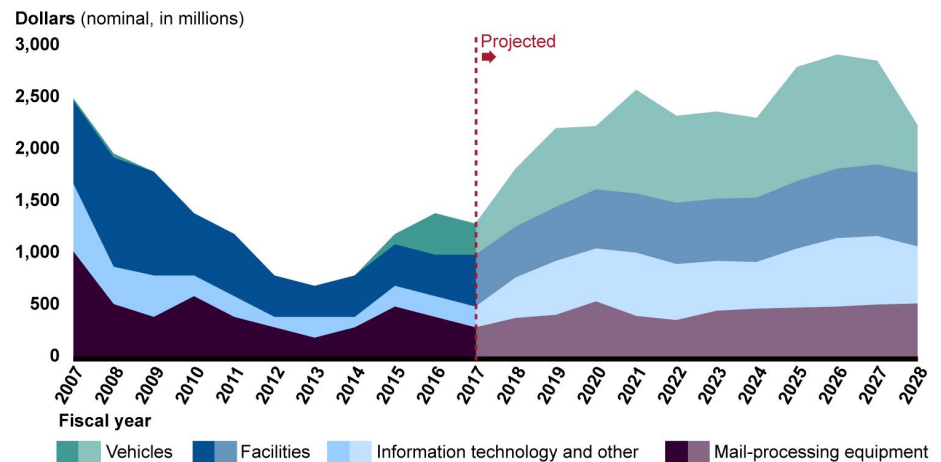
U.S. POSTAL SERVICE

Projected Capital Spending and Processes for Addressing Uncertainties and Risks

What GAO Found

The United States Postal Service (USPS) projects increased capital spending over the next 10 years. According to USPS, this spending will support its mission and improve its financial position. USPS projects average annual capital cash outlays of \$2.4 billion from fiscal years 2018–2028—about 70 percent more than the \$1.4 billion average from fiscal years 2007–2017 (see figure). For example, USPS plans to acquire a new fleet of delivery vehicles starting in 2019 to replace its aging existing fleet and plans to purchase new mail-processing equipment to increase efficiency. However, USPS faces a serious financial situation with insufficient revenues to cover expenses. This uncertainty may result in USPS's making capital-spending prioritization decisions that can lead to tradeoffs across planned capital projects and potentially between capital spending and other organizational needs such as operational expenses. Such prioritization could lead to USPS's undertaking less capital spending than currently projected in the absence of increased revenues or decreased expenses.

U.S. Postal Service's Historical (2007–2017) and Projected (2018–2028) Capital Spending



Source: GAO analysis of USPS data. | GAO-18-515

USPS has processes that help it identify the uncertainties and risks that may affect its capital spending and adjusts its capital spending accordingly, in line with internal control standards adopted by USPS. For example, USPS identifies organizational uncertainties, such as mail volumes and revenues, as part of its strategic planning process and considers them when creating its capital spending budget. It also identifies individual project risks through a project review process, and considers tradeoffs inherent in different project scenarios. USPS's processes also allow it to respond to these uncertainties and risks. Specifically, USPS sets a capital-spending budget in its overall financial plan, to help ensure that spending is in line with expected resources. USPS's process also allows it to shift funds if needed, such as to repair a facility damaged during a natural disaster. USPS also reviews individual capital projects during implementation and can change specifications or time frames based on changing circumstances.

Contents

Letter		1
	Background	4
	USPS Plans to Increase Capital Spending, but Business Uncertainties Will Likely Involve Prioritization against Other Business Needs and among Capital Projects	9
	Various Processes Support USPS's Ability to Address Uncertainties and Risks That Affect Capital Spending	18
	Agency Comments	25
<hr/>		
Appendix I: Objectives, Scope, and Methodology		26
Appendix II: Comments from the U.S. Postal Service		30
Appendix III: GAO Contact and Staff Acknowledgments		31
Appendix IV: Accessible Data		32
	Data Tables	32
	Agency Comment Letter	34
<hr/>		
Figures		
	Figure 1: U.S. Postal Service's Capital-Spending Categories	5
	Figure 2: U.S. Postal Service's (USPS) Historical (2007–2017) and Projected (2018–2028) Capital Spending	10
	Figure 3: Example of an Off-the-Shelf Delivery Vehicle Acquired since Fiscal Year 2017 by U.S. Postal Service	13
	Figure 4: U.S. Postal Service Facility Damaged during Hurricane Maria	22

Abbreviations

COSO	Committee of Sponsoring Organizations of the Treadway Commission
DAR	Decision Analysis Report
OMB	Office of Management and Budget
USPS	U.S. Postal Service

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



June 28, 2018

The Honorable Claire McCaskill
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Carper
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The U.S. Postal Service (USPS) provides crucial support for the nation’s communications and commerce. According to USPS, in fiscal year 2017, USPS delivered 149-billion pieces of mail, generating about \$70 billion in revenues. However, USPS—which is structured to be financially self-supporting—is facing unsustainable financial challenges as First-Class Mail volume continues to decline. Although USPS has restructured its services and network in various ways to try to improve its financial position, total mail volume fell 3.1 percent in fiscal year 2017, resulting in an operating loss of \$2.6 billion.¹ Fiscal year 2017 marked USPS’s 11th straight year of operating at a loss.²

Capital spending supports USPS’s ability to meet its organizational objectives. For USPS, capital spending includes spending on delivery vehicles, mail-processing equipment, post offices and other buildings, and other items USPS uses to support operations and meet its universal

¹USPS, *2017 Report on Form 10K* (Washington, D.C.: Nov. 14, 2017).

²In part due to these challenges, we have included USPS on our high-risk list, stating that USPS faces a serious financial situation that is putting its mission of providing prompt, reliable, and efficient universal mail services at risk. We noted that while USPS has taken some steps to resolve its financial difficulties, it needs to continue to take actions to reduce costs and increase revenues. *GAO High Risk Series: Progress on Many High-Risk Areas, While Substantial, Efforts Needed on Others* [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017).

service obligation.³ However, given its challenging financial situation, starting in fiscal year 2009, USPS dramatically reduced its capital spending and for a number of years, according to USPS, restricted its spending to projects it deemed necessary to ensure the health and safety of employees and customers or to those projects that could produce a large and rapid return on investment. More recently, USPS began increasing its capital spending, but its challenging financial situation and future uncertainties remain. In addition, individual capital projects can face their own project-specific risks. USPS's continuing financial losses and business uncertainties create challenges in its ability to undertake the capital-spending needs it has identified.

You asked us to review USPS's capital spending plans and how its capital-spending processes address uncertainties and risks. This report: (1) describes USPS's projected capital spending over the next 10 years and (2) assesses whether USPS's processes support its ability to address uncertainties and risks that affect its capital spending.

To describe USPS's projected capital spending over the next 10 years, we reviewed USPS data on actual capital spending from fiscal years 2007 through 2017 and USPS documentation on projected capital spending from fiscal years 2018 through 2028. In both cases, we focused on fiscal year actual or projected capital-spending cash outlays—or the amount of cash spent on capital projects—as opposed to capital-spending commitments made in that specific fiscal year.⁴ For historical data, we used data from USPS's annual budgets for fiscal years 2008 through 2018, which contain data from prior fiscal years. For information on USPS's projected capital spending for fiscal years 2018 through 2028, we reviewed USPS's 10-year capital-spending projection for those years, which USPS created in 2017. To determine the reliability of these data, we interviewed USPS officials, reviewed data for any obvious errors, and reviewed relevant documentation. We determined that these data were

³As part of its universal service obligation, USPS "shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people ... [by providing] ... prompt, reliable, and efficient services to patrons in all areas and ... postal services to all communities." 39 U.S.C. § 101(a). USPS served about 157-million delivery points at the end of fiscal year 2017, an increase of approximately 1.2 million from 2016. USPS, *2017 Annual Report to Congress*.

⁴A single capital-spending project may be implemented over multiple years. As a result, a spending commitment for the full amount of the project might be made in a given year, with the cash outlays for the project spread out over multiple years.

sufficiently reliable for the purposes of reporting on USPS's past and projected capital spending. We also selected and reviewed a non-generalizable sample of 14 of USPS's 66 approved fiscal year 2017 and 2018 Decision Analysis Reports (DAR)—internal USPS documents used to justify and obtain approval for some proposed capital spending projects.⁵ We selected DARs to provide a mix of types of capital spending projects and total project value.⁶ We reviewed the DARs to obtain descriptive information about the projects. While information presented from our reviews of the DARs cannot be generalized to all DARs, the information provides insights into USPS's reasons for undertaking capital spending projects. In addition, we interviewed USPS officials about the organization's historic and projected capital spending.

To assess whether USPS's processes support its ability to address uncertainties and risks that affect its capital spending, we reviewed documentation from USPS, including USPS's policies and procedures for capital spending and internal guidance documents, and interviewed USPS officials. We then compared that information against criteria for addressing uncertainties and risks. Specifically, we identified criteria from the Office of Management and Budget's (OMB) *Capital Programming Guide*⁷ and the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control-Integrated Framework*—internal control standards adopted by USPS.⁸ We evaluated how USPS's processes that affect capital spending are designed to address uncertainties and risks. For more details regarding our scope and methodology, see appendix I.

⁵USPS creates DARs on an ongoing basis throughout the year. We selected approved fiscal year 2017 and 2018 DARs from a list of DARs that had been approved as of December 18, 2017.

⁶While approved DARs include information on total project costs, we do not report the dollar values of specific capital spending projects as USPS considers that information to be business sensitive.

⁷Office of Management and Budget *Capital Programming Guide v 3.0 Supplement to Office of Management and Budget Circular A-11 Planning, Budgeting, and Acquisition of Capital Assets* (Washington, D.C.: 2017).

⁸Committee of Sponsoring Organizations of the Treadway Commission *Internal Control-Integrated Framework* (2013). We are using COSO criteria instead of the *Standards for Internal Control in the Federal Government* because it is the framework used by USPS. USPS officials stated that the organization adopted the COSO framework because it is widely accepted and used by businesses.

We conducted this performance audit from September 2017 to June 2018 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

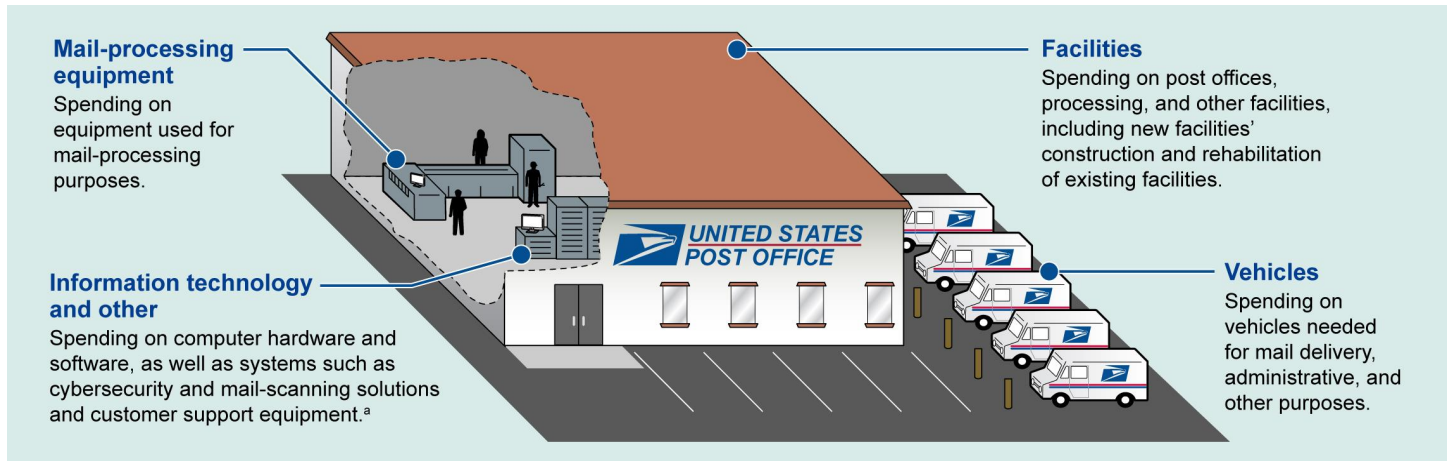
USPS undertakes capital-spending projects for a number of reasons and more than one reason may apply to a single project. According to USPS documentation on its capital spending processes, these reasons include:

- to support USPS's organizational objectives and strategic plan,⁹
- to help sustain existing operations and meet USPS's universal service obligation,
- to protect the health and safety of employees and customers or meet legal requirements, or
- to generate a positive return-on-investment—such as by increasing revenues or decreasing costs—thus improving USPS's finances.

USPS generally categorizes its capital spending in four broad categories: vehicles, facilities, information technology and other, and mail processing equipment, as shown in figure 1.

⁹USPS's fiscal year 2017 through 2021 strategic plan includes the following strategic goals: (1) deliver a world-class customer experience; (2) equip, empower, and engage employees to best meet the needs of USPS's customers; (3) innovate faster to deliver value and provide customers with appropriate products and services; and (4) invest in future platforms to deliver services. USPS, *Future Ready: U.S. Postal Service Five-Year Strategic Plan Fiscal Years 2017 to 2021* (Washington, D.C.: Sept. 30, 2016).

Figure 1: U.S. Postal Service’s Capital-Spending Categories



Source: GAO. | GAO-18-515

^a“Other” capital spending in this category includes some equipment, such as customer support equipment, and capital projects that do not otherwise fit into the four categories, such as a program to reduce waste and increase recycling revenue.

USPS has processes for setting an annual capital-spending budget and approving specific capital projects.¹⁰ USPS prepares an annual capital-spending budget as part of its annual organization-wide budget. According to USPS documentation on its capital spending process, and USPS officials the process includes the following steps:

- In advance of each fiscal year, USPS’s Finance and Planning Department reviews estimated revenues and expenses to determine an appropriate total capital-spending budget.

¹⁰In 2014, we reported on USPS’s capital spending processes. Specifically, we evaluated USPS’s capital-spending practices in four phases—planning, selecting, managing, and evaluating—against leading best practices and found that USPS’s conformance with those best practices varied. We recommended that USPS (1) establish a time frame for developing a single set of policies and procedures for selecting capital-spending projects, (2) modify its capital-spending policies to align with leading best practices, and (3) regularly examine the extent to which USPS executives and managers follow leading best practices. USPS partially concurred with the first two recommendations and agreed with the third. As of March 2018, USPS had reported that it is updating its capital-spending manual to address these recommendations, but the proposed updated manual is not finalized. Our 2014 report did not focus specifically on USPS processes to address uncertainties and risks related to capital spending. GAO *U.S. Postal Service: Actions Needed to Strengthen the Capital Investment Process* GAO-14-155 (Washington, D.C.: Jan. 7, 2014).

- Next, USPS's Executive Leadership Team and the leadership of relevant departments develop requests for each department's estimated capital-spending needs for the upcoming year, including a ranking of desired projects.¹¹ These lists provide information on projects' purposes, estimated capital and operating expenses, potential return-on-investment, and relationship to USPS's strategic initiatives.
- The Finance and Planning Department then reviews these lists in light of the previously determined total capital-spending budget and sets a capital spending budget for each of the broad categories of capital spending.
- The Executive Leadership Team votes on this preliminary capital spending budget, which, if approved, is included in the organization-wide budget that is subject to approval by USPS's Board of Governors.¹² The budget approved by the Board of Governors includes the total and categorical capital-spending budget, but does not include approvals for specific projects.

According to USPS officials, USPS also uses these capital-spending requests, along with other information, such as historical capital-spending data and information on already identified specific future capital-spending projects, to annually update a 10-year projection of capital spending. USPS uses this 10-year projection to estimate USPS's potential future capital spending and requirements for capital project cash outlays.

USPS also has processes for approving specific capital projects. Project sponsors—those departments that wish to undertake a capital-spending

¹¹The Executive Leadership Team is comprised of the Postmaster General, Deputy Postmaster General, Chief Operating Officer, Chief Information Officer, Chief Financial Officer, General Counsel, Chief Customer and Marketing Officer, and Chief Human Resources Officer.

¹²USPS's Board of Governors is to be comprised of nine Governors as well as the Postmaster General and Deputy Postmaster General. However, since 2016, the Board of Governors has not had a quorum due to a large number of vacancies in the Governor positions. As a result, some authorities of the board have been delegated to a Temporary Emergency Committee, which is currently comprised of the Postmaster General and the Deputy Postmaster General due to the fact that there are no Governors in office. The Temporary Emergency Committee currently approves USPS's budget. We have testified before Congress that a fully functioning Board of Governors is needed to support USPS's ability to carry out its responsibilities, including setting prices and approving new products. See *GAO U.S. Postal Service: Key Considerations for Restoring Fiscal Sustainability GAO-17-404T* (Washington, D.C.: Feb. 7, 2017).

project—must obtain approval from different groups within USPS to initiate capital projects. According to USPS documentation, the level of approval required depends on the estimated total cost of the project:¹³

- **Total costs over \$5 million:** The project sponsor must submit a DAR to USPS’s Investment Review Committee for review.¹⁴ DARs contain estimated project cost, return-on-investment, and other information used to justify the project. If the committee approves, it makes a recommendation to the Postmaster General for final approval. USPS’s Office of Inspector General also reviews and assesses the adequacy and the depth of the information in the DAR, assesses whether the project is in USPS’s best business interest, and may provide input to the Investment Review Committee, which may take that information into consideration when reviewing projects.
- **Total costs from \$1 million to \$5 million:** The project sponsor must submit a DAR to USPS’s Technical Review Committee for review and approval.¹⁵
- **Total costs under \$1 million:** The project is reviewed by USPS’s Finance and Planning department, and approval is subject to the level of budgetary resources available. USPS does not require a DAR for these projects, although the process involves other documents, such as a one-page “Justification of Expense” that is required for many of the projects.

USPS faces organization-wide uncertainty that may affect its capital spending. We define “organizational uncertainty” as those uncertainties—such as business, budgetary, legislative or regulatory, or other conditions—that may affect USPS’s ability to remain competitive and

¹³The total investment considered for this purpose is the total of capital costs, implementation and deployment expenses, and operating expenses for the project for the existing fiscal year. As some capital projects may take multiple years to implement, the total investment cost may include cash outlays required over multiple years. For the purposes of this report we refer to these total investment costs as “total project costs” and the cash outlays made in any given year as “capital spending.”

¹⁴The Investment Review Committee is comprised of the Chief Financial Officer, Chief Operating Officer, Chief Information Officer, Chief Customer and Marketing Officer, General Counsel, and Chief Human Resources Officer.

¹⁵The Technical Review Committee is comprised of the Vice President, Finance and Planning and the Vice President, Information Technology.

achieve its mission.¹⁶ For example, in the absence of adequate revenues that would cover all of USPS' expenses, these uncertainties may affect the extent to which USPS can undertake its identified capital-spending plans. According to USPS, organizational uncertainties include the following:

- Business uncertainty includes potential changes to USPS's business and the market for its products and services. Such uncertainty may be affected by changing customer preferences—such as continuing diversion of First Class Mail to electronic alternatives (e.g., e-mail or online banking)—and increased competition for package shipments.
- Budgetary uncertainty includes potential uncertainty and changes to revenues and expenses that affect USPS's finances.
- Legislative or regulatory uncertainty includes potential actions intended to address some of USPS's financial challenges. For example, postal reform legislation has been introduced that, if enacted, could improve USPS's financial position. Both H.R. 756 and S. 2629 propose to relieve USPS of some of its retiree health and pension obligations and provide a reinstatement of a partial rate surcharge.¹⁷ Similarly, the Postal Regulatory Commission—an independent establishment of the executive branch that regulates USPS¹⁸— is considering providing USPS with additional flexibility on pricing, which could also improve USPS's finances.¹⁹

¹⁶Our definition of “organizational uncertainty” for the purposes of this report is based on our review of USPS's financial statements.

¹⁷*Postal Service Reform Act of 2017*, H.R. 756, 115th Cong. (2017) and *Postal Service Reform Act of 2018*, S. 2629, 115th Cong. (2018). However, even if USPS raises rates, it may not see an increase in revenues. Economic studies show that, when the price of a product increases, the quantity demanded for the product will adjust downward. As a result, a rate increase for USPS could lead to a decrease in volume that might offset additional revenue from the rate increase.

¹⁸The Postal Regulatory Commission is composed of five commissioners, each of whom is appointed by the President, with the advice and consent of the Senate, for 6-year terms.

¹⁹The Postal Regulatory Commission issued a Notice of Proposed Rulemaking in December 2017 that proposes, among other things, to provide USPS with supplemental rate authority for a limited time period as well as additional performance-based rate authority, which would allow USPS to raise rates if it meets certain operational efficiency criteria. Postal Regulatory Commission, *Notice of Proposed Rulemaking for the System for Regulating Rates and classes for Market Dominant Products*, Order No. 4258, (Washington, D.C.: Dec. 1, 2017).

According to USPS documentation on capital-spending processes as well as DARs for individual capital-spending projects, capital-spending projects also can face project-specific risks, such as the following:

- **Technological risks, which include complexity, quality, and security concerns:** For example, capital projects deploying new technology intended to increase operational efficiency may face the risk that the new technology could become obsolete given future technological advances.
- **Operational risks, which include maintenance and performance of projects:** For example, equipment purchased as part of a capital project could involve the risk that it may not perform as expected.
- **Integration risks, which include network and system integration and user acceptance of projects:** For example, a project involving new retail technology may face the risk that USPS's customers will not accept the new technology, and, as a result, the project does not meet its target for customer use.

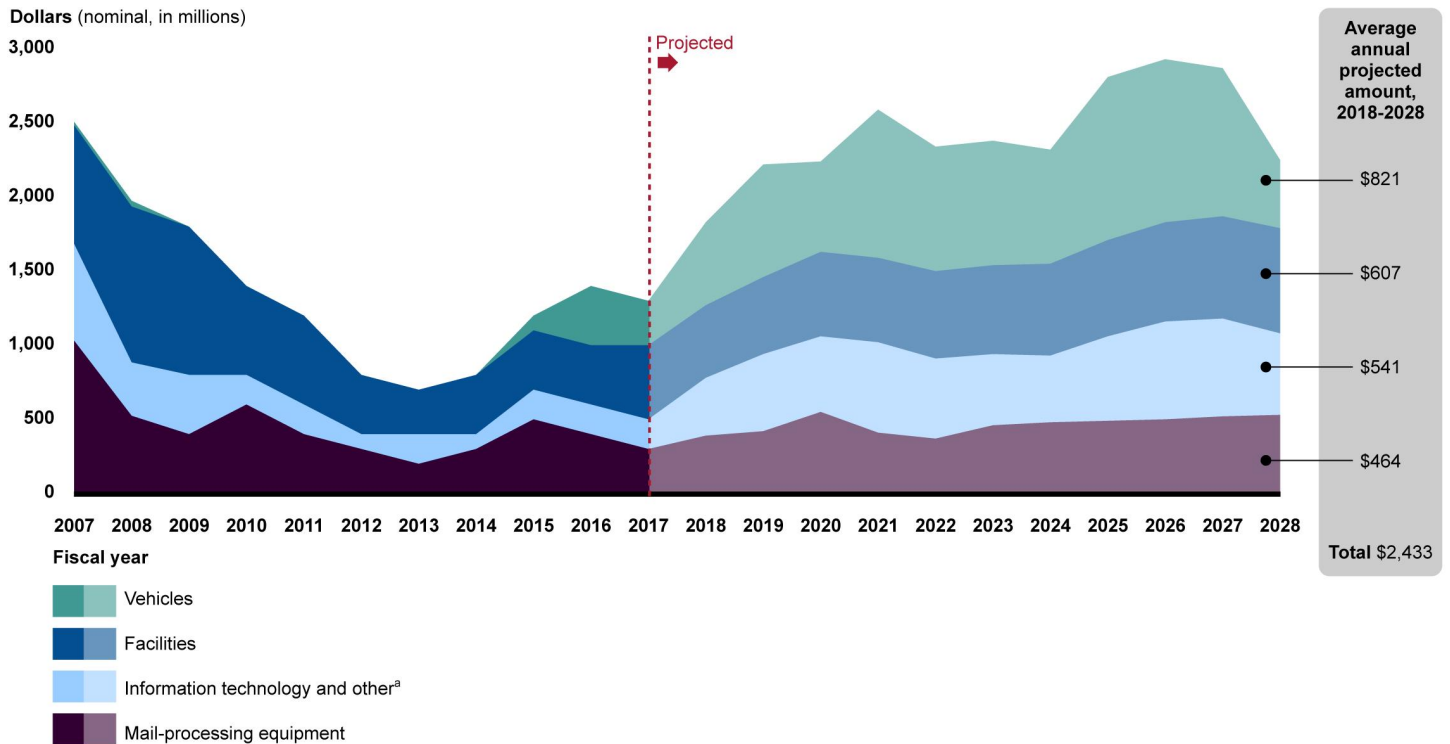
USPS Plans to Increase Capital Spending, but Business Uncertainties Will Likely Involve Prioritization against Other Business Needs and among Capital Projects

According to USPS, the organization has critical capital-spending needs after years of reduced capital spending. Starting in fiscal year 2009, USPS sharply decreased its capital spending for several years, in response to decreased volume and revenues; however, USPS now plans to increase its spending. Specifically, USPS projects average annual capital-spending cash outlays of \$2.4 billion from fiscal years 2018 through 2028—about 70 percent more than the average of \$1.4 billion from fiscal years 2007 through 2017.²⁰ (See fig. 2.) While this projected spending is largely driven by plans to acquire a new fleet of delivery vehicles, USPS also projects increased spending in the other categories of facilities, information technology, and mail-processing equipment. In

²⁰These dollar values, and all others discussed in this report, are in nominal terms. USPS officials noted that its 10-year capital-spending projection is only a projection of currently identified potential needs and future capital spending may change over time for a number of reasons.

addition, while some of USPS’s planned capital spending is intended specifically to generate a return-on-investment—such as by increasing revenues or decreasing costs—much of USPS’s planned capital spending is to help sustain operations. Specifically, according to our analysis of USPS data, roughly 80 percent of USPS’s projected capital spending for fiscal year 2018 is for projects intended to help sustain operations.

Figure 2: U.S. Postal Service’s (USPS) Historical (2007–2017) and Projected (2018–2028) Capital Spending



Source: GAO analysis of USPS data. | GAO-18-515

^a“Other” capital spending in this category includes some equipment, such as customer support equipment, and capital projects, such as a program to reduce waste and increase recycling revenue, that do not otherwise fit into the four categories.

Vehicles: Spending Planned to Replace Aging Fleet

In its latest projection of capital spending, covering fiscal years 2018 through 2028, USPS projects an annual average of roughly \$821 million on capital spending for vehicles, primarily driven by a multi-year acquisition of new delivery vehicles starting in fiscal year 2019. According to USPS officials, USPS decided a number of years ago to defer purchasing new delivery vehicles and instead continued using and maintaining its existing fleet. Because USPS started acquiring most of its existing delivery fleet in 1987, the majority of its delivery vehicles are several decades old. USPS officials said these vehicles incur high maintenance costs, averaging about \$4,500 per vehicle annually.

In acquiring new vehicles, USPS plans to take a number of steps to ensure that the vehicles best meet the organization's needs. According to USPS officials, it will spread the acquisition over multiple years to avoid a large cash outlay in any given year and to enable USPS to modify the vehicle purchases over time to take advantage of any technological changes, such as advances in alternative fuel technologies. Officials added that USPS is considering vehicles that will encourage operational efficiencies. For example, USPS is considering taller vehicles that will better allow carriers to handle trays of mail and packages. The officials also noted that USPS may consider different vehicle designs for different market needs.²¹ The officials said that USPS is currently testing various vehicle prototypes and has not decided on any one vehicle design at this time. In total, USPS projects that its acquisition of new delivery vehicles will require about \$5.7 billion in capital-spending cash outlays distributed over a number of years.

In addition to its planned future acquisition of delivery vehicles, USPS has also conducted smaller acquisitions of vehicles in recent years. According to USPS officials, in the past few years USPS has been replacing most of its non-delivery vehicles and will have done so by 2019, while also purchasing a small number of delivery vehicles to replace ones that have exceeded their useful life or will serve route growth.²² For example, in April 2017 USPS approved a capital spending project to purchase more

²¹Specifically, according to USPS officials, USPS may purchase one vehicle type for urban areas such as New York City and another for more rural areas.

²²USPS's delivery network is growing by over 1-million new delivery points per year in recent years, requiring the creation of new or expanded delivery routes.

than 2,000 cargo vans used to transport large volumes of mail from postal plants to post offices and other facilities, and about 375 spotter vehicles used to move trailers among docks at processing facilities.²³ In May 2017 USPS approved a capital spending project to purchase approximately 8,000 off-the-shelf delivery vehicles needed to serve route growth and replace existing high-maintenance-cost vehicles.²⁴ (See fig. 3.)

²³In September 2017 USPS approved additional capital spending, based on higher contracted costs, to support this project.

²⁴Purchase of off-the-shelf delivery vehicles means these vehicles were purchased from the manufacturer with no major modifications and were not custom-designed and built for USPS.

Figure 3: Example of an Off-the-Shelf Delivery Vehicle Acquired since Fiscal Year 2017 by U.S. Postal Service



Source: U.S. Postal Service. | GAO-18-515

Facilities: Spending Primarily Intended for Repairs of Existing Facilities

USPS projects an annual average of about \$607 million in capital spending for facilities from fiscal years 2018 through 2028.²⁵ According to USPS officials, USPS faces little need for capital spending on new facility construction given changes to USPS's business such as decreasing mail volumes. As a result, most of USPS's projected capital spending is for rehabilitation and repair of existing facilities, such as the replacement of roofs or heating, ventilation, and air-conditioning systems needed to sustain operations. For example, in December 2016, USPS approved a capital spending project to replace the roof at a mail processing facility in Tulsa, Oklahoma. USPS had concluded that the roof was in a state of failure, and there were no economically feasible repair options. In addition, in 2017 USPS approved about a capital spending project to repair facilities in the U.S. Virgin Islands damaged during Hurricane Maria.

Although most facilities spending is related to rehabilitation and repair, some USPS capital spending is on new facilities. According to USPS officials, new facilities projects are generally approved because of the need to completely replace an existing facility that is beyond repair or to construct a new facility that will replace multiple existing facilities. For example, in May 2017 USPS approved a capital spending project to construct a mail-processing facility in Nashville, Tennessee. The facility is intended to replace and close four existing facilities which will eliminate space deficiencies, reduce transportation costs, and improve operating efficiencies. In addition, according to USPS officials, USPS may need to make capital spending investments to facilities to accommodate growth in package volume, should that growth continue.

Information Technology and Other: Spending Intended to Support USPS's Network and Cybersecurity Efforts

USPS projects an annual average of about \$541 million in capital spending for information technology and other capital projects, such as customer support equipment, from fiscal years 2018 through 2028.²⁶

²⁵USPS capital spending forecast for fiscal years 2018 to 2028.

²⁶USPS capital-spending forecast for fiscal years 2018 to 2028.

Information technology spending, which makes up an average of 98 percent of the projected spending in this category from fiscal years 2018 through 2028, is intended to maintain the infrastructure used to support USPS and provide security from cyber-threats, among other things. According to USPS officials, while it is difficult to project capital spending on information technology because future needs are uncertain, they can more accurately predict some future needs, such as hardware replacement. For example, there is a baseline of projected costs to replace servers because USPS knows the length of the technologies' useful lives and when they will need to be replaced. According to USPS officials, while much of its capital spending on information technology is intended to replace outdated servers and other hardware, some spending is for developing new information technology systems. For example, in March 2017 USPS approved a capital spending project to purchase 67 video conferencing systems intended to increase productivity and encourage collaboration among USPS offices. In addition, USPS officials told us that in recent years USPS has undertaken more capital spending than expected on cybersecurity, a trend that will likely continue for the next few years. According to a DAR for cybersecurity investments, USPS is undertaking such investments to proactively identify and respond to security threats that have the potential to cause financial or other damage to the organization's assets or employees, including threats that could disrupt or destroy information.

Capital spending on information technology can also support USPS strategic goals and provide a positive return-on-investment. For example, in January 2017 USPS approved an additional capital spending to support development of its Informed Visibility program, which is a system that provides tracking and reporting of mail shipments for commercial mailers.²⁷ According to the Informed Visibility DAR, these capabilities will provide users with access to valuable business information, helping improve operational efficiencies and marketing, among other things. According to the DAR, Informed Visibility will also provide a positive return-on-investment by eliminating some redundant costs and programs.

²⁷USPS initially approved capital spending to support Informed Visibility in October 2014 and additional funding to support it in October 2015.

Mail-Processing Equipment: Projected Spending Intended to Increase Automation and Efficiency

USPS projects an annual average of about \$464 million on capital spending for mail-processing equipment from fiscal years 2018 through 2028.²⁸ USPS intends to maintain or replace existing aging equipment used to process mail and purchase new equipment that USPS expects will increase efficiency and provide other business benefits. According to USPS officials, equipment projects can also generate a positive return-on-investment in a number of ways, such as by increasing automation to reduce costs or by improving customer service. For example, in August 2017 USPS approved a capital spending project to provide new control systems for about 1,000 bar code sorter machines that USPS expects will decrease mail-processing costs.

Some of USPS's mail-processing equipment investments may also specifically address the growing market for package shipments. For example, in July 2017 USPS approved a capital spending project for upgrades to automated package-processing machines—upgrades intended to reduce package-handling costs and improve collection of data on when and where packages are processed. USPS first deployed these machines in 2004. According to the DAR, by 2017, the machines were nearing the end of their useful life, resulting in reduced reliability.

USPS's Projected Capital Spending Will Likely Involve Prioritization Decisions

Although USPS is projecting increased capital spending over the next 10 years, it has reported that it faces uncertainties, such as the level of future revenues, that could affect its ability to undertake planned and projected spending. USPS faces continuing declines in First Class Mail volume, and while it has experienced increased volume in packages, future increases in package volume are uncertain.²⁹ Specifically, according to USPS, some of its major shipping customers are now building their own delivery capability that may enable them to divert some package shipments away from USPS. USPS has also stated that it faces challenges in ensuring

²⁸USPS capital spending forecast for fiscal years 2018 to 2028.

²⁹In addition, package shipments are generally less profitable for USPS than First Class Mail.

that future operations generate sufficient revenues to support planned capital spending and that it is constrained in its ability to reduce costs.³⁰ We have previously testified that USPS continues to face a serious financial situation with insufficient revenues to cover its expenses.³¹

This uncertain financial outlook may result in USPS changing its current capital-spending plans, including setting new priorities across its planned projects and other business needs. These prioritization decisions can involve tradeoffs among projects and between capital and operations spending. USPS has already faced these types of tradeoffs, as in fiscal year 2017, when it did not make \$6.9 billion in required prefunding payments for retiree health and pension benefits, stating that it lacked sufficient cash to make those payments while ensuring it could continue to provide service, and stating that it required sufficient cash reserves for capital spending.³² While USPS officials noted that USPS must always make prioritization decisions regarding capital spending, its financial future may make such decisions more critical given its currently projected increased capital spending. For example, unless USPS increases its revenues or decreases other expenses, such prioritization decisions may involve USPS undertaking less future capital spending than it currently projects over the next 10 years. Further, even if USPS's financial situation were to dramatically improve, USPS may not necessarily undertake more capital spending than currently projected, because of significant other business needs, such as funding operating expenses.³³ Should USPS have more resources than expected in the coming years, though, USPS may be able to make fewer tradeoffs regarding capital spending.

³⁰USPS, *2017 Report on Form 10K*.

³¹[GAO-17-404T](#).

³²The Postal Accountability and Enhancement Act established the Postal Service Retiree Health Benefits Fund and required USPS to begin prefunding health benefits for its current and future postal retirees, with annual payments of \$5.4 billion to \$5.8 billion from fiscal years 2007 through 2016, followed by actuarially determined prefunding payments beginning in 2017 and every year thereafter. Pub. L. No. 109-435, § 803, 120 Stat. 3198 (2006), codified at 5 U.S.C. § 8909a. USPS has not made its required payments for a number of years and owes a total of \$38.2 billion. We are currently examining the issue of USPS's retiree health benefits and expect to issue a report later this year.

³³Additionally, according to USPS officials, USPS does not have a list of capital projects that it could quickly undertake should more resources be suddenly available because of the length and robustness of the capital-budgeting and spending approval processes.

Various Processes Support USPS's Ability to Address Uncertainties and Risks That Affect Capital Spending

USPS Has Processes Designed to Identify Uncertainties and Risks That Affect Capital Spending

USPS has processes that can help it to identify uncertainties and risks that could affect its capital spending and adjust its spending to changing circumstances.³⁴ USPS has adopted the Committee of Sponsoring Organizations of the Treadway Commission's (COSO)³⁵ internal control framework, which includes how organizations should address uncertainties and risks.³⁶ Specifically, this framework states that organizations should identify uncertainties and risks to the achievement of their objectives and analyze these uncertainties and risks to determine how they should be managed. Additionally, COSO's internal control framework asserts that organizations should not only identify and analyze uncertainties and risks but also assess any changes in conditions that could affect the organization including its capital spending.³⁷

³⁴For the purposes of this report, we refer to "organizational uncertainties" and "project-specific risks." Organizational uncertainties include business and budgetary uncertainties which affect USPS as an organization. Project-specific risks include the integration, operational, and technological risks inherent to individual capital projects.

³⁵COSO is a private sector committee comprised of a number of accounting and finance professional organizations. COSO provides guidance on enterprise risk management and internal controls.

³⁶*Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework (2013)*. Internal controls are processes that management uses to help an entity achieve its objectives. USPS stated that it adheres to COSO's internal control principles.

³⁷According to COSO, every organization faces a variety of risks. COSO principles state that to manage these risks, an organization "identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed" and further, "... identifies and assesses changes that could significantly that could significantly impact the system of internal control."

Identifying and Analyzing Organizational Uncertainties

USPS has processes for identifying and analyzing organizational uncertainties, such as business and budgetary uncertainties, which can affect capital spending. These processes align with aspects of COSO's internal control framework. For example, according to USPS documentation on its strategic-planning process, USPS conducts a business environment assessment and an enterprise risk assessment every 3 years to identify its organizational uncertainties, such as the effect of changes in the number of delivery points or mail volume. Additionally, USPS has processes to analyze the effects of its organizational uncertainties. For example, some department managers analyze the potential effects of organizational uncertainty by modeling different scenarios to help inform their department's capital-spending decisions. For example, USPS officials stated that the vehicles department models the interactions among key variables—such as stabilizing or declining mail volume, route structures, and vehicle cargo sizes—as it considers various vehicle acquisition options. In addition, USPS facilities department officials told us that they plan to develop on a model to consider how key variables, such as mail volume, affect USPS's facility needs.

In addition to identifying and analyzing the potential effects of organizational uncertainties, USPS also has processes for assessing changes in these organizational uncertainties. For example, USPS documentation shows that USPS leadership holds a monthly business review meeting in which officials discuss any changes in internal conditions, such as labor costs, or external conditions, such as mail volume, that could affect the organization and, when applicable, how these conditions could affect capital spending. Officials told us that USPS also distributes a survey every 18 months to internal and external stakeholders to obtain perspectives on changes, if any, in some of the conditions addressed by USPS's strategic plan. The survey also covers other conditions such as uncertainty about the extent to which USPS will have funds to maintain, repair, and replace infrastructure.

Identifying and Analyzing Project Risks

Individual capital projects face inherent risks—such as technological, operational, and integration risks. We found that USPS's capital-spending processes align with aspects of COSO's internal control framework by incorporating processes to identify and analyze project-specific risks through the use of DARs. As discussed earlier, USPS's capital spending

processes require DARs to justify proposed capital projects with total costs of \$1 million or more. Specifically, internal USPS guidelines state that DARs should identify the technological, operational, and integration risks that could affect capital projects and any tradeoffs related to potential alternatives to the proposed capital project. For example, we reviewed one DAR for mail-processing equipment that explained that the project has a low level of operational risk noting that the new equipment will not require training for operators, thus avoiding potential costs and delays associated with training. Another DAR we reviewed for a project intending to improve the customer experience and reduce costs through more efficient staffing at retail locations identified integration risks and noted that the project's proposed deployment schedule might not allow time for delays. USPS leadership may also request additional analyses to verify, or support, information in a DAR before deciding whether to approve a project. For example, according to documentation we reviewed, USPS leadership recently requested that its Finance and Planning division review economic data, such as population growth rates, to confirm the economic growth projections used in support of a DAR for a new facility in Bismarck, North Dakota.

USPS Has Processes Designed to Respond to Identified Uncertainties and Risks That Affect Capital Spending

We found that USPS has processes that are designed to help it respond to identified organizational uncertainties, specifically future budgetary uncertainty. According to OMB's *Capital Programming Guide*, capital spending "...should be consistent with the level of future budgetary resources that will be available."³⁸ USPS officials said USPS seeks to minimize the budgetary uncertainty that capital spending will outpace available resources by developing its annual capital-spending budget as part of USPS's overall annual budget. As a result, USPS can determine an annual capital spending budget based on the most recent conditions, including the most recent revenue forecasts, and consider possible tradeoffs—such as those between capital spending and other spending needs such as operating expenses. Further, while the creation of a capital-spending budget establishes capital-spending levels, the process does not commit capital spending on any particular project. Instead,

³⁸Office of Management and Budget *Capital Programming Guide v 3.0 Supplement to Office of Management and Budget Circular A-11 Planning, Budgeting, and Acquisition of Capital Assets* (Washington, D.C.: 2017).

USPS reviews and approves new capital projects throughout the fiscal year, allowing USPS to make capital spending-decisions based on its most current financial condition, which may have evolved during the fiscal year.

After USPS has set the annual capital spending budget, USPS's capital-spending process also allows the organization to respond to any changes in its financial outlook, business environment, or other organizational uncertainties that might occur during the fiscal year. As stated previously, USPS's capital spending budget establishes capital spending levels for the fiscal year and does not include approvals for specific projects. Project sponsors must obtain approval from different groups within USPS to initiate capital projects. USPS may approve less capital spending for capital projects than budgeted for at the start of the year. Our analysis of capital-spending cash outlays from fiscal year 2007 through 2017 shows that on average, USPS spent about 18 percent less than was budgeted for at the start of each year.³⁹ According to USPS officials, capital spending can be below budgeted levels for a variety of reasons. USPS may shift strategic priorities based on business conditions and cancel or delay some planned projects that it determines are no longer aligned with its priorities. For example, USPS canceled a previously approved centralized distribution facility project in Brooklyn, New York, and decided to look for less costly alternatives to support the area's increased package processing needs. Also, officials stated that projects could come in below budget because of a reduction in project scope or because a multi-year project falls behind schedule and has less cash outlays in a given year than were planned.

In other instances, USPS's capital-spending approval process provides flexibility to re-allocate capital funds as USPS identifies and assesses changing conditions that affect the organization, or when contingencies or emergencies arise. For example, according to USPS officials, as USPS monitors the economic indicators that affect its business, the indicators may signal an increase in package volume. USPS might respond by allocating more capital toward additional purchases of package-sorting equipment. According to USPS officials, USPS's capital-spending process also allows USPS to respond to contingencies. In fiscal year

³⁹The difference varies by year. For example, in fiscal year 2011 USPS spent about 93 percent of the amount budgeted for at the start of the year, while in fiscal year 2016 USPS spent about 78 percent of the amount budgeted.

2017, USPS approved capital spending to repair facilities in the U.S. Virgin Islands damaged during Hurricane Maria. (See fig. 4.) In the event that such unplanned projects arise to repair damages or are required for safety, project sponsors can expedite the capital spending approval process, such as by submitting an advance funding request to USPS.

Figure 4: U.S. Postal Service Facility Damaged during Hurricane Maria



Source: U.S. Postal Service. | GAO-18-515

In addition to having processes to respond to organizational uncertainties, we also found that USPS has processes for responding to the risks affecting individual capital projects. According to USPS documentation, capital projects with total costs of over \$5 million are reviewed at certain stages in their implementation to assess any changes, including changes in the return-on-investment, timeline, and performance of the projects. USPS may alter project specifications or time frames to respond to these changes. During the implementation stage of some major capital projects, such as the installation of mail-processing equipment, departments may initially test a limited number of units with the option to request the purchase of additional units if the tests are successful. Additionally, some major capital projects, such as the replacement of USPS's delivery vehicles, require acquisitions over multiple years, which, USPS officials told us, can be used to limit risk. As mentioned earlier, USPS is planning to replace its fleet by purchasing vehicles over a number of years, potentially allowing it to capitalize on technological advances that may develop over the time period.

After a capital project is complete, USPS has a process for reviewing the results as a way to inform and improve future capital-spending decisions, including better addressing project risks. USPS's capital-spending process requires USPS to evaluate capital projects with total costs over \$25 million after project completion, reviewing the cost, schedule, and performance results of these projects. For example, in November 2017, USPS discussed the results of two package processing and sorting projects that experienced delays associated with accommodating new equipment at the facilities due to design issues. As a result, USPS recommended that project sponsors conduct more research about any site-specific risks before submitting a DAR for future package processing and sorting projects. In addition, USPS's Office of Inspector General prepares an annual capital-project-compliance report that evaluates the soundness of USPS's capital spending.⁴⁰ According to USPS officials, the organization considers the results of these reports and seeks to address

⁴⁰The Office of Inspector General evaluated 28 DARs in fiscal year 2016 and 64 DARs in fiscal year 2017 for its annual capital project compliance reports. While these reports include findings about specific projects and their DARs—such as overly optimistic cost savings estimates—they found that, overall, USPS's capital spending decisions for both fiscal years were “reasonable business decisions or in the best business interest of the Postal Service.” See U.S. Postal Service Office of Inspector General *Fiscal Year 2017 Decision Analysis Report Summary*, MI-CAP-18-001 (Washington, D.C.: Feb. 15, 2018.) and U.S. Postal Service Office of Inspector General *Fiscal Year 2016 Decision Analysis Report Summary*, CP-CAP-17-001 (Washington, D.C.: Dec. 27, 2016.)

any resulting recommendations. For example, we reviewed documentation explaining that, in response to one recent Office of Inspector General recommendation, USPS stated it would revise its capital spending guidance to define review and approval procedures, validation, and compliance report requirements for all investments.

Agency Comments

We provided a draft of this report to USPS for review and comment. USPS provided a written letter (see appendix II) in which USPS provided no comments. Via email, USPS also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to interested congressional committees and the Postmaster General. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made key contributions to this report are listed in appendix III.



Lori Rectanus
Director
Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives for this report were to (1) describe the U.S. Postal Service's (USPS) projected capital spending over the next 10 years and (2) assess whether USPS's processes support its ability to address uncertainties and risks that affect its capital spending. For our second objective, our scope was limited to assessing whether USPS had designed processes; that is, we did not assess the quality of any analyses that USPS conducted regarding risks or any determinations that USPS made regarding capital-spending projects as this was beyond the scope of our review. Such assessments are routinely conducted by the USPS Office of Inspector General.

To address USPS's planned capital spending over the next 10 years, we reviewed USPS data on capital spending from fiscal years 2007 through 2017 and USPS documentation on projected capital spending from fiscal years 2018 through 2028. In both cases, we focused on a fiscal year's actual or projected capital-spending cash outlays—or the amount of cash spent on capital projects—as opposed to capital-spending commitments made in that fiscal year.¹ For historical data, we used data from USPS's annual budgets, known as Integrated Financial Plans, for fiscal years 2008 through 2018. Each annual budget contains data on actual capital spending levels from prior fiscal years. The annual budgets generally report capital spending in four broad categories: vehicles, facilities, information technology and other, and mail-processing equipment.² Because the categories used in past annual budgets were not consistent, we recategorized some years' spending to be consistent. Specifically, we considered "mail-processing equipment" or "equipment" as part of "mail-processing equipment." We considered "infrastructure and support," "information technology and other," and "customer service and support

¹A single capital-spending project may be implemented over multiple years. As a result, a spending commitment for the full amount of the project might be made in a given year, with the cash outlays for the project spread out over multiple years.

²Other" capital spending in this category includes some equipment, such as customer support equipment, and capital projects that do not otherwise fit into these four categories, such as a program to reduce waste and increase recycling revenue.

equipment” as part of the “information technology and other” category. The past budgets consistently used “facilities” and “vehicles” categories. We obtained input from USPS officials on our recategorizations. To determine the reliability of these data, we reviewed the data for any obvious errors, reviewed relevant documentation, and interviewed officials. We determined that these data were sufficiently reliable for the purposes of reporting on USPS’s past capital spending.

For information on USPS’s projected capital spending from fiscal years 2018 through 2028 we reviewed USPS’s 10-year capital-spending forecast for those years, which USPS created in 2017. This 10-year forecast is a projection of capital spending, but is not a commitment for any level of investment. The 10-year forecast categorizes capital spending projects into the following categories: construction and building purchases, building improvements, mail processing equipment, vehicles, capitalized software, customer service equipment, and postal support equipment. For our analysis, we combined “postal support equipment,” “information technology,” and “customer service equipment” into one overall “information technology and other” category, and “construction and building purchases” and “building improvements” into one overall “facilities” category. USPS officials agreed with this approach. To determine the reliability of these data, we interviewed USPS officials, reviewed data for any obvious errors, and reviewed relevant documentation. We determined that these data were sufficiently reliable for the purposes of providing information on USPS’s projected capital spending. In addition, we interviewed four USPS vice presidents in charge of the departments that correspond with the four broad categories of capital-spending investments about historic, ongoing, and projected capital spending.

We also selected and reviewed a non-generalizable sample of 14 Decision Analysis Reports (DAR)—internal USPS documents used to justify and obtain approval for some proposed capital-spending projects—of the 66 approved by USPS for fiscal year 2017 and part of fiscal year 2018.³ USPS requires DARs for all proposed capital spending projects

³USPS creates DARs on an ongoing basis throughout the year. We selected approved fiscal year 2017 and 2018 DARs from a list of DARs that had been approved as of December 18, 2017. The list USPS provided us included a total of 66 DARs for fiscal year 2017 and fiscal year 2018 approved as of that date.

with a total project cost of at least \$1 million.⁴ The DARs contain information on, among other things, project specifications, purpose, risks and tradeoffs, and timeframes.⁵ We reviewed the DARs for this and other information; we did not review the quality of the analyses contained in the DARs.⁶ We obtained a list of all approved DARs for fiscal years 2017 and 2018 and selected DARs of the two largest and two smallest capital projects by total value in each of the four categories (i.e., vehicles, facilities, information technology and other, and mail processing equipment).⁷ Because the vehicles category had only two approved DARs at the time we received the list of approved DARs from USPS, we reviewed 14 DARs instead of 16. While the information from our reviews cannot be generalized to all DARs, the information provides insights into USPS's reasons for undertaking capital spending projects.

To assess whether USPS has processes that support its ability to address uncertainties and risks that affect its capital spending, we reviewed USPS documentation, including USPS's policies and procedures for capital spending, internal guidance documents, and others related to processes that affect its capital spending. We identified criteria for addressing uncertainties and risks, including those specific to capital spending. Specifically, we identified criteria from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control-Integrated Framework* (the internal control standards adopted by USPS) and the Office of Management and Budget's Capital

⁴Total project cost includes total capital costs plus the operating costs during the fiscal year in which the DAR is approved.

⁵While approved DARs include information on total project costs, we do not report the dollar values of specific capital spending projects as USPS considers that information to be business sensitive.

⁶For example, while we reviewed DARs for information on estimated project costs and return-on-investment, we did not evaluate the quality of those analyses. We also did not intend to determine if USPS selected appropriate capital spending projects. We also did not review how well USPS's capital-spending projects were implemented or the extent to which expected benefits and costs were realized as this was beyond the scope of our review.

⁷Because DARs do not include which of these four categories the project is aligned with, we determined categorizations based on DAR summaries. We then verified our categorizations with USPS.

Programming Guide.⁸ COSO Principle 7 states, “The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.” Further, COSO Principle 9 states, “The organization identifies and assesses changes that could significantly affect the system of control.” The Office of Management and Budget’s Capital Programming Guide element I.1.1 states, “The plan should also be consistent with the level of future budgetary resources that will be available.”⁹ We evaluated USPS’s processes that affect capital spending against these criteria to determine whether USPS had designed processes to address uncertainties and risks related to capital spending. We did not review the capital spending projects USPS has undertaken to determine, for example, if USPS made appropriate decisions regarding selected projects. We also interviewed USPS officials regarding USPS’s capital-spending processes. Specifically, we interviewed officials with USPS’s Capital Investment and Business Analysis Department; Finance and Planning Department; Technical Analysis, Accounting, and Finance Department; and the four vice presidents mentioned above about how they address uncertainties and risks related to capital spending within their departments.

We conducted this performance audit from September 2017 to June 2018 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸Committee of Sponsoring Organizations of the Treadway Commission *Internal Control-Integrated Framework* (2013). We are using COSO criteria instead of the *Standards for Internal Control in the Federal Government* because it is the framework used by USPS. USPS officials stated that the organization adopted the COSO framework because it is widely accepted and used by businesses.

⁹Specifically, this statement is reference to an organization’s strategic plan; however, the *Capital Programming Guide* identifies strategic planning as part of the “Planning and Budgeting Phase” of capital planning. Office of Management and Budget *Capital Programming Guide v 3.0 Supplement to Office of Management and Budget Circular A-11 Planning, Budgeting, and Acquisition of Capital Assets* (Washington, D.C. 2017)

Appendix II: Comments from the U.S. Postal Service

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING



June 11, 2018

Ms. Lori Rectanus
Director, Physical Infrastructure Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548-001

SUBJECT: Draft report review of *U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks (GAO-18-515)* – July 2018

Dear Ms. Rectanus:

Thank you for the opportunity to review and comment on the draft United States Government Accountability Office (GAO) report to Congressional Requesters titled *U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks (GAO-18-515)*.

We have reviewed the draft report and have no additional comments to add beyond those already reflected in the document or shared within the review process.

Sincerely,

A handwritten signature in black ink, appearing to read "Luke T. Grossmann".

Luke T. Grossmann

cc: Mr. Orth
Ms. Haring

475 L'Enfant Plaza SW Room 8011
Washington, DC 20260-0004
www.usps.com

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Lori Rectanus, (202) 512-2834 or rectanusl@gao.gov

Staff Acknowledgments

In addition to the contact above, Kyle Browning and Faye Morrison (Assistant Directors); Matthew Rosenberg (Analyst in Charge); Amy Abramowitz; Sara Ann Moessbauer; Josh Ormond; Joshua Parr; Amy Rosewarne; and Crystal Wesco made key contributions to this report. Also contributing to this report were Carol Henn, Sabine Paul, and Carolyn Voltz.

Appendix IV: Accessible Data

Data Tables

Data Table for U.S. Postal Service’s Historical (2007–2017) and Projected (2018–2028) Capital Spending

Fiscal Year	Mail Processing Equipment	Information Technology	Facilities	Vehicles
2007	1.03	0.652	0.801	0.024
2008	0.524	0.36	1.052	0.039
2009	0.4	0.4	1	0
2010	0.6	0.2	0.6	0
2011	0.4	0.2	0.6	0
2012	0.3	0.1	0.4	0
2013	0.2	0.2	0.3	0
2014	0.3	0.1	0.4	0
2015	0.5	0.2	0.4	0.1
2016	0.4	0.2	0.4	0.4
2017	0.3	0.2	0.5	0.3
2018	0.39	0.39	0.49	0.56
2019	0.42	0.52	0.52	0.76
2020	0.55	0.51	0.57	0.61
2021	0.41	0.61	0.57	1
2022	0.37	0.54	0.59	0.84
2023	0.46	0.48	0.6	0.84
2024	0.48	0.45	0.62	0.77
2025	0.49	0.57	0.65	1.1
2026	0.5	0.66	0.67	1.1
2027	0.52	0.66	0.69	1
2028	0.53	0.55	0.71	0.46

Data Table for Figure 2: U.S. Postal Service's (USPS) Historical (2007–2017) and Projected (2018–2028) Capital Spending

Fiscal year	Mail processing equipment	information technology	facilities	vehicles
2007	1.03	0.652	0.801	0.024
2008	0.524	0.36	1.052	0.039
2009	0.4	0.4	1	0
2010	0.6	0.2	0.6	0
2011	0.4	0.2	0.6	0
2012	0.3	0.1	0.4	0
2013	0.2	0.2	0.3	0
2014	0.3	0.1	0.4	0
2015	0.5	0.2	0.4	0.1
2016	0.4	0.2	0.4	0.4
2017	0.3	0.2	0.5	0.3
2018	0.39	0.39	0.49	0.56
2019	0.42	0.52	0.52	0.76
2020	0.55	0.51	0.57	0.61
2021	0.41	0.61	0.57	1
2022	0.37	0.54	0.59	0.84
2023	0.46	0.48	0.6	0.84
2024	0.48	0.45	0.62	0.77
2025	0.49	0.57	0.65	1.1
2026	0.5	0.66	0.67	1.1
2027	0.52	0.66	0.69	1
2028	0.53	0.55	0.71	0.46

Agency Comment Letter

Text of Appendix III: Comments from the Office of Federal Student Aid, Department of Education

Page 1

Dear Ms. Rectanus:

Thank you for the opportunity to review and comment on the draft United States Government Accountability Office (GAO) report to Congressional Requesters titled U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks (GAO-18-515).

We have reviewed the draft report and have no additional comments to add beyond those already reflected in the document or shared within the review process.

Sincerely,

Luke T. Grossmann

Cc: Mr. Orth
Ms. Haring

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<https://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <https://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <https://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at <https://www.gao.gov>.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <https://www.gao.gov/fraudnet/fraudnet.htm>

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400,
U.S. Government Accountability Office, 441 G Street NW, Room 7125,
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548