



August 17, 2010

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VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

SUBJECT: Audit Report – Stations and Branches Optimization and
Consolidation Initiative (Report Number EN-AR-10-005)

This report presents the results of our review of the U.S. Postal Service's efforts to optimize the retail network (Project Number 10XG021EN000). Our objective was to assess the Stations and Branches Optimization and Consolidation (SBOC) Initiative for discontinuance of classified stations and branches.¹ This self-initiated audit addresses strategic, financial, and operational risks. This is the first in a series of retail optimization reviews. See [Appendix A](#) for additional information about this audit.

The Postal Service's current retail network of approximately 32,000 facilities reflects a time when practically all retail revenue was generated through window transactions at "brick and mortar" Postal Service facilities, mail volume was robust, and there was less alternate access to postal services. Congress recognized in the Postal Accountability and Enhancement Act of 2006² that the Postal Service has more facilities than it needs and strongly encouraged streamlining the network. These factors, combined with its current financial challenges, have made it incumbent upon the Postal Service to review the number and location of stations and branches to determine whether or not there is excess capacity in the network.

While a station or branch is similar in many ways to a PO, there are some meaningful differences, particularly from the Postal Service's perspective and administrative standpoint. POs are established and maintained at locations to ensure that complete postal services are available to all customers within specified boundaries of named geographic places. Stations and branches are subordinate units within the service area of POs. Operations at stations and branches are directed by each facility's supervising PO.

¹ Classified stations and branches are staffed by Postal Service personnel under the administration of an independent Post Office™ (PO). Stations are located within and branches are located outside of the corporate limits of the city or town in which the independent PO is located.

² P.L. 109-435, December 2006.

Conclusion

The SBOC Initiative is a viable option for the Postal Service to reduce costs in the retail network, but opportunities exist to improve the process. The Postal Service could have enhanced the planning and management of the initiative by improving communication and coordination with stakeholders³ and developing accurate and reliable data on its facilities. In addition, the Postal Service needs to raise stakeholders' confidence that it will make decisions in a transparent, equitable, and fact-based manner by integrating a strategic approach (top-down) and establishing clear criteria for evaluating discontinuance decisions.

Better Planning and Management of the SBOC Initiative Would Help Enhance the Process

Both federal law⁴ and postal policies⁵ prescribe a PO discontinuance process. In contrast, the Postal Service uses an expedited process to close stations and branches, which is not specifically covered by statute. Absent future legislative changes, the two discontinuance processes are warranted to promote a flexible, agile Postal Service to adapt to changing mailing preferences and to increase the opportunity to consolidate redundant retail facilities.

While the Postal Service developed an expedited process for closing stations and branches, it is primarily subjective and qualitative in nature. Specifically, we found:

- There are no established procedures for the SBOC Initiative, as it is a unique project the Postal Service implemented quickly.
- SBOC Initiative training does not adequately address strong stakeholder resistance and how the initiative affects other postal optimization efforts and vice versa.
- Data entry errors, including misidentification of facilities, resulted in discrepancies in facilities identified for the SBOC Initiative.
- The SBOC Initiative's lack of clear criteria may have caused inconsistencies in evaluating factors used for determining the feasibility of discontinuing operations.

The Postal Service has not posted a status update on the SBOC Initiative on its external website (*usps.com*) since February 2010. Postal Service Headquarters (HQ) did provide an updated list (dated March 2010) showing that 156 facilities remained under consideration for discontinuance. Based on our fieldwork, we determined that district

³ Postal Service employees, Congress, local communities, and unions.

⁴ Title 39 U.S.C. Section 404(d)

⁵ Handbook PO-101, *Post Office Discontinuance Guide*, August 2004, and *Postal Operations Manual, Issue 9*, July 2002.

offices forwarded 144 proposals⁶ recommending discontinuance of operations to HQ. However, management has made no decisions regarding which, if any, of these facilities it will close through the time of our report. Management stated other initiatives, including 5-day delivery,⁷ have taken priority over the SBOC Initiative. As a result, the Postal Service spends about \$425,000 per month to maintain operations at 28 of the 144 facilities we randomly selected for review. The Postal Service could realize cost savings of over \$1.7 million in fiscal year (FY) 2010 if they approve discontinuance of operations for the 28 facilities after HQ Retail Operations has completed its pre-decisional review of the proposals.

Without timely decisions to approve or disapprove discontinuance proposals, there is an increased risk of disrupting certain field operations. In addition, stakeholders may perceive the Postal Service as being indecisive.

Further, district management removed three leased stations from discontinuance consideration and provided “no lease termination/buy-out not cost effective” as the only non-feasible justification. Our review of the three stations’ lease agreements revealed that the agreements contain a lease termination clause in the Postal Service’s interest. Accordingly, the Postal Service may have also missed an opportunity to reduce lease costs by approximately \$1 million for the three stations. See [Appendix B](#) for our detailed analysis of this topic.

Postal Service Actions – Management stated they are developing a decision tree-based retail discontinuance model to mitigate the inconsistency and subjectivity identified in our review. The project is currently in the design phase. Management plans to complete and deploy this model in FY 2011.

Management added that they have initiated, in coordination with the Continuous Improvement Office, a Lean Six Sigma⁸ (LSS) study of the discontinuance process for POs and other retail facilities. The project scope, milestones, and completion date had not been established at the time of our report.

We recommended the vice president, Delivery and Post Office Operations:

1. Develop detailed policies and procedures for the station and branch closing process.
2. Improve the reliability and usefulness of retail facilities data by validating, correcting, and updating information in the database.

⁶ According to HQ management, some Pacific Area district offices have not completed discontinuance studies for 12 facilities.

⁷ The plan calls for 5 days of delivery to street addresses and 6 days of service at POs and PO boxes. The Postal Service plans to implement 5-day delivery in FY 2011. Implementation is contingent on Congress not enacting legislation to prevent that change in service. On March 30, 2010, the Postal Service requested the Postal Regulatory Commission (PRC) to review its plans and issue an advisory opinion.

⁸ Lean management is focused on reducing waste and improving process flows while Six Sigma methodologies concentrate on reducing variation or defects and improving quality.

3. Develop measurable criteria to mitigate inconsistencies in evaluating factors used for determining the feasibility of discontinuing operations at stations and branches.
4. Process and approve or disapprove discontinuance proposals in a timely manner.

Management's Comments

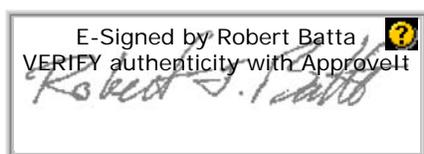
Management agreed with the findings, recommendations, and monetary impact and has initiated actions to address the recommendations identified in the report. Management added they will incorporate LSS revisions to their existing work flow at the completion of the study in the Fall 2010. See [Appendix H](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to our recommendations and corrective actions should resolve the issues identified in the report.

The OIG considers all the recommendations significant and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations 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.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael A. Magalaski, director, Network Optimization, or me at 703-248-2100.



E-Signed by Robert Batta
VERIFY authenticity with ApproveIt

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Greg G. Graves
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service operates a retail network of over 27,000 post offices and 4,800 subordinate station and branch facilities. While a station or branch is similar in many ways to a PO, there are some meaningful differences, particularly from the Postal Service's perspective and from an administrative standpoint. A PO is the basic organizational unit of the Postal Service, having primary responsibility for mail collection, processing, and delivery; and retail operations in a specific geographic area. The postmaster at each office's supervising PO directs operations at the stations and branches.

The current locations of Postal Service retail facilities reflect decisions made over decades to create retail and delivery networks that fulfill the Postal Service's statutory obligation to provide customers with ready access to essential postal services.⁹ Also, those decisions were made when alternative access to retail postal services was not available. Today, about 30 percent of retail revenue is generated through alternate access channels. Customers can access stamps and postal services at *usps.com*, self-serve kiosks, grocery stores, retail outlets, and privately operated shipper locations. In addition, changes in mail processing technology have reduced the space needed for carrier operations in retail facilities. Further, the Postal Service projects mail volumes to steadily decline as business and household mailers are increasingly turning to electronic media to transmit correspondence formerly sent through the postal system.

The availability of alternative access for customers combined with shifts in mail volume to electronic alternatives and the increased use of mail processing technology throughout operations have made it necessary for the Postal Service to review the number and location of stations and branches and determine if there is excess capacity.

In April 2009, the Postal Service began a national initiative to consolidate retail facilities by reviewing some of its 3,600 stations and branches that report to postmasters at or above the Postal Service Executive & Administrative Schedule 24¹⁰ (EAS-24) level. The SBOC Initiative focuses on facilities in urban and suburban areas because they are in relatively close proximity to one another where consolidation might be feasible.

In July 2009, the Postal Service asked the PRC for an advisory opinion on the national service implication of the proposed closures. However, in December 2009, it became clear to the Postal Service that the SBOC Initiative will not change services that can be characterized as "nationwide or substantially nationwide" and requested the PRC to terminate the advisory opinion docket. The PRC continued its review and issued an advisory opinion in March 2010 containing nine non-binding recommendations to improve customers' opportunity to offer input, the financial analysis used to estimate the

⁹ Title 39 U.S.C. § 403(b).

¹⁰ A salary structure that applies to most managerial and administrative Postal Service employees.

cost savings, and written guidance on how to obtain relevant information and how to apply the qualitative decision factors.

The SBOC Initiative is a unique project. As such, the Postal Service did not establish a target date to finalize the review, an overall projected cost savings or goals. However, because there are thousands of station and branch candidates for closure, the Postal Service deployed a two-stage process to implement and manage the SBOC Initiative.

Pre-Screening

First, HQ established pre-screening criteria to help district offices identify stations and branches that could be candidates for consolidation. In May 2009, HQ directed each district office to review the business activities of the 3,600 stations and branches that report to POs managed by postmasters at or above the EAS-24 level. The principal purpose of the pre-screening process is to prioritize and authorize facilities for facility-specific discontinuance studies. The pre-screening process relies upon such factors as:

- Proximity of other postal-operated retail facilities and alternate retail access channels.
- Availability of space at the gaining facility for carrier operations currently co-located with the candidate station/branch.
- Ability to accommodate current and future customer, postal, and employee vehicle parking needs.
- Imminence of a forthcoming lease termination opportunity for the candidate station/branch.
- Availability of retail windows and staffing at the gaining facility to avoid unreasonable wait-time in line.
- Retail revenue and transaction trends compared to same period last year for the candidate station/branch.

In September 2009 at the completion of the pre-screening process, district offices authorized 759 stations and branches for full-discontinuance studies.

Discontinuance Study

Each candidate station and branch subjected to the facility-specific discontinuance study process receives an analysis of the following factors:

- Retail transaction trends.
- Proximity to other retail service facilities and the ability of customers to access them.
- Space requirements and capabilities.

- Wait-time in line and retail window service capacity.
- Impact on employees at the facility under study.
- Customer concerns expressed in response to questionnaires or in community meetings.
- Financial savings that could result from closure or consolidation.
- Alternate retail service and delivery options.
- Ability of nearby Postal Service facilities to accommodate retail, delivery, and mail processing workload that may shift to their locations.
- Other factors deemed appropriate.¹¹

At the completion of a facility-specific study, the district manager determines whether to pursue discontinuance. The district manager is then responsible for submitting discontinuance proposals recommending closure to HQ for review and approval. HQ Retail Operations review these pre-decisional recommendations and the last pre-decisional step is submission of a recommendation to the vice president, Delivery and Post Office Operations, for a final agency decision.

At the time of our report, district offices removed 603 of the 759 facilities authorized for full-discontinuance studies from closure consideration. District offices in the Pacific Area have not completed discontinuance studies for 12 facilities. There were 144 discontinuance recommendations awaiting final agency decision.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the SBOC Initiative for discontinuance of classified stations and branches. To accomplish this review, we:

- Reviewed Government Accountability Office (GAO) reports related to retail network optimizations.
- Reviewed the PRC Advisory Opinion on Station and Branch Optimization and Consolidation Initiative, 2009 and related documents.
- Reviewed Congressional Research Service reports related to retail facility closures.
- Reviewed and analyzed data from various databases including Enterprise Data Warehouse System, Facilities Management System and Model for Optimizing Retail Effectiveness.
- Randomly selected and reviewed 154 discontinuance studies prepared by districts offices.

¹¹ This stage is where the needs of customers (such as the non-English speaking, elderly, economically disadvantaged, or those of limited mobility) are considered when making decisions.

- Interviewed HQ and field office officials.

We conducted this performance audit from March through August 2010 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 officials on June 24, 2010, and included their comments where appropriate.

To conduct this review, we relied on computer-processed data maintained by Postal Service operational systems. We did not test the validity of controls over these systems. However, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers and other data sources.

PRIOR COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Advisory Opinion Concerning the Process For Evaluating Closing Stations and Branches</i>	PRC Docket No. N2009-1	3/10/2010	The Commission found it was consistent with applicable public policy for the Postal Service to adjust its retail footprint to recognize changing customer needs and usage. However, the Commission also found the Postal Service should improve (1) customers' opportunity to offer input, (2) the financial analysis used to estimate the cost savings, and (3) written guidance on how to obtain relevant information and how to apply the qualitative decision factors.

Report Title	Report Number	Final Report Date	Report Results
<p><i>Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach</i></p>	<p>RARC-WP-10-004</p>	<p>6/14/2010</p>	<p>The Postal Service's current retail facility planning appears to be a bottom-up process. By contrast, an approach using economic modeling adds a top-down dimension to the planning process, by offering consistent economic criteria for locating and sizing retail facilities. An approach combining top-down economic modeling with adequate bottom-up local review is well suited to support the consolidation of existing facilities and any opening of new locations. By adopting a thorough, transparent, and objective approach to retail modernization, the Postal Service can respond to stakeholder concerns and optimize its retail network.</p>
<p><i>Restructuring Urgently Needed to Achieve Financial Viability</i></p>	<p>GAO-09-958T</p>	<p>8/6/2009</p>	<p>To achieve financial viability, the Postal Service must align its costs with revenue, generate sufficient earnings to finance capital investment, and manage its debt. Key restructuring actions the Postal Service could take include reducing compensation and benefit costs, consolidating retail and processing networks and field structure, and generating revenue through new or enhanced products.</p>

Report Title	Report Number	Final Report Date	Report Results
<i>Broad Restructuring Needed to Address Deteriorating Finances</i>	GAO-09-790T	7/30/2009	<p>The Postal Service needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity, reduce costs, and improve efficiency. The Postal Service began a national initiative to consolidate some of its postal retail stations and branches in urban and suburban areas. The study is expected to take about 4 months, with final decisions made starting in October 2009. Restructuring of the retail network will face resistance since it will affect service, employees, and local communities.</p>
<i>Network Rightsizing Needed to Help Keep USPS Financially Viable</i>	GAO-09-674T	5/20/2009	<p>The Postal Service can streamline its retail network while improving access by closing unnecessary retail facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet; as well as carrier pickup of packages. The Postal Service achieved its goal of identifying unneeded retail facilities in overserved areas.</p>

Report Title	Report Number	Final Report Date	Report Results
<i>Escalating Financial Problems that Require Major Costs to Limit Losses</i>	GAO-09-475T	3/25/2009	Given the growing gap between revenue and expenses, the Postal Service's business model and its ability to remain self-financing may be in jeopardy. Action is needed to streamline costs in two difficult areas: (1) compensation and benefits and (2) mail processing and retail networks, which have growing excess capacity. Closing postal facilities is controversial but necessary because the declining mail volume and growing deficits indicate the Postal Service cannot afford to maintain such an extensive network.
<i>Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs</i>	GAO-09-332	1/29/2009	The Postal Service needs to close unnecessary retail facilities and, by reducing the number of facilities, could lower the cost of maintaining its network of facilities. The network of retail facilities has remained the same despite population shifts and changes in mailing behavior.

APPENDIX B: DETAILED ANALYSIS

Better Planning and Management of the SBOC Initiative Would Help Enhance the Process

In April 2009, the Postal Service began a nationwide initiative to consolidate some of its 3,600 stations and branches in urban and suburban areas. However, we found the Postal Service did not have:

- Detailed station and branch discontinuance procedures.
- Adequate guidance to address strong resistance to retail changes and to effectively communicate and coordinate the SBOC Initiative.
- Accurate and reliable data on its retail facilities.

In addition, the SBOC Initiative's lack of clear criteria and use of a bottom-up approach¹² may result in inconsistencies when evaluating factors used for determining feasibility to discontinue operations. District offices submitted proposals to HQ recommending discontinuance for 144 of the 156 stations and branches that remained under consideration for discontinuance (see [Appendix D](#) for 156 facilities by state). However, no decisions have been made regarding which, if any, of the 144 facilities the Postal Service will close by the time of our report. Management stated that other initiatives, including 5-day delivery, have taken priority over the SBOC Initiative.

As a result, the Postal Service spends about \$425,000 per month to maintain operations at 28 of the 144 facilities we randomly selected for review. We estimated the Postal Service could realize cost savings of over \$1.7 million in FY 2010 if they approved discontinuance of operations for the 28 facilities after HQ Retail Operations has completed its pre-decisional review of the proposals. In addition, without timely decisions to approve or disapprove discontinuance proposals, there is an increased risk of disrupting certain field operations and stakeholders may perceive the Postal Service as being indecisive.

Further, district management removed three leased stations from discontinuance consideration and provided "no lease termination/buy-out not cost effective" as the only non-feasible justification. Our review of the three stations' lease agreements revealed that the agreements contain a lease termination clause in the Postal Service's interest. Accordingly, the Postal Service may also have missed an opportunity to reduce lease costs by approximately \$1 million for the three facilities (see [Appendix C](#) for our monetary impact calculation).

¹² The decision-making process begins with the development of information by district offices because they have the knowledge of local conditions and customers. The district is responsible for preparing and submitting all requests to discontinue stations and branches to HQ. HQ approves or disapproves the proposed discontinuance.

Two Retail Facility Discontinuance Processes

The Postal Service uses one discontinuance process for POs and another for stations and branches (see [Appendix E](#)). Both federal law and Postal Service policies set forth regulations and procedures by which the Postal Service may proceed to close a PO. The Postal Service must, among other things, provide customers with at least 60 days' notice before the proposed closure date and any person served by the PO may appeal its closure to the PRC. The PRC has 120 days to determine the merits of the appeal. The PRC may require the Postal Service to reconsider its decision, but the ultimate authority to close a PO rests with the Postal Service. In contrast, the station and branch discontinuance process does not require public notification or provide an appeal process. While postal policies do not explicitly state so, they suggest that the federal law on PO discontinuance does not apply to station and branch closures. This suggestion is substantiated by the following instruction from Handbook PO-101, Section 71:¹³

Although thorough investigation and customer participation are encouraged in the discontinuance of a classified station, branch, or a Community Post Office (CPO), the formal process followed in the discontinuance of independent Post Offices is not required.

Absent future legislative changes, the two discontinuance processes are warranted to promote a flexible, agile Postal Service to adapt to changing mailing habits and preferences and to increase the opportunity to consolidate redundant retail facilities.

Station and Branch Discontinuance Process Issues

While the station and branch discontinuance process was developed to provide the Postal Service with greater flexibility to aid in decision-making, postal policies do not contain detailed procedures to ensure the process is fairly and consistently applied. This is partially because the SBOC Initiative was a unique project the Postal Service implemented quickly. Management used PowerPoint presentations to document, communicate, and train its employees on the SBOC Initiative discontinuance process. [Appendix F](#) provides a timeline showing the SBOC Initiative from concept development to current status. [Appendix G](#) provides a flowchart of the SBOC Initiative discontinuance process.

While presentations provide a swift means to communicate changes and updates to the existing process, we believe they should not be a substitute for formal policies and procedures. On April 6, 2010, during an interview with the OIG, the former program manager for the Post Office Discontinuance Program acknowledged that Handbook PO-101 should have step-by-step instructions. During other interviews, field managers expressed a need for detailed discontinuance instructions.

¹³ A CPO is staffed by a Postal Service-trained contractor who reports to an administrative PO. The CPO provides service where a Postal Service facility has been discontinued or otherwise considered impractical. A CPO generally retains the name of the PO.

We identified several weaknesses with the process used to guide the SBOC Initiative. For example, in a June 3, 2009, training session, field employees were directed to use the existing discontinuance process in Handbook PO-101 and the March 2009 PowerPoint presentation training. Management stated in the September 30, 2009, *Official Transcript of Proceeding Before the PRC* that “the March 2009 training was an inaccurate overview of the discontinuance process. . . .” In another example, the PowerPoint presentation training was updated in July 2009 to reflect the SBOC Initiative and clarify any previously circulated inaccurate information. However, the updated training presentation continues to lack detailed procedures for addressing systemic discontinuance issues.

Specifically, the July 2009 training presentation did not:

- Provide adequate guidance to address possible strong community and political resistance.
- Address what should be communicated to stakeholders, by whom, when, and how long after discontinuance studies are completed. Through discussions with field managers, we found that the lack of communication on when final decisions will be made is beginning to affect operations. For example, customers are questioning the validity of the SBOC Initiative. Also, lease termination or renewal actions are on hold pending HQ decisions. We brought the lease expiration issue to HQ’s attention and management responded that affected facilities should implement emergency suspension procedures, when appropriate.
- Contain measurable criteria to mitigate inconsistencies in evaluating factors used for determining feasibility to discontinue operations.
- Address coordination with other postal optimization efforts. We identified nine of 156 instances where district officials stated it was not feasible to close or consolidate a station or branch under the SBOC Initiative due to the Facilities Optimization Node¹⁴ Study or Area Mail Processing (AMP) Study¹⁵ efforts (see Table 1).

¹⁴ In April 2008, the vice president, Facilities, initiated a new facilities optimization program to eliminate excess space and address changing markets.

¹⁵ AMP is the consolidation of all originating and/or destinating distribution operations from one or more post office/facility into other automated processing facilities for the purpose of improving operational efficiency and/or service.

Table 1. Facilities Not Considered Under the SBOC Initiative Due to Other Postal Service Optimization Efforts

Area	District	Facility Name	City	State	Reviewed Under Facilities Node Study	Reviewed Under AMP Study
Great Lakes	Greater Indiana	Brunswick Station	Gary	IN	X	
Great Lakes	Greater Indiana	Downtown Finance Station	Gary	IN	X	
Northeast	Triboro	Linden Hill	Flushing	NY		X
Southeast	North Florida	Westside Station	Tallahassee	FL	X	
Western	Mid-America	Boardwalk	Kansas City	MO	X	
Western	Mid-America	Centropolis	Kansas City	MO	X	
Western	Mid-America	Civic Center	Kansas City	MO	X	
Western	Nevada Sierra	Desert Inn Retail Unit	Las Vegas	NV	X	
Western	Seattle	Trentwood Branch	City Spokane Valley	WA	X	

Source: Postal Service

Resistance to Retail Network Changes

The Postal Service faces strong resistance to closing and consolidating retail facilities from local communities, employees, and lawmakers. While alternate access channels are more widely available, some customers resist changing long-standing habits. Management needs to improve communication strategies and work with stakeholders to overcome resistance. These strategies should include adding an alternate retail access channel expansion plan and educating stakeholders on the availability of these convenient services. The Postal Service must explain its plans and decisions to stakeholders in an open, transparent, and timely manner. Examples of stakeholder resistance affecting the SBOC Initiative include:

- The Sacramento District rescinded its December 2009 proposal to close the Tuxedo Park Station because a member of Congress made several inquiries and the affected community boycotted the proposed closure. According to the withdrawn proposal, the estimated first year net cost savings would have been over \$111,000.
- According to a congressional press release, following the August 5, 2009, congressional meeting with senior postal officials, only one facility in Las Vegas will be considered for consolidation under the SBOC Initiative. Our review revealed that, prior to the subject meeting, five Nevada-Sierra District facilities were under review as of July 28, 2009. As of the next update on September 2, 2009, only one Nevada-Sierra District facility remained under review.

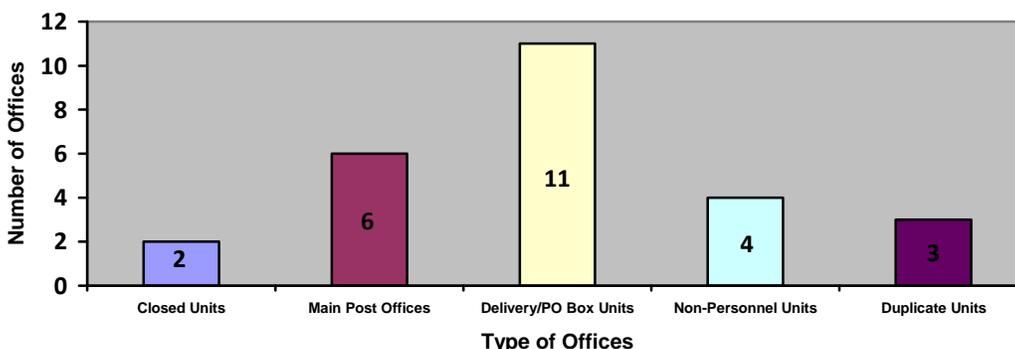
- A Hartford, CT, postmaster believed she could not consolidate the LaSalle Branch retail function into nearby facilities because of stakeholder concerns. However, the postmaster was able to consolidate all delivery functions into a nearby facility.

Data Reliability and Usefulness

There is reduced assurance that the data used for the SBOC Initiative was always reliable and useful. Managers need to rely on data from information systems to make vital decisions. Specifically:

- Management stated that centralized accounting systems were unable to generate a list of stations and branches because not all facilities have a unique identification number. As a result, HQ and field personnel spent numerous hours identifying and validating data that resulted in multiple SBOC Initiative universes ranging from 3,200 to 3,600 stations and branches reporting to a postmaster at or above the EAS-24 level. The final universe list was completed and filed with the PRC in September 2009, almost 5 months after the SBOC Initiative began.
- From the universe of 3,600 stations and branches, district management used a pre-screening process to prioritize and authorize 759 facilities for full discontinuance studies. We found 26 of the 759 facilities did not meet the intent of the SBOC Initiative and were incorrectly included in the universe (see Table 2). Notwithstanding the data issue, based on local knowledge, management should have recognized the anomalies during the pre-screening phase. For example, the two closed facilities discontinued their operations in May 2008 and July 2009.

Table 2. Offices Incorrectly Added to the SBOC Initiative Universe



Source: Postal Service

- The Post Office Discontinuance Tracking System (PODTS) tracked PO and other retail unit discontinuance. However, management stated in the September 30, 2009 *Official Transcript of Proceeding Before the PRC* that the data in the

system was inaccurate. Based on PODTS data, management reported to the PRC that they closed a total of 96 stations and branches between FYs 2005 and 2008. Management later found a number of data entry errors in PODTS, including misidentification of facilities. Subsequently, management filed a correction and revised the number of closures from 96 to 21 for the same period.

- Management also reported to the PRC that the 21 facilities identified above represented the number of closures for each FY, not just facilities reporting to postmasters at or above the EAS-24 level. However, our review of the Postal Service *Annual Reports* revealed stations and branches were reduced by 187 facilities between FYs 2005 and 2008 (see Table 3).

Table 3. Station and Branch Reductions

	FY 2005	FY 2006	FY 2007	FY 2008	Total
Reported to PRC	4	7	5	5	21
Postal Service Annual Reports	0	59	92	36	187

Source: PRC and Postal Service

- The Postal Service replaced the PODTS with the Post Office Discontinuance and Emergency Suspension System (PODESS). The PODESS is designed to track discontinuance and emergency suspension activities. The PODESS is also a document-generation system that assists field coordinators with the development of discontinuance studies. However, management stated that PODESS does not allow the import of PODTS historical data due to restrictions in the Facilities Database. Additionally, HQ did not require field personnel to enter historical data into the new PODESS. While management provided training in July 2009, we found HQ and field personnel do not use the PODESS. Instead, they track, report, file, and maintain discontinuance activities manually. As a result, the Postal Service continues to have inaccurate discontinuance data in its database.

Inconsistencies in Evaluating Factors

The Postal Service did not establish criteria for field management to evaluate factors used for determining feasibility to discontinue operations. As a result, we found some facilities might have missed discontinuance opportunities because non-feasibility justifications may not be objective (see Table 4). In addition, without clear criteria, inconsistencies in the process may appear as not transparent, equitable, or fact-based. Specifically, we found:

- District management removed 80 leased stations and branches from discontinuance consideration and provided “no lease termination/buy-out not cost effective” as one or several non-feasible justifications. Our review of lease agreements revealed that 10 of the 80 lease agreements do contain lease termination clauses the Postal Service may exercise. In addition, three of the 10

facilities provided “no lease termination clause” as their only non-feasible justification. As a result, the Postal Service may have missed an opportunity to reduce lease costs by approximately \$1 million for these three facilities (see [Appendix C](#)).

- In contrast to the 80 facilities identified above, district management submitted proposals to HQ recommending closure for 21 leased facilities even though they have no lease termination clauses. The lease expiration dates range from June 2010 to January 2020.
- District management provided “High Revenue and/or Growth” as one of several non-feasible justifications for 171 facilities. While revenue is generally declining nationwide, we found that 71 of the 171 facilities were also in areas with zero or negative growth rates.¹⁶
- District management provided “No Retail Presence in Close Proximity” as the only non-feasible justification for 35 facilities. Our review of retail locations on *usps.com* revealed that, generally, there are other retail facilities within 5 miles from the office being considered.

We believe the inconsistencies also resulted, in part, due to HQ relying on local management for decision-making. Consequently, the SBOC Initiative’s results are primarily subjective and qualitative in nature. We found that HQ reviewed and validated discontinuance proposals recommending closures, but they did not review non-feasible justifications provided to remove facilities from closure consideration. HQ stated they read district-prepared documents to obtain non-feasible justifications for recording in an Excel spreadsheet used to track the SBOC Initiative status. We believe that while a bottom-up approach is helpful, the discontinuance process should incorporate a top-down approach to complement the local knowledge. A top-down approach should begin with network solutions based on retail optimization modeling, which has national implications. Expertise of local management is needed to validate the data to ensure consolidation opportunities are feasible. This approach potentially:

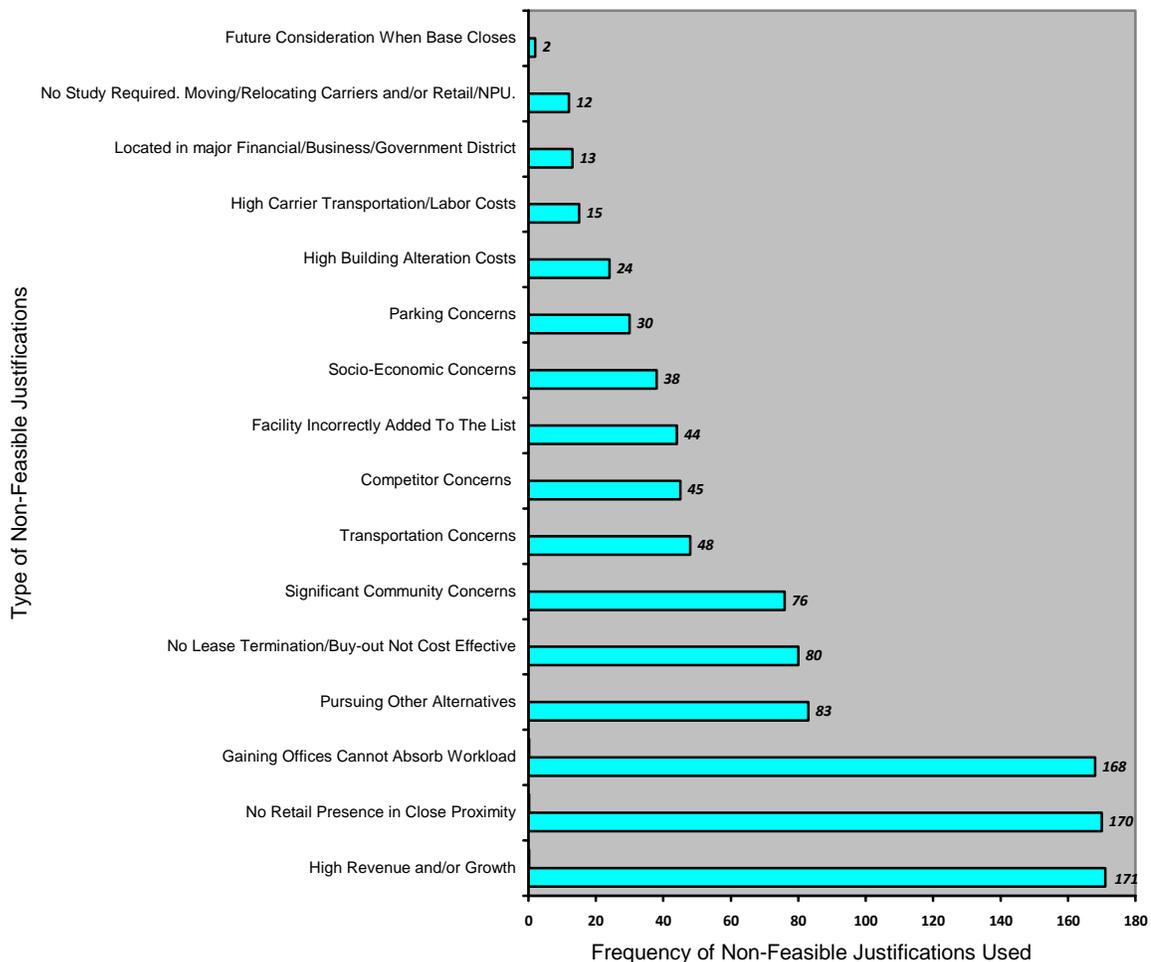
- Is more objective and equitable and easier to defend to stakeholders.
- Has more flexibility and can revise assumptions and parameters.
- Is strategic and can rank opportunities based on service and projected cost savings.

Management recognized the gap and has begun actions to develop a decision tree-based retail discontinuance model to mitigate the inconsistency and subjectivity

¹⁶ *Postal Service Demographic Report* data as of March 30, 2010.

identified in our review. In addition, management has initiated a LSS study to improve the discontinuance process for POs and other retail facilities.

Table 4. Non-Feasible Justifications and the Frequency Used to Remove Offices From Closure Consideration



Source: Postal Service

Public Input

We asked the public, using an external blog on the OIG website, which of these retail optimization and consolidation efforts stakeholders are most likely to support. A total of 219 voters indicated a preference as noted below:

- Close retail facilities located too close together (29 percent).
- Serve as a “Federal Center” to provide certain basic functions for other federal agencies (26 percent).

- Allow the Postal Service to expand product offerings to increase the revenue potential of the retail network (22 percent).
- Adjust operating hours consistent with local needs (9 percent).
- Other efforts (9 percent).
- Separate retail and delivery functions (5 percent).

In a separate blog, we asked voters who should bear the primary responsibility for determining which postal facilities should be closed. A total of 202 voters indicated a preference as noted below:

- The Postal Service (30 percent).
- The Postal Service, PRC, and Congress should work together and share the responsibility (24 percent).
- An independent commission/body (22 percent).
- Congress (19 percent).
- The PRC (5 percent).

APPENDIX C: MONETARY IMPACT

The OIG identified \$2,773,043 in funds put to better use¹⁷ related to untimely discontinuance decisions and missed opportunity to reduce lease costs. The Postal Service spends about \$425,000 per month to maintain operations at 28 facilities we randomly selected for review. District management forwarded proposals recommending discontinuance of operations for these 28 facilities to HQ. Although HQ Retail Operations completed pre-decisional reviews of the 28 proposals in February 2010, no final agency decisions have been made through the time of our report due to other priorities. We estimated the Postal Service could realize cost savings of over \$1.7 million from March 1 to September 30, 2010, if they approved discontinuance of operations for the 28 facilities after completing pre-decisional reviews¹⁸ (see Table 5).

In addition, the amount the Postal Service could save should it terminate leases at the Atlanta Civic Center, Tower Grove, and Southwest Stations is \$1,055,320.¹⁹ District management removed these stations from discontinuance consideration and cited “no termination clause” as the only non-feasible justification. However, the OIG review found that lease agreements for these stations contain termination clauses that provide the Postal Service the option to terminate the leases with proper written notice. We estimated the present value using October 1, 2010, as the start date to begin the termination notice period for each facility (see Table 6).

¹⁷ Funds that could be used more efficiently by implementing recommended actions.

¹⁸ According to the Postal Service, during FYs 2007 and 2008 it did not disapprove any station or branch discontinuance proposals submitted to HQ by field offices.

¹⁹ The amount covered the savings in lease costs. It did not include savings through eliminating utility and maintenance expenses. The costs to move the PO boxes to another unit were not taken into account and subtracted from the monetary impact. However, the utilities and maintenance savings may balance out the cost to move PO boxes.

Table 5. Untimely Discontinuance Decision Costs

Facility	Annual Savings ²⁰						7 Months Net Savings (March 1 – September 30, 2010)	One Time Costs ²¹	Net Cost Savings
	Personnel	Leases	Inter-station Transportation	Other	Replacement Services	Total			
Canton Deuber, Canton, OH	\$278,501	\$84,468		\$26,898	\$ (22,454)	\$367,413	\$214,324	\$(5,957)	\$208,367
Dearborn-Teleford, Dearborn, MI	214,248	60,000		55,325	(35,042)	294,531	171,810	(240,609)	(68,799)
East 14th Retail, Des Moines, IA		31,400		1,227		32,627	19,032	(72,966)	(53,934)
East Akron Akron, OH	173,852	99,900		40,295		314,047	183,194	-	183,194
Eastside, Tuscaloosa, AL	282,904	51,815		19,897		354,616	206,859	(525,000)	(318,141)
Eastway, Charlotte, NC	153,955	61,600		10,672		226,227	131,966	(25,000)	106,966
Edgewater, Lakewood, OH	109,584	19,722		14,098		143,404	83,652	(20,000)	63,652
Elmwood, Syracuse, NY	56,621	11,928	18,088	12,571		99,208	57,871	(88,973)	(31,102)
Fairfax, Kansas City, KS	51,591	16,302	31,059	11,499	(22,206)	88,245	51,476	(1,774)	49,702
Gary-Brunswick, Gary, IN	107,126	21,600		6,732	(2,541)	132,917	77,535		77,535
Great Southwest, Arlington, TX				89,929		89,929	52,459		52,459
Huntington, Cleveland, OH	107,104	8,550		6,036		121,690	70,986		70,986
Kaiser Center, Oakland, CA	139,461	19,478		3,915	(29,447)	133,406	77,820	(15,904)	61,916
Kamms, Cleveland, OH	60,257	20,960		9,859		91,076	53,128		53,128
Lindenwald, Hamilton, OH	56,617	6,300		-		62,917	36,701		36,701

²⁰ Annual savings include retail salaries and fringe benefits, leases, utilities, maintenance, and transportation minus any additional costs to be absorbed by gaining facilities.

²¹ One-time costs include building alterations and lease buyouts.

**Stations and Branches Optimization
and Consolidation Initiative**

EN-AR-10-005

Facility	Annual Savings ²⁰						7 Months Net Savings (March 1 – September 30, 2010)	One Time Costs ²¹	Net Cost Savings
	Personnel	Leases	Inter-station Transportation	Other	Replacement Services	Total			
Macon Mall, Macon, GA	110,766	70,000	17,417	7,280	(54,145)	151,318	88,269	(9,685)	78,584
Maple Valley, Akron, OH	173,852	47,124		48,598		269,574	157,252		157,252
Midtown, Tucson, AZ	394,289	30,857	9,401	67,318		501,865	292,755	(142,142)	150,613
Newtown, Cincinnati, OH	51,233	27,840	32,065	21,446	-	132,584	77,341	-	77,341
North Park Retail, San Diego, CA	216,580	155,400	13,817	21,108	-	406,905	237,361	-	237,361
Park Station, Berkeley, CA	85,465	8,400		1,563	-	95,428	55,666	(16,420)	39,246
Pawtucket Valley Falls, Cumberland, RI	54,145	30,201	9,247	14,241	(4,028)	103,806	60,554	(92,103)	(31,550)
Port Wentworth, Savannah, GA	70,122	14,818	38,929	17,391	-	141,260	82,402	-	82,402
Southeast, Kansas City, MO	341,917	-	61,223	16,323	(18,973)	400,490	233,619	-	233,619
Station A, Green Bay, WI	74,626	9,000		4,544	(9,954)	78,216	45,626	-	45,626
Stock Yards, Cincinnati, OH	51,233	12,456	12,024	2,700	(3,095)	75,319	43,936	-	43,936
Wilkes-Barre – Ashley, Ashley, PA	90,942	13,200	1,888	5,757	-	111,787	65,209	-	65,209
William Chick, Kansas City, MO	51,591	-	6,977	30,883	(11,531)	77,920	45,453	-	45,453
Total Funds Put To Better Use									\$1,717,723

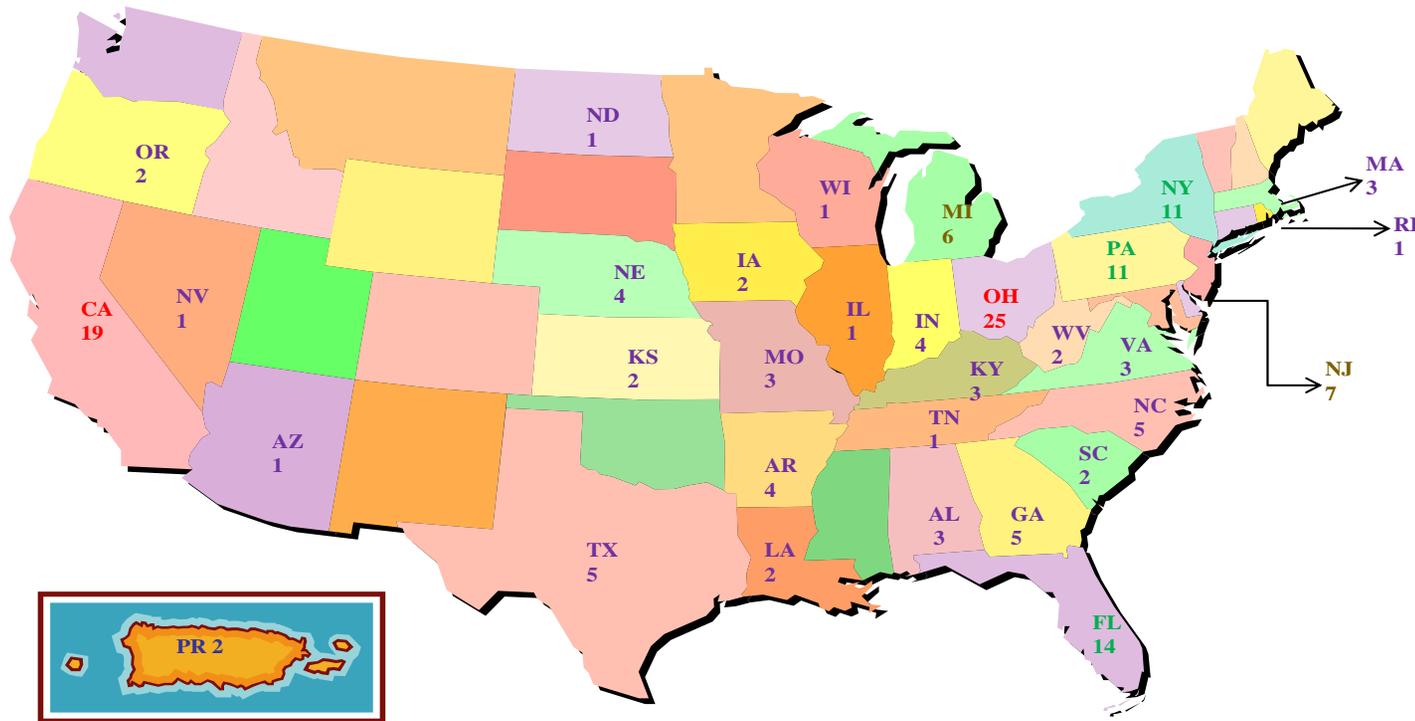
Table 6. Missed Opportunity to Reduce Lease Costs

Facility	Lease Start Date	Lease End Date	Monthly Lease Amount	Option to Terminate Notice Period	Present Value - Lease Payments ²²
Civic Center Station, Atlanta, GA	03/01/2007	02/28/2017	\$18,000	24 months	\$ 875,533
Tower Grove Station, St. Louis, MO	10/01/2008	11/30/2013	\$1,383	3 months	45,707
Southwest Station Oklahoma City, OK	05/01/2006	04/30/2013	\$5,016	3 months	134,080
Total Funds Put To Better Use					\$ 1,055,320

²² Rent is due at the beginning of the month and the Postal Service discount borrowing rate is 3.875 percent.

APPENDIX D: FACILITIES REMAINING UNDER CONSIDERATION FOR DISCONTINUANCE

156 Stations and Branches Remain Under Review For Possible Consolidation Under the SBOC Initiative by State as of March 2010

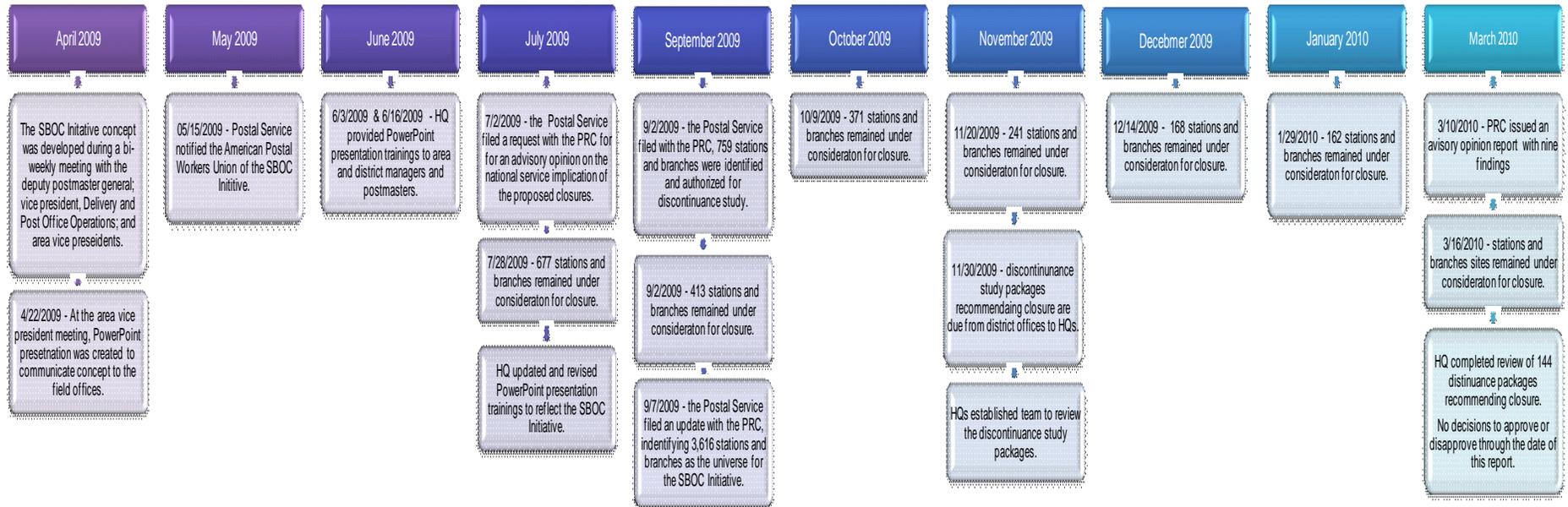


APPENDIX E: COMPARISON OF TWO RETAIL FACILITY DISCONTINUANCE PROCESSES

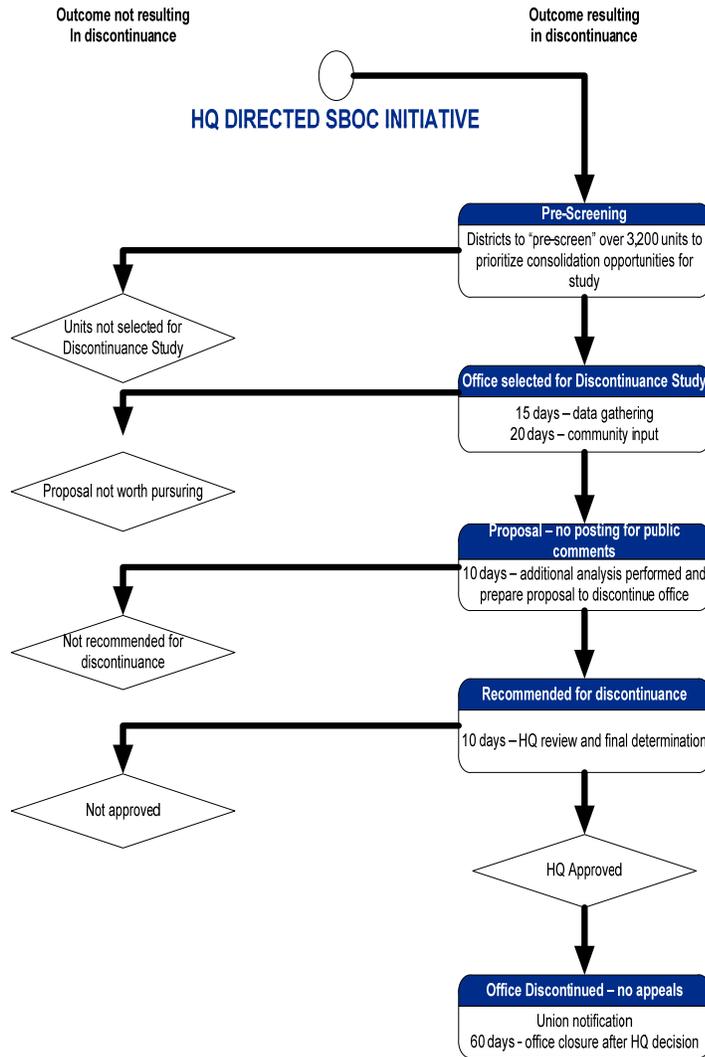
Post Office Closures (average 9 months)	Duration	Station and Branch Closures (average 4 months)	Duration
Office selected for discontinuance study (data gathering)	25 days	Office selected for discontinuance study (data gathering)	15 days
Community input	25 days	Community input	20 days
Proposal posting	60 days*	Proposal (no posting)	10 days
Consideration of public comments	40 days		
HQ review and final determination	30 days	HQ review and final determination	10 days
Appeal period	30 days*		
If appealed, PRC has 120 days* to make a determination on the appeal			
Office closure after posting of final determination	60 days	Office closure after posting of final determination and community notification	60 days

* Procedures and timeframe are mandated by requirements in Title 39, U.S.C. 404(d)

APPENDIX F: SBOC INITIATIVE TIMELINE



APPENDIX G: SBOC INITIATIVE PROCESS



APPENDIX H: MANAGEMENT'S COMMENTS

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



August 5, 2010

Lucine M. Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-20202

SUBJECT: Stations and Branches Optimization and Consolidation Initiative
(Report Number EN-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Management agrees with the findings outlined in the report. Further, management agrees with the \$2.7 million monetary impact identified in the report.

Management's responses to each recommendation are included below:

Recommendation 1:

Develop detailed policies and procedures for the station and branch closing process.

Response:

Management agrees with the recommendation. Currently there is an initiative underway in Retail Operations to fully automate the entire closing procedures in a web-based environment. This effort will incorporate revisions to the steps in the existing flow based on the completion in the Fall of 2010 of a Lean Six Sigma initiative.

Target Completion Date: Quarterly updates until completion.

Recommendation 2:

Improve the reliability and usefulness of retail facilities data by validating, correcting, and updating information in the database.

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- 2 -

Response:

Management agrees with the recommendation. Currently there is an initiative underway in Retail Operations to fully validate the current file of SBOC cases submitted by the Areas. All SBOC cases are input into a spreadsheet which is being updated every two weeks by a Team of HQ and Area coordinators. Once the web-based technology solution is implemented, the data will be catalogued as entries are made to the closing documents through the final posting in the Postal Bulletin.

Target Completion Date: Quarterly updates until completion.

Recommendation 3:

Develop measurable criteria to mitigate inconsistencies in evaluating factors used for determining feasibility to discontinue operations.

Response:

Management agrees with the recommendation. Currently there is an initiative underway in Retail Operations to fully automate the entire closing procedures in a web-based environment. This effort will incorporate revisions to the steps in the existing flow based on the completion in the Fall, 2010, of a Lean Six Sigma initiative. The Areas will have the ability, within the guidelines of the process flow, to submit proposals for closure. Local situations will be described in the document that may cause additional criteria to be considered.

Target Completion Date: Quarterly updates until completion.

Recommendation 4:

Process and approve or disapprove discontinuance proposals in a timely manner.

Response:

Management agrees with the recommendation. Currently there is an initiative underway in Retail Operations to fully automate the entire closing procedures in a web-based environment. Having the web-based system in place with targeted completion dates will facilitate timely decisions on all proposals.

In the interim, we have tracking in place with the recently developed spreadsheets that will identify any delays in processing.

Target Completion Date: Quarterly updates until completion.

- 3 -

We do not believe that this report contains any propriety or business information
and may be disclosed pursuant to the Freedom of Information Act."



Dean Y. Granholm

cc: Ms. Gallagher
Ms. Wong
Mr. Newman
Mr. Graves
Mr. Rudez