OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Lessons Learned from Retail Network Optimization Initiatives

Management Advisory Report

March 21, 2013

Report Number DR-MA-13-001

OFFICE OF INSPECTOR GENERAL

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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

March 21, 2013

Lessons Learned from Retail Network Optimization Initiatives

Report Number DR-MA-13-001

BACKGROUND:

Beginning in 2009, the U.S. Postal Service launched two nationwide initiatives to realign its retail network of about 32,000 facilities. The purpose of both initiatives was to examine closure opportunities and reduce costs. On May 9, 2012, management reversed course and announced a new initiative to keep about 13,000 small post offices open by reducing operating hours to achieve cost savings.

From fiscal years 2007 through 2012, the Postal Service reduced its retail network by 891 facilities, closing 760 of the facilities on an individual, as-needed basis. The remaining 131 retail facility closures resulted from a 2009 closure initiative. The Postal Service did not close any facilities that were part of a separate 2011 initiative.

Our objective was to identify Postal Service lessons learned from current and past retail network optimization initiatives.

WHAT THE OIG FOUND:

Although the Postal Service has improved its retail network optimization efforts, we identified lessons learned from current and past initiatives. Specifically, timely decisions are needed regarding closure proposals to avoid unnecessary operational disruption and community uncertainty. We identified about 600 stations, branches, and retail annexes from the 2011 initiative that remain under review for closure, almost 2 years later.

We also identified instances where management did not provide consistent, accurate, and timely information to stakeholders. Such information is essential for improving communications with stakeholders during retail network realignments.

Further, we found that management did not establish a post-implementation review process. Absent such a review process, management's ability to understand the complete impact of retail network realignments and ensure accountability diminishes.

WHAT THE OIG RECOMMENDED:

We recommended management process and approve or disapprove closure proposals from the 2011 initiative, enhance communication plans to improve relations with stakeholders, and implement a formal post-implementation review procedure that evaluates savings achieved and impacts from network realignments of retail operations.
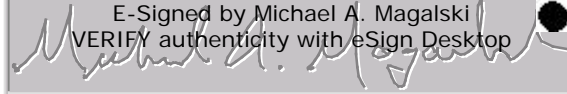
Link to review the entire report

March 21, 2013

MEMORANDUM FOR: EDWARD F. PHELAN, JR
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

FROM: Michael A. Magalski
Deputy Assistant Inspector General
 for Support Operations

SUBJECT: Management Advisory Report – Lessons Learned From
Retail Optimization Initiatives
(Report Number DR-MA-13-001)

This report presents the results of our review of Lessons Learned From Retail
Optimization Initiatives (Project Number 13XG004DR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Rita F. Oliver, director, Delivery
and Post Office Operations, or me at 703-248-2100.

Attachments

cc: Jeffrey C. Day
    Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service's Lessons Learned from Retail Network Optimization Initiatives (Project Number 13XG004DR000). Our objective was to identify lessons learned from current and past retail network optimization initiatives. The review focused on the planning, communication, and execution of these network initiatives. This self-initiated review addresses strategic risk. See Appendix A for additional information about this review.

The Postal Service launched two nationwide initiatives to realign its retail networks. These realignments were called the Stations and Branches Optimization Consolidation (SBOC), April 2009; and Retail Access Optimization Initiative (RAOI), July 2011. The purpose of both initiatives was to examine closure opportunities and reduce costs. On May 9, 2012, management announced a new strategy known as the Post Office Structure Plan (POStPlan). This plan would keep small post offices (PO) open for business by reducing operating hours, while providing a framework to achieve cost savings. Management plans to complete the POStPlan in 2014.

Conclusion

Although the Postal Service has improved its retail network optimization efforts, we identified lessons learned from current and past initiatives. Specifically, of the 3,652 facilities under the RAOI, about 600 stations, branches, and retail annexes did not transfer to the POStPlan initiative and remained under review for closure. However, as of January 2013, management has made no decisions regarding which, if any, of the 600 facilities will close. Without timely decisions to process and approve or disapprove discontinuance proposals, there is an increased risk of unnecessary disruption to certain field operations and community uncertainty.

We also identified instances where management did not provide consistent, accurate, and timely information to stakeholders. Such information is essential for improving communications with stakeholders during retail network realignments. Further, we found that management did not establish a post-implementation review (PIR) process. Absent such a review process, management's ability to understand the complete impact and ensure accountability diminishes.

Retail Network Optimization Initiatives

From fiscal years (FY) 2007 through 2012, the Postal Service reduced its Postal Service-managed retail network by 891 facilities, but it did not conduct PIRs to evaluate potential cost savings, revenue loss, and service impacts for offices closed due to network realignments. District offices closed 760 of the 891 facilities on an individual, as-needed basis. According to Postal Service Headquarters management, the

remaining 131 retail facility closures resulted from the SBOC initiative. In July 2011, the Postal Service announced the RAOI, but did not close any facilities as a result of this initiative. In May 2012, the Postal Service announced a new nationwide retail initiative, POStPlan, to preserve about 13,000 small POs and achieve cost savings. In prior work, the U.S. Postal Service Office of Inspector General (OIG) issued 10 recommendations related to retail optimization initiatives.[1] Management agreed with our recommendations and has initiated actions to address them.

Planning for Retail Network Optimization Initiatives

While the Postal Service has enhanced the planning process for retail network restructuring initiatives, opportunities exist for improvement. Beginning in 2009, the Postal Service announced two nationwide initiatives to restructure its retail network of about 32,000 Postal Service-operated facilities. Management deployed a web-based tracking application[2] to manage consolidations and closures in 2010. In 2011, the Postal Service issued new regulations[3] to increase its flexibility to make changes to the retail network and incorporated them into its discontinuance policies.[4] Significant changes included, but were not limited to, instituting a strategic (top-down)[5] approach, implementing uniform closure procedures, and changing regulations to allow POs to be staffed by other types of Postal Service employees.[6]

We reported in 2010[7] that the Postal Service could have enhanced SBOC planning and management by improving communication and coordination with stakeholders[8] and developing accurate and reliable data on its facilities. Following the SBOC initiative, management recognized the need to increase its flexibility to pursue retail network optimization and took necessary action. As noted in our 2011 report,[9] the Postal Service implemented new regulations and policies and deployed a web-based data program to guide closure studies to address some of the institutional barriers that inhibited modernizing the retail network. Also, management incorporated five prior OIG recommendations[10] on the closure process into the regulations and policy changes.

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[1] *University Station, Eugene, OR Consolidation* (Report Number EN-AR-11-007, dated July 20, 2011) and *Stations and Branches Optimization and Consolidation Initiative* (Report Number EN-AR-10-005, dated August 17, 2010); *Postal Service-Operated Retail Facilities Discontinuance Program* (Report Number EN-AR-12-002, dated December 1, 2011).

[2] Change, Suspension, Discontinuance Center (CSDC) Program.

[3] 39 C.F.R. Part 241, Post Office Organization and Administration: Establishment, Classification, and Discontinuance, December 2011.

[4] Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, January 2012.

[5] Current postal regulations and policies expand the authority to initiate discontinuance studies to the responsible vice president to integrate the benefits of headquarters optimization framework (top-down) with local expert validations (bottom-up) to ensure discontinuance opportunities are feasible.

[6] Under previous Postal Service regulations and policies, a postmaster was the only employee who could manage operations at a PO.

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

[8] Postal Service employees, congress, local communities, and unions.

[9] *Postal Service-Operated Retail Facilities Discontinuance Program* (Report Number EN-AR-12-002, dated December 1, 2011).

[10] *University Station, Eugene, OR Consolidation* (Report Number EN-AR-11-007, dated July 20, 2011) and *Stations and Branches Optimization and Consolidation Initiative* (Report Number EN-AR-10-005, dated August 17, 2010).

These changes enabled the Postal Service to roll out the RAOI, made up of 3,652 Postal Service-operated retail facilities, and the agency asked the Postal Regulatory Commission (PRC) for an advisory opinion on the national service implications in July 2011. Management stated that they designed the RAOI to look at retail facilities in urban, suburban, and rural areas proportionally across the retail network (see Appendix B for the RAOI facilities composition). However, the RAOI received significant resistance since stakeholders viewed the RAOI as targeting rural area POs for closure.

Like the SBOC initiative, we determined that management did not establish goals or milestones for the RAOI. Management stated that setting specific goals and milestones would impede the progress and the process for the RAOI. In addition, we found that some RAOI facilities did not meet the headquarters-defined criteria of access points or annual revenue due to incomplete or inaccurate data. In December 2011, the Postal Service placed a moratorium on all facility closures until May 15, 2012, while congress considered postal reform legislation. The PRC issued its advisory opinion on December 23, 2011, and concluded that the RAOI was likely to affect service on a nationwide basis and that it was not designed to optimize the retail network.

Although the PRC's advisory opinion did not prevent management from implementing the RAOI once the moratorium expired in May 2012, management initiated an alternative to the RAOI, the POStPlan. The POStPlan is aimed at modifying retail hours to match customer usage without closing about 13,000 small POs. However, of the 3,652 RAOI facilities, about 600 stations, branches, and retail annexes did not transfer to the POStPlan and remained under review for closure opportunities.

As of January 2013, management has made no decisions regarding which, if any, of the 600 facilities will close. After the SBOC, the Postal Service implemented new policies and deployed a web-based tracking application to reduce cycle time to about 120 days to complete the closure process. However, like the SBOC, we found that management did not make timely decisions to process and approve or disapprove the 600 discontinuance proposals from the 2011 initiative. Management stated that the POStPlan has taken priority and that community meetings for some of the 600 facilities were held about 1 year ago; therefore, they may have to start the discontinuance study from the beginning. Without timely decisions, there is an increased risk of unnecessary operational disruption and community uncertainty. In addition, stakeholders may perceive the Postal Service as being indecisive.

Under the POStPlan, the Postal Service will work with communities regarding the future status of their POs and to implement one of these four options:

- Keep the PO open with reduced hours.
- Close the PO and offer curbside delivery.
- Close the PO and establish a Village Post Office (VPO).[11]
- Close the PO and provide PO Box Service at a nearby PO.

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[11] Contractor-operated facilities that provide limited postal products and services, including stamps, Priority Mail® Flat Rate packages and envelopes, and mail box services.

Communication Associated with Retail Network Optimization Initiatives

The Postal Service has made progress coordinating and informing stakeholders of its retail restructuring initiatives. The Postal Service recognizes that stakeholders are a critical component of implementing successful changes in the retail network.
In our SBOC report, we identified several weaknesses with the communication process used to guide the initiative. Management acknowledged that there were communication issues with stakeholders because the SBOC initiative was launched without sufficient complement options to existing Postal Service-managed retail facilities. As a result, the SBOC initiative was stagnant until management closed the initiative in its entirety after closing 131 stations and branches.

Lastly, there were inconsistencies on how well the Postal Service shared information with congressional staff members and other stakeholders. While some congressional staff members stated that the Postal Service adequately shared information, others raised concerns that they were provided conflicting, inaccurate, incomplete, and untimely information. Some constituents believed the Postal Service did not provide information in community meetings sufficient enough to enable customers to find the process fair and transparent. Enhancing communication is essential for improving relations with stakeholders and raising stakeholders' confidence that the Postal Service will make transparent, equitable, and fact-based decisions.

After the SBOC initiative, the Postal Service updated its communication instructions by expanding guidance to ensure that notices and questionnaires reached affected customers, community meetings were held, and proposal and comment notices were posted and available upon customer request for the roll out of the RAOI. However, stakeholders continued to raise concerns about potential changes to the Postal Service's retail network and how the proposed changes might affect jobs, service, and communities.

To obtain information on resistance to closing facilities under the RAOI, we reviewed comments obtained from community meetings, PRC documents, OIG external blogs, and news articles and found that stakeholders' concerns included:

- The closure process did not consider stakeholders' input.

- The Postal Service did not properly notify customers of community meetings, and meetings were held at times inconvenient to the public.

- The proposed alternative service was inadequate, inconvenient, or unsafe.

- Closing the facility would cause a hardship on the community.[12]

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[12] These hardships were centered around inconveniences to the elderly and the poor and increased driving distance and fuel cost.

In addition, we attended three RAOI community meetings[13] and noted that stakeholders expressed concerns about timely meeting notifications and questionnaires, access to products and services, change of address requirements, and the lack of community input into the Postal Service's decision to close its facility. We also noted that management's presentations shared primarily high-level information that had been widely reported in the news media about the Postal Service's current financial condition. Management offered little explanation regarding facility-specific details that led to the proposed closure and changes in service. In addition, stakeholders questioned the Postal Service's consideration of information received at community meetings and from questionnaires when considering the impact of closing the facility on the community.

We also reviewed 53 OIG Hotline complaints about closing retail facilities and found that 45 (85 percent) believed that closing the facilities would cause a hardship on communities, including elderly, poor, and rural communities.

Management heard and responded to stakeholders' concerns. According to a May 2012 news release,[14] the Postal Service stated that it used the feedback generated by RAOI community meetings and surveys and from stakeholders at every level to outline the POStPlan strategy for preserving POs in communities. Management informed the OIG that they have learned from past initiatives that they have to be open and share their plans with everyone in advance. For example, in the initial POStPlan announcements, the Postal Service released names and locations of alternate POs to customers in the event that their PO was closed or its hours reduced. In September 2012, the Postal Service began the 2-year nationwide process of notifying affected communities of the proposed operational hour changes under POStPlan and other options available to them. Management added that the POStPlan was well received by members of congress, communities, management associations, and bargaining employee groups.

Our review of the POStPlan community meeting lists posted on *usps.com* showed that the Postal Service scheduled more than 4,900 community meetings for the 9-week period between October 8 and December 7, 2012.[15] We attended three POStPlan community meetings[16] in October and one in November 2012, and noted that attendance ranged from six to about 50 customers. We observed management distributing a one-page fact sheet containing survey results, proposed hours of operation, and nearby alternate access options (see Appendix C for photos of the Galesville PO community meeting and survey results). Management informed the OIG that scheduling and holding POStPlan meetings at impacted facilities, rather than at third-party locations, enabled them to communicate with customers more efficiently. While the Postal Service has made improvements in the timeliness and information it

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[13] Leesburg Station, Virginia, November 9, 2011; Twentieth Street Station, Washington, D.C., November 21, 2011; and East Arlington Station, Texas, December 15, 2011.
[14] Postal News: *New Strategy to Preserve the Nation's Smallest Post Office*, May 9, 2012.
[15] No POSTPlan community meetings were scheduled between November 17- 23, 2012, or between December 8, 2012 - January 8, 2013. Meetings were scheduled to resume after January 8, 2013.
[16] Galesville PO, Maryland, October 25, 2012; Toms Brook PO, Virginia, October 25, 2012; West River PO, Maryland, October 25, 2012; and Westminister PO, Texas, November 8, 2012.

shares with stakeholders under the POStPlan, continuous monitoring on its progress and communicating with stakeholders are critical for the success of the POStPlan.

Execution of Retail Network Optimization Initiatives

Over the past 6 years, the size of the Postal Service's retail network has remained largely unchanged. From FYs 2007 through 2012,[17] the Postal Service reduced its retail network by 891 facilities. In April 2009, the Postal Service announced its first nationwide initiative, the SBOC, to consolidate retail facilities by reviewing about 3,600 stations and branches. In July 2009, the Postal Service asked the PRC for an advisory opinion on the national service implication. However, in December 2009, it became clear to the Postal Service that the SBOC initiative would not change services that could be characterized as 'nationwide' or 'substantially nationwide' and requested the PRC to terminate the advisory opinion docket.

The Postal Service also recognized that the functional differences between POs, stations, and branches might not be readily apparent to its customers and that using a bottom-up approach[18] may have resulted in inconsistencies when determining feasibility to discontinue operations. Management stated that they closed 131 stations and branches as a result of the SBOC initiative and that they have closed out the initiative in its entirety. Subsequently, they set out to review regulations in 39 C.F.R. Part 241 to determine how they can improve administering the closure process.

In July 2011, the Postal Service issued new regulations and policies to increase its flexibility to make necessary changes to the retail network. Significant revisions included instituting a strategic (top-down) approach by integrating the benefits of the headquarters optimization framework with local expert validations (bottom-down) and expanding guidance to enhance transparency and public notice.

With these changes in place, the Postal Service announced the RAOI in July 2011 to review 3,652 facilities for closure opportunities and introduced VPOs as a new alternative retail option. Management stated that VPOs did not gain acceptance under the RAOI because stakeholders viewed them as replacements for POs.

Management stated that they learned that customers want to keep their POs open; therefore, under the POStPlan, VPOs are offered as a compliment option to existing POs. According to a Postal Service news release, as of December 2012, 100 VPOs were in operation. However, VPOs may not be a viable alternative for customers in some areas because there may not be businesses in the community to host a VPO. For example, in our September 2012 case study report[19] on two POs under the POStPlan

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[17] *The Postal Service Annual Report* and *Form 10-K Report* show 32,163 POs, stations, and branches in FY 2007 and 31,272 in FY 2012.

[18] 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 headquarters. Headquarters approves or disapproves the proposed discontinuance.

[19] *Postal Service Retail Facilities Optimization Options* (Report Number CI-MA-12-002, dated September 17, 2012).

review, we found that one town did not have any local businesses and another had four local businesses — a restaurant, a gas station, a grain cooperative facility, and a hunting preserve. However, some of these businesses may not be able to host a VPO because they may not be set up to receive retail foot traffic.

In the SBOC initiative, the OIG raised concerns related to the adequacy of the Postal Service's analysis and data. The Postal Service reported that it had greatly improved its financial analysis as part of the top-down process for the RAOI.[20] Despite the change, the OIG was unable to estimate the cost of retail operations in the RAOI or the projected $200 million annual cost savings that might be realized if all RAOI facilities were closed.[21] Management informed the OIG that they did not collect facility-specific revenue and cost data. We are not making a recommendation at this time because we will address this issue in a future review on the POStPlan initiative and related facilities data.

We also found that the Postal Service did not have a formal process to review retail facility realignment results. Management stated that they reviewed results before and after discontinuing operations, but did not use them. To illustrate, management assumed that customers would continue to access postal products and services through alternative access channels or another postal facility. However, in a July 2011 OIG report,[22] we found that the University of Oregon (Eugene) community's willingness to use another Postal Service facility was diminished due to new travel distances and inconvenient retail hours. In addition, some PO box customers did not transfer their box service to another Postal Service facility.

We believe the Postal Service needs a formal PIR process to measure results, document lessons learned, and identify process improvement. These reviews are essential to helping the Postal Service:

- Determine whether retail network realignments have achieved the projected savings and minimized potential revenue loss.

- Evaluate whether the established procedures are effective and understood by employees.

- Learn whether community needs are met.

- Establish management accountability for decision-making.

Additionally, we found that management did not have a fully developed plan to address workforce planning requirements and measure potential labor cost savings associated with the RAOI. This occurred because management stated that they would follow

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[20] Docket Number N2011-1, Official Transcript of Proceedings before PRC, *Retail Access Optimization Initiative 2011*, Volume 1, page 608.
[21] Docket Number N2011-1, Volume 1, page 421.
[22] *University Station, Eugene, OR Consolidation* (Report Number EN-AR-11-007, dated July 20, 2011).

long-standing labor practices and procedures for involuntary movement of impacted bargaining unit employees, although retirement incentives may be warranted.

The Postal Service estimates an annual cost savings of about $500 million — primarily from reduced labor rates and workhours — after full implementation of the POStPlan in the fall of 2014. As part of the POStPlan strategy to reduce workhours, management offered Voluntary Early Retirement (VER) incentives for 21,000 postmasters. At the end of the incentive period in June 2012, 4,189 postmasters accepted the retirement incentive (or about 20 percent of all career postmasters). Also, in October 2012, the Postal Service announced a VER incentive offer to eligible bargaining unit employees represented by the American Postal Worker Union (APWU). Eligible career employees must agree to leave on or before February 28, 2013. As of January 2013, more than 26,000 APWU employees accepted the retirement incentive. However, it is unclear how many of the 26,000 are retail employees. Under current Postal Service regulations, management may staff POs with a postmaster or another type of Postal Service employee.

The scale of the actions the Postal Service plans to take with the POStPlan is greater than any past retail optimization initiative. It plans to review almost one-half of its retail facilities for modification in hours, possible closure, and alternative access; reduce workhours primarily through attrition; and hold about 13,000 community meetings. The Postal Service will implement the POStPlan using an incremental approach over a 2-year period.

As reported in our reviews of the SBOC and RAOI, bold actions require an integrated retail network strategy that includes short- and long-term plans, milestones, and goals. Management informed the OIG that they were in the process of developing a retail optimization plan and has implemented Deliver Results, Innovation, Value, and Efficiency (DRIVE)[23] Initiative 3, Access Optimization. The Postal Service developed DRIVE Initiative 3 to provide customers with efficient, convenient, and easy access to products and services in ways that meet their evolving needs. We will assess the POStPlan initiative in a future review.

Recommendations

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

1. Process and approve or disapprove the remaining 600 Retail Access Optimization Initiative discontinuance proposals.

2. Enhance communication plans with stakeholders by providing consistent, accurate, and timely information that supports retail optimization initiatives.

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[23] DRIVE is a portfolio of 36 active strategic key initiatives that have been reviewed and selected by the Postal Service's Executive Leadership Team (ELT) to achieve both short- and long-term goals. The ELT establishes objectives, timelines, and metrics for each initiative, conducts scheduled ELT reviews, and facilitates cross-functional collaboration and communication.

3. Develop and implement a formal post-implementation review that evaluates savings achieved and potential revenue loss associated with retail network realignments.

Management's Comments

Management agreed with the recommendations, however, they expressed reservation that the OIG included subjective and opinionated stakeholder statements in the report. Management specifically requested that we remove the statement regarding the use of convoluted reports in the process to review retail facility realignment results, as well as statements received from stakeholders and blogs.

For recommendation 1, management stated they will continue to review the remaining 600 RAOI discontinuance proposals and plan to complete the process in the fall of 2014. For recommendation 2, management stated that they have enhanced their communication plan based on prior OIG audits. Management added that they have an effective communication plan at this time and will use it going forward. For recommendation 3, management stated that they have a review process and a model to determine savings achieved for POStPlan offices. Management added that they will apply the model for the remaining 600 RAOI offices. Lastly, management added that they will collaborate with the Postal Service Finance office to determine the feasibility of reviewing revenue loss. See Appendix E for management's comments in their entirety.

Evaluation of Management's Comments

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

Regarding management's request to remove subjective and opinionated statements in the report, we removed the reference that management considered discontinuance results convoluted. However, we will retain the stakeholders and blog comments because they provide useful information and insights.

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

Appendix A: Additional Information

Background

In April 2009, the Postal Service began a national initiative to consolidate stations and branches that report to postmasters at or above the Postal Service executive and administrative schedule 24 level.[24] The SBOC initiative focused on facilities in urban and suburban areas because they were in relative proximity to one another where consolidation might be feasible. The Postal Service identified more than 3,600 stations and branches to review for closure but only approved 131 facilities for closure.

In July 2011, the Postal Service began the first headquarters-initiated review for the RAOI, which identified 3,652 nationwide retail facilities for closure opportunities. The Postal Service designed the initiative to include a cross-section of POs, stations, and branches to be evaluated in a centralized and coordinated manner. As such, management established three headquarters-defined criteria for the selection of Postal Service operated facilities for RAOI as follows:

- Group 1: POs earning less than $27,500 in annual revenue with less than 2 hours of workload daily.

- Group 2: Stations and branches earning less than $600,000 in annual revenue and having five or more access points within 2 miles.

- Group 3: Retail annexes earning less than $1 million in annual revenue and having five or more access points within half a mile.

In addition, the Postal Service identified a fourth group of POs, stations, and branches for inclusion in RAOI. The fourth group included district-initiated discontinuance studies started under the old Handbook PO-101 policy.

On May 9, 2012, management announced a new strategy known as the POStPlan. This plan would keep the smallest POs open for business by reducing operating hours, while providing the framework to achieve cost savings. Management plans to complete implementing the POStPlan in the fall of 2014.

Objective, Scope, and Methodology

Our objective was to identify lessons learned from current and past retail network optimization initiatives.

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[24] A salary structure that applies to most managerial and administrative Postal Service employees.

To accomplish this objective, we:

- Reviewed prior OIG reports for planning, communication, and execution of retail initiatives.

- Identified lessons learned in the planning, communication, and execution within these initiatives.

- Identified concerns and risks associated with the objective.

- Conducted interviews with congressional staff members to understand concerns related to retail optimization initiatives.

- Conducted interviews with Postal Service managers to understand their lessons learned as applicable to our objective.

- Reviewed Postal Service and PRC documents related to retail initiatives and posted on their public websites.

We conducted this review from October 2012 through March 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on February 13 and 15, 2013, and included their comments where appropriate. We did not rely on computer-generated data to support the audit findings.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Postal Service Retail Facilities Optimization Options	CI-MA-12-002	9/17/2012	None
Report Results: The Postal Service's plan was to preserve the Antler and Goldsboro POs and help balance service with cost-saving opportunities by matching retail hours to workload. In addition, it would maintain community identities, ZIP Codes, lobby access, and Saturday retail service hours. However, there were customer inconveniences such as reduced operating hours, traveling new distances to alternate retail locations, and access to alternate retail options. The Postal Service planned to explore other options, such as expanding partnership with local businesses and staggering the open and close times of surrounding POs to mitigate the reduced retail service hours. We did not make any recommendations because potential service impacts resulting from the POStPlan will be based on the Postal Service's final decision after obtaining community input. Management elected not to provide written comments.			
Postal Service-Operated Retail Facilities Discontinuance Program	EN-AR-12-002	12/1/2011	None
Report Results: The Postal Service could benefit from an integrated retail network optimization strategy that included short- and long-term plans, milestones, and potential saving goals. Criteria for selecting facilities for discontinuance studies was inconsistently applied and the criteria used to select the offices could have benefited from an objective integrated economic modeling. Management agreed with the findings and recommendations and stated they will direct or set expectations for field management to achieve; however, management added that setting specific goals and milestones impede the progress and the process for the RAOI.			
Retail and Delivery: Decoupling Could Improve Service and Lower Costs	RARC-WP-11-009	9/22/2011	None
Report Results: The Postal Service could benefit by partially decoupling its retail network from its delivery network with potential cost, revenue, and customer service improvements. We recognized the Postal Service has made positive steps in this direction. We suggested in our study that management adopt a strategy and develop guidelines to decouple retail and delivery operations in selected urban and suburban areas with the most potential value.			

Report Title	Report Number	Final Report Date	Monetary Impact
University Station, Eugene, OR Consolidation	EN-AR-11-007	7/20/2011	$180,000

Report Results: The Postal Service followed applicable federal laws and policies to discontinue University Station operations. However, management omitted certain operational costs in the discontinuance proposal submitted to headquarters for approval. The omission was due to inadequate coordination between local and district management. Management agreed with the findings, recommendations, and monetary impact and stated that district managers would review and certify discontinuance records before submitting them to headquarters for approval. Management added that they have established a financial model to be included in the discontinuance study as part of the closure process.

Report Title	Report Number	Final Report Date	Monetary Impact
Web-Based Application for the Discontinuance of Postal Service-Operated Retail Facilities	EN-AR-11-006(R)	7/7/2011	None

Report Results: The web-based program, CSDC, improved the Postal Service's retail facility closing and consolidation process and complied with federal law and Postal Service policies. In addition, the web-based program could reduce current cycle time, improve the standardization and tracking of retail facility closures and consolidations, and provide management greater visibility over discontinuance activities enterprise-wide. We did not make any recommendations because we had initiated a review of the Postal Service-operated retail facilities discontinuance program.

Report Title	Report Number	Final Report Date	Monetary Impact
Barriers to Retail Network Optimization	RARC-WP-11-005	6/9/2011	None

Report Results: The Postal Service needed to address the adverse impact of statutory, regulatory, political, and institutional barriers to optimize the retail network. However, mitigating these barriers may take time and is not entirely within Postal Service control. In the interim, the Postal Service should focus on the institutional barriers that it can control. We did not make any suggestions.

Report Title	Report Number	Final Report Date	Monetary Impact
Stations and Branches Optimization and Consolidation Initiative	EN-AR-10-005	8/17/2010	$2,773,043

Report Results: The SBOC initiative was a viable option for the Postal Service to reduce costs in the retail network, but opportunities existed to improve the process. The Postal Service could have enhanced the planning and management of the initiative by improving communication and coordination with stakeholders and developing accurate and reliable data on its facilities. In addition, the Postal Service needed to raise stakeholders' confidence. Management agreed with the findings, recommendations, and monetary impact and initiated actions to address our recommendations and incorporated Lean Six Sigma results to improve the closure process.

Report Title	Report Number	Final Report Date	Monetary Impact
Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach	RARC-WP-10-004	6/14/2010	None

Report Results: The Postal Service could have responded to stakeholder concerns and optimize its retail network by adopting a thorough, transparent, and objective approach to retail modernization. Modernization should not have been thought of as solely a cost-saving response to the Postal Service's financial problems. Instead, it should have been seen as a way to meet demand more efficiently and equitably in a way that cuts costs, encourage constant re-evaluation and improvement, and align the Postal Service's retail network to the way people live now. We did not make any suggestions.

Appendix B: Analysis of the Retail Access Optimization InitiativeRetail Facilities Composition

RAOI Criteria	Number of Facilities	Percentage of Facilities
Group 1: Pos ▪ Less than $27,500 in annual revenue. ▪ Less than 2 hours of workload daily.	2,825	78%
Group 2: Stations and Branches ▪ Less than $600,000 in annual revenue. ▪ Five or more access points within 2 miles.	384	10%
Group 3: Retail Annexes ▪ Less than $1 million in annual revenue. ▪ Five or more access points within 1/2 of a mile.	178	5%
Group 4: 248 POs and 17 Stations and Branches ▪ No headquarters-defined criteria (discontinuance studies started under the old Handbook PO-101policy).	265	7%
Total	**3,652**	**100%**

Source: PRC Docket Number 2011-1, RAOI, 2011.

Appendix C: Galesville Post Office Community Meeting

Source: OIG photo taken on October 25, 2012.

Source: OIG photo taken on October 25, 2012, of the manager of Post Office Operations, addressing Galesville PO customers about the proposed operating hour changes under the POStPlan initiative.

Appendix D: Galesville Post Office Survey Results

UNITED STATES POSTAL SERVICE®

Galesville Post Office

20765

Potential Retail Operating Hours 6

Survey Results

After surveying the local community and posting information at the Galesville Post Office, the results of the survey are as follows:

Number of Customer Surveys Mailed: 319

Total Number of Surveys Returned: 225

Total	Percent	
207	92%	Realignment of Hours
8	4%	Delivery Option
1	0%	Village Post Office Option
0	0%	Nearby Post Office Option
9	4%	No Selection Made

If you did not get an opportunity to complete the survey, please fill one out while you are here.

After reviewing the surveys that were returned, and taking into account Postal Service operational needs, retail hours for this location will likely be:

Mon-Fri 9:00 to 4:00 with lunch from 12:30 to 1:30
Sat 9:00 to 11:30

Total Saturday window service hours will not be reduced and access to delivery receptacles will not change as a result of the POST Plan realignment of weekday window service hours. We will take into account all information received at this meeting before making a final decision. Access to delivery receptacles will not be reduced from current hours.
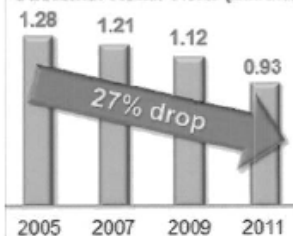
For additional information, please go to https://usps.com/ourfuturenetwork and click on the link under "Preserving Post Offices"

NEARBY POST OFFICES/ALTERNATIVE OPTIONS	
	Miles Away
HARWOOD	5
SHADY SIDE	6.2
LOTHIAN	11.2

Customer Retail Visits (billions)

1.28 1.21 1.12 0.93

27% drop

2005 2007 2009 2011

VILLAGE POST OFFICE

Village Post Offices are located within existing communities in a variety of locations, such as local retailers, libraries, town halls or government centers, and are run by the proprietor or respective management.

Source: Postal Service prepared and distributed Galesville PO survey results to customers at the October 25, 2012, POST Plan community meeting.

Appendix E: Management's Comments

Edward F. Phelan
Vice President, Delivery and Post Office Operations

UNITED STATES
POSTAL SERVICE

March 14, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Lessons Learned from Retail Network
Optimization Initiatives (DR-MA-13-DRAFT)

Thank you for the opportunity to respond to the recommendations contained in the
Draft Audit Report – conducted by the Office of the Inspector General (OIG).

The U.S. Postal Service has reviewed the report and expresses the following
reservations with OIG findings: subjective/opinionated statements included in the
report (i.e. management statement concerning the use of convoluted reports – as
well as alleged statements received from stakeholders and Blogs). These types of
subjective and opinionated statements are not statistically valid and ultimately
increase the trepidation of this sensitive subject. We would request their removal.
In relation to the recommendations, note all are hereby agreed upon.

This report and management's response do not contain information that may be
exempt from disclosure under the Freedom of Information Act.

RECOMMENDATIONS:

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

1. Process and approve or disapprove the remaining 600 Retail Access
   Optimization Initiative discontinuance proposals.

Management will continue to move forward with reviewing the remaining proposals.
This is an ongoing process and every effort will be made to bring these to a
resolution.

Target Implementation Date: Fall of 2014

Responsible Official: Delivery and Post Office Operations.

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2. Enhance communication plans with stakeholders by providing consistent, accurate, and timely information that supports retail optimization initiatives.

The Postal Service has enhanced its communications plan based on past OIG audits, as supported within this report, and has a very effective communication plan at this point that provides consistent, accurate, and timely information. This effort will be used going forward.

Target Implementation Date: Complete

Responsible Official: Delivery and Post Office Operations.

3. Develop and implement a formal post-implementation review that evaluates savings achieved and potential revenue loss associated with retail network realignments.

The Postal Service currently has a review process that was shared with the OIG on determining the savings achieved for POStPlan impacted offices. This model will be used for the 600 Stations and Branches remaining under RAOI. We will collaborate with Finance as to the feasibility of reviewing revenue loss.

Target Implementation Date: November 30, 2013

Responsible Official: Delivery and Post Office Operations.

Edward F. Phelan

cc: Jeffrey Day