



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**University Station, Eugene, OR
Consolidation**

Audit Report

July 20, 2011

Report Number EN-AR-11-007



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

July 20, 2011

University Station, Eugene, OR
Consolidation

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IMPACT ON:

The U.S. Postal Service-operated retail facility discontinuance process is used by headquarters, area, district, and local offices and is high profile and sensitive with visibility from Congress, communities, customers, employees, unions, and other stakeholders.

WHY THE OIG DID THE AUDIT:

The Postal Service initiated a discontinuance study to consolidate the University Station into the Eugene Main Post Office in July 2009, and public notices were issued the same month. The discontinuance study was completed and submitted to headquarters for final determination, and the University Station was closed in January 2011. We received a congressional inquiry expressing concerns that public inputs were limited during the discontinuance process.

WHAT THE OIG FOUND:

The Postal Service followed applicable federal law and postal policies to discontinue the University Station operations. Specifically, the Postal Service provided the public adequate notices and opportunities to comment. In addition, the Postal Service considered public comments, and effects on the community, and service in the final determination to close the University Station. However, management omitted certain operational

costs in the proposal submitted to headquarters for final determination due to inadequate coordination between local and district management and the discontinuance coordinator.

In addition, we identified various concerns with the economic analysis and believe improvements could be made to allow for a more objective evaluation. We are not making a recommendation, because we will address this issue in our comprehensive review of the draft *Postal Service-Operated Retail Facility Discontinuance Guide*, which will examine all components of the discontinuance process.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Delivery and Post Office Operations, ensure that district managers review and certify all applicable direct and indirect costs in discontinuance proposals before submitting them to headquarters for final determination.

WHAT MANAGEMENT SAID:

Management agreed with the findings and recommendation. Management added a financial model, which was established to analyze projected savings and costs, effective July 14, 2011.

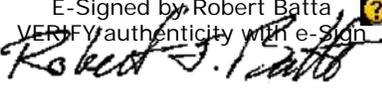
[**Link to review the entire report**](#)



July 20, 2011

MEMORANDUM FOR: DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

TERRY K. ANDERSON
DISTRICT MANAGER, PORTLAND DISTRICT

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


FROM: Robert J. Batta
Deputy Assistant Inspector General for Mission Operations

SUBJECT: Audit Report – University Station, Eugene, OR Consolidation
(Report Number EN-AR-11-007)

This report presents the results of our audit of the consolidation of the Eugene, OR University Station to the Eugene, OR Main Post Office (Project Number 11XG020EN000).

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

cc: Patrick R. Donahoe
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Introduction

This report presents the results of our audit of the consolidation of the Eugene, OR University Station to the Eugene, OR Main Post Office (MPO) (Project Number 11XG020EN000). The report responds to a congressional inquiry on complaints that public inputs were limited during the U.S. Postal Service discontinuance process. Our objectives were to assess the consolidation and determine whether the discontinuance process was transparent and included a review of community needs. The audit addresses operational and financial risks. 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 mail volume was robust and there was less alternate access to postal services. Congress recognized in the Postal Accountability and Enhancement Act of 2006¹ that the Postal Service has more facilities than it needs and strongly encouraged streamlining the network. The University Station, located at the University of Oregon Eugene Campus, provided retail and Post Office™ (PO) box services. In July 2009, the Postal Service initiated a discontinuance study, and in August 2010, the vice president, delivery and PO operations, approved the transfer of all operations and PO boxes from the University Station into the Eugene MPO. The University Station was closed effective January 15, 2011.

Conclusion

The Postal Service followed applicable federal law² and postal policies³ to discontinue the University Station operations. Specifically, the Postal Service provided the public adequate notices and opportunities to comment. In addition, the Postal Service considered public comments, and effects on the community, and service in the final determination to close the University Station. However, we identified various concerns with the economic analysis and believe improvements could be made to allow for a more objective evaluation.

Discontinuance Process

In July 2009, the Postal Service began a discontinuance study to close the University Station and consolidate its operations into the Eugene MPO. The SBOC Initiative provided factors to consider closure or consolidation of a station or branch. These factors affect the community, office workload, economic savings, and proximity of other facilities.

¹ P.L. 109-435, December 2006.

² Title 39 U.S.C. Sections 101(b) and 404(d).

³ Handbook PO-101, *Post Office Discontinuance Guide*, August 2004, and *Stations and Branches Optimization and Consolidation (SBOC) Initiative Guidelines*, July 2009.

Community Input

In August 2009, the Postal Service notified the University Station retail and PO box customers and issued 346 questionnaires concerning the proposed consolidation. Management also made questionnaires available at the window counter. Community concerns received included no customer parking lot at the Eugene MPO, having to travel to another PO for services, and the loss of a gathering place. Also, in September 2009, the Postal Service received three congressional inquiries⁴ expressing concerns that the community did not have the opportunity to comment.

Our review of the discontinuance study documentation found the Postal Service collected and considered public comments through October 2009. Of the 251 questionnaire replies received, management considered customers' inputs and concerns and responded to those who provided a return address. Management also responded to congressional inquiries and individual letters. Based on available information and community input obtained during the discontinuance study, the Postal Service concluded the consolidation would provide effective and regular postal services and will not adversely affect the community.

As part of our audit, we asked for and received 157 public comments, using an external blog on the U.S. Postal Service Office of Inspector General (OIG) website, on how the University Station consolidation affected them (see Table 1).

Table 1: Number and Type of Comments Received on the OIG's website from February 17 through March 16, 2011.

Closing the University Station was inconvenient to the university community	Community input was not considered	Customer will switch brands	Reopen the University Station	Right decision to close the University Station
138	1	5	12	1

Office Workload and Economic Savings

The discontinuance study also found the University Station revenue and workload (customer visits and total transactions) continued to decline since fiscal year (FY) 2008 (see Table 2). Also, of the 933 PO boxes available, only 317 (34 percent) were rented, compared to a national rental rate of 77 percent. Further, the Postal Service leased the University Station space on a month-to-month basis since April 2010. Finally, the estimated annual cost savings was about \$130,000 for two full-time employees and rent payments.

⁴ Senators Jeff Merkley and Ron Wyden and Congressman Peter DeFazio.

Table 2: University Workload and Revenue

	Actual for FY			Percentage Compared to Same Period Last Year	
	2008	2009	2010	2009	2010
Walk-In Revenue	\$421,826	\$379,599	\$362,147	(10.0%)	(4.6%)
Customer Visits	57,224	49,835	46,679	(12.9%)	(6.3%)
Total Transaction (Revenue and Non-revenue)	\$96,344	\$86,346	\$81,606	(10.4%)	(5.5%)

Source: Retail Data Mart – Monthly-Yearly Retail Unit Post Office Comp Flash Report

On June 9, 2011, management provided additional information that clarifies the University Station discontinuance proposal. Management stated that \$86,416 in personnel, contract cleaning, and supplies expenses⁵ were not included in the proposal submitted for final determination. The omission of the expenses was the result of inadequate coordination between local and district management and the discontinuance coordinator. Management added that among the Postal Service-operated retail units in Eugene, OR, closing the University Station would cause the minimum disruption to customers and employees while providing cost savings.

Service Alternatives

Customers in the University Station area have several options for postal services within a short distance. The Eugene MPO is located about 1.1 miles from the University Station, offers extended window hours and passport service, and has an automated postal center (APC), a self-serve kiosk. In addition, there are three other Postal Service-owned or leased facilities and three contract postal units (CPUs)⁶ located within a 5-mile radius of the University Station. See [Appendix C](#) for services and distances for the seven facilities. Lastly, while the University of Oregon bookstore is not part of the Postal Service retail network, it sells stamps and accepts First-Class Mail[®] and flat-rate boxes.

Final Determination

Our analysis revealed that the discontinuance study to consolidate the University Station into the Eugene MPO began in July 2009 and public notices were issued the same month. The discontinuance study was completed and submitted to Postal Service Headquarters (HQ) for final determination⁷ in October 2009. HQ approved the final

⁵ Personnel cost, \$81,250; contract cleaning, \$4,380; and supplies, \$786.

⁶ A CPU is a facility that provides selected postal services to the public according to a contract with the Postal Service.

⁷ 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.

determination to discontinue the University Station operations in August 2010, 13 months after the study began,⁸ which exceeded SBOC Initiative guidance by 9 months. The University Station was closed in January 2011. Because we made a recommendation addressing timely discontinuance study decisions in a prior audit report, we are not making a similar recommendation.⁹ See [Appendix D](#) for timeline.

The Postal Service posted on its external website (*usps.com*) an October 21, 2010, letter notifying stakeholders of its official decision to discontinue operations at the University Station. However, we noted the gaining facility was changed from the Eugene MPO to the Southside Station, 2.4 miles from the University Station. Management stated that the Postal Service owns the building in which the Eugene MPO resides and it has been on the market for sale for over a year. Management expressed concerns that moving operations into a building with a “For Sale” sign might unfairly impair public perception of the Postal Service. HQ advised local management that the gaining facility could not be changed after the final determination has been approved. Subsequently, local management issued an update letter on December 2, 2010, informing customers the gaining facility will remain at the Eugene MPO. Because management took corrective actions, we are not making a recommendation.

Recommendation

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

1. Ensure that district managers review and certify that local managers have identified, reviewed, and documented all applicable direct and indirect costs in discontinuance proposals prior to submission to headquarters for final determination.

Management's Comments

Management agreed with the findings and recommendation. Management stated district managers would review and certify discontinuance records before submitting them to the vice president, Delivery and Post Office Operations, for final determination. Management added a financial model, which was established to analyze projected savings and costs. The model will be included in the feasibility study as part of the discontinuance process, effective July 14, 2011. See [Appendix E](#) for management's comments, in their entirety.

⁸ The SBOC Initiative Guidance states the average discontinuance process period is 4 months.

⁹ *Stations and Branches Optimization and Consolidation Initiative* (Report Number EN-AR-10-005, dated August 17, 2010)

Evaluation of Management's Comments

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

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

Economic Analysis

While the discontinuance process will identify cost savings, the Postal Service should improve the financial analysis used to determine if a retail facility closes. Currently, the financial analysis does not:

- Evaluate potential revenue declines that may result from closing a retail facility.
- Address the impact of closing a profitable retail unit.
- Sustain the Postal Service's competitive advantage.

Potential Revenue Loss

Revenue loss due to closing a facility is not part of the Postal Service's cost savings calculation, because management does not have a methodology to estimate lost revenue. The Postal Service assumes that customers will continue to access postal products and services through alternative access channel or to another postal facility. However, our review of the University Station disclosed that the community of about 30,000 students and staff's willingness to use another postal facility was diminished due to limited transportation and inconvenient retail hours. In addition, 20 percent (63 of 317) of the University Station PO box customers did not transfer their box service to the Eugene MPO.

Profitable Unit

By law, the Postal Service cannot close ". . .small post offices solely for operating at a deficit. . . ." Inherent to the current postal law is the assumption that some offices are profitable, while others are not. Our review of the University Station discontinuance study documentation revealed that, from FYs 2008 through 2010, the unit was operating at a profit each year. We recognize that there may be indirect costs, in addition to the \$130,000 direct costs, not included in the University Station cost savings analysis. However, the Postal Service's selection of a facility that operated at a profit for closure rather than one of the many thousands that consistently operate at a loss is somewhat

puzzling and may reduce stakeholders' confidence that it will make decisions in a transparent, equitable, and fact-based manner.

Competitive Advantage

The Postal Service must balance revenue considerations with the cost of maintaining and staffing retail facilities. The current discontinuance process does not examine or predict the presence of competitors. Without this information, the Postal Service is at risk of maintaining its competitive advantage. For example, in April 2011, the University of Oregon Erb Memorial Union announced the United Parcel Service (UPS) Store will move into the space formerly occupied by the University Station. The UPS Store would use existing mailboxes that the Postal Service sold to the University. We estimated the Postal Service is at risk of revenue loss of about \$180,000 for the closure of the University Station (see [Appendix B](#) for our other impact calculation).

We recognize that the Postal Service faces barriers¹⁰ in its efforts to optimize and modernize the retail network. In recent months, the Postal Service has initiated actions to address some institutional barriers that have inhibited modernization of the retail network. Specifically, in March 2011, the Postal Service proposed new rules to improve the closure process, and management is in the process of updating the *Postal Service-Operated Retail Facilities Discontinuance Guide* to provide additional guidance. However, we believe the addition of an economic analysis model will allow a more objective evaluation. We are not making a recommendation, because we will address this issue in our comprehensive review of the draft *Postal Service-Operated Retail Facilities Discontinuance Guide*, which will examine all components of the discontinuance process.

¹⁰ In our May 2011 white paper, we reported that the Postal Service faces statutory, regulatory, political, and institutional barriers in its efforts to optimize and modernize the retail network, *Barriers to Retail Network Optimization* (Report Number RARC-WP-11-005, dated June 9, 2011).

Appendix A: Additional Information

Background

The current locations of more than 32,000 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.¹¹ 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 turn 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 whether excess capacity exists.

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 Executive & Administrative Schedule 24¹² level. The SBOC Initiative focused on facilities in urban and suburban areas, because they are in relatively close proximity to one another where consolidation might be feasible.

Objectives, Scope, and Methodology

Our objectives were to assess the Eugene, OR University Station consolidation and determine whether the Postal Service discontinuance process were transparent and included a review of community needs.

- Used computer-processed data from the Retail Data Mart System to analyze workload and transactions.
- Interviewed Postal Service officials and reviewed applicable guidelines, including Handbook PO-101, *Postal Operations Manual*, POM Issue 9, SBOC Training Guides.
- Reviewed the Eugene, OR University Classified Station discontinuance study, including public comments and management's analysis and responses.

¹¹ Title 39 U.S.C. § 403(b).

¹² A salary structure that applies to most managerial and administrative Postal Service employees.

- Reviewed Government Accountability Office (GAO) reports related to retail network optimizations.
- Reviewed the Postal Regulatory Commission (PRC) Advisory Opinion on the SBOC Initiative and related documentations.

We conducted this performance audit from January through July 2011 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on May 25, 2011, and included their comments where appropriate.

To conduct this review, we relied on computer-processed data maintained by Postal Service operational system. We did not test the accuracy of the data or the validity of controls over the system.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Report Results
<i>Stations and Branches Optimization and Consolidation Initiative</i>	EN-AR-10-005	8/17/2010	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.
<i>U.S. Postal Service - Restructuring Urgently Needed to Achieve Financial Viability</i>	GAO-09-958T	8/29/2009	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.
<i>U.S. Postal Service - Broad Restructuring Needed to Address Deteriorating Finances</i>	GAO-09-790T	7/30/2009	Although the Postal Service has begun efforts to realign and consolidate some mail processing, retail, and delivery operations, much more is urgently needed. GAO recognizes that Postal Service would face formidable resistance to restructuring with many facility closures and consolidations because of concerns that these actions would affect service, employees, and communities.
<i>U.S. Postal Service - Network Rightsizing Needed to Help Keep USPS Financially Viable</i>	GAO-09-674T	5/20/2009	The Postal Service can streamline its retail network by closing unnecessary facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet, as well as at drug stores and supermarkets.
<i>U.S. Postal Service - Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs</i>	GAO-09-332T	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.

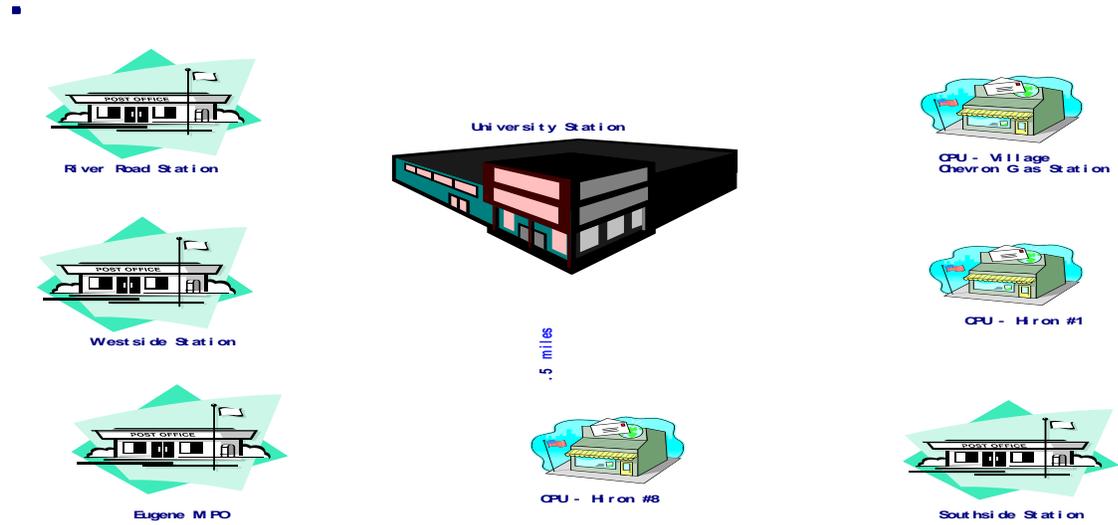
Appendix B: Other Impact

Finding	Impact Category	Amount
Potential Revenue Loss	Revenue at Risk ¹³	\$180,000

The Postal Service estimates that revenue will continue to decline. Based on the University Station revenue from FYs 2009 to 2010 and the competitor moving into the vacated facility, we used a 50-percent reduction in revenue to estimate the potential revenue loss.

¹³ Revenue that the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

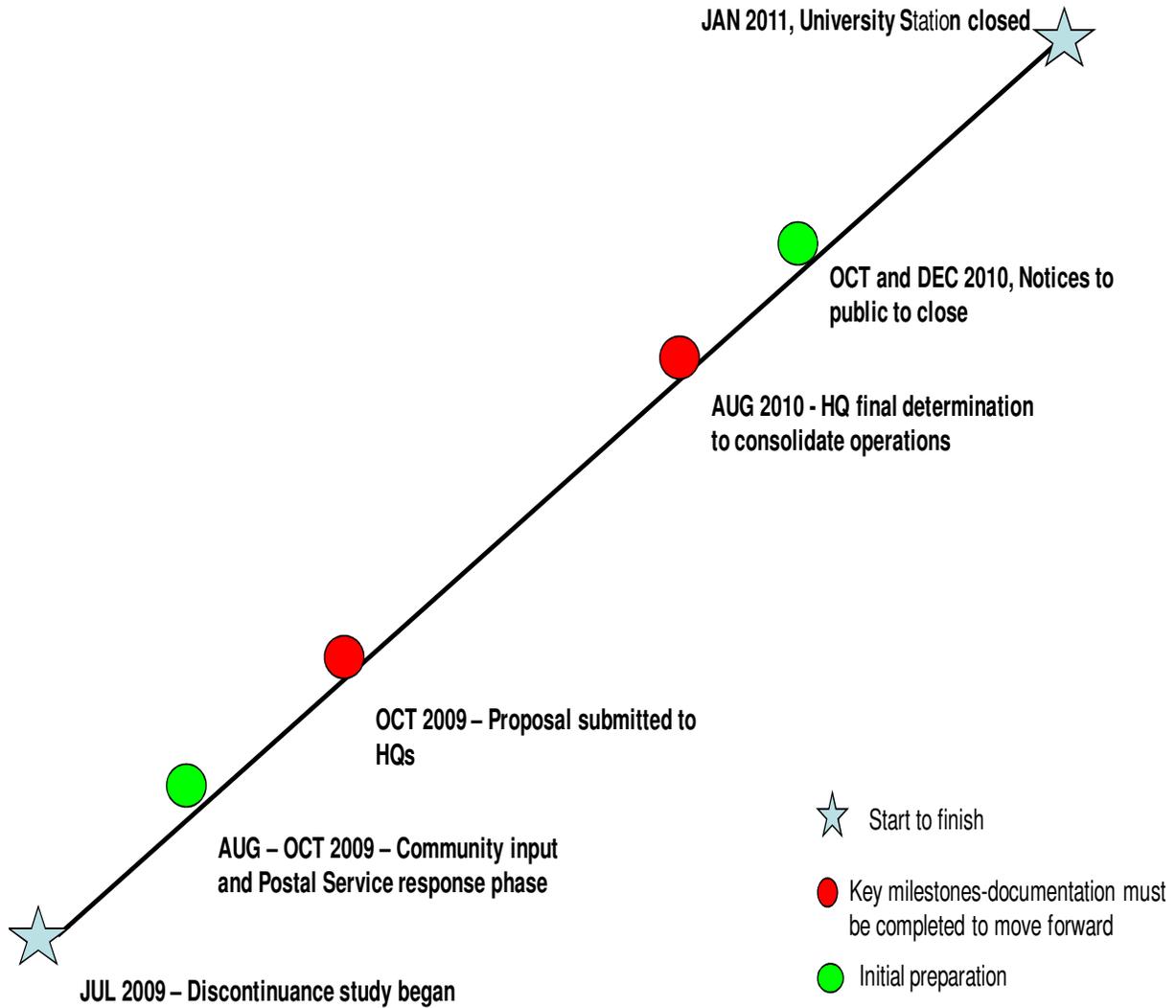
Appendix C: Retail Facilities in Eugene, OR



Facilities	Hours	Services
Eugene MPO	8:30 a.m. - 5 p.m. M-F 10 a.m. - 2 p.m. S	All services, ¹⁴ passports, APC, & PO Box rentals
Southside Station	8:30 a.m. - 6 p.m. M-F 10 a.m. - 2 p.m. S	All services, APC & PO Box rentals
Westside Station	8:30 a.m. - 5 p.m. M-F	All services, APC & PO Box rentals
River Road Station	8:30 a.m. - 5 p.m. M-F 9 a.m. - 1 p.m. S	All services, APC & PO Box rentals
<u>CPUs</u>		
Hirons # 1	9 a.m. - 4:30 p.m. M-F 9 a.m. - 12:30 p.m. S	All retail services
Hirons # 8	9 a.m. - 5 p.m. M-F 9 a.m. - 12 p.m. S	All retail services
Village Chevron Gas Station	9 a.m. - 6 p.m. M-F 10 a.m. - 4 p.m. S	All retail services

¹⁴ All services include stamps and products; domestic and international mail; Registered Mail™; insured mail; Certified Mail™; and return receipts.

Appendix D: University Station Discontinuance Timeline



Appendix E: Management's Comments

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



July 11, 2011

Shirian B Holland
Director, Audit Operations (A)
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Management Advisory – University Station, Eugene, OR
Consolidation (Report Number EN-AR-11_DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. Our responses are as follows:

We recommend the Vice President, Delivery and Post Office Operations:

1. Ensure that district managers review and certify that local managers have identified, reviewed, and documented all applicable direct and indirect costs in discontinuance proposals prior to submission to headquarters for final determination.

RESPONSE:

We agree with the findings. A financial model will be established to analyze projected cost/savings associated with a proposed discontinuance. The cost/savings model will be included in the feasibility study as part of the new discontinuance process effective July 14. The district manager will review and certify discontinuance records prior to submission to the Vice President, Delivery and Post Office Operations for final determination.

Thank you.

A handwritten signature in black ink, appearing to read "Dean J. Granholm".

Dean J. Granholm

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