



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

Postal Service-Operated Retail Facilities Discontinuance Program

Audit Report

December 1, 2011

Report Number EN-AR-12-002



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

HIGHLIGHTS

December 1, 2011

Postal Service-Operated Retail Facilities Discontinuance Program

Report Number EN-AR-12-002

IMPACT ON:

U.S. Postal Service retail optimization efforts.

WHY THE OIG DID THE AUDIT:

The Postal Service issued new procedures for the discontinuance of Postal Service-operated retail facilities. Subsequently, the Postal Service applied the new procedures to begin the first headquarters-initiated study to review more than 3,600 offices for discontinuance opportunities. Our objectives were to assess policy changes for the closing, consolidation, and suspension process; and discontinuance opportunities. This report is part of an ongoing series of retail optimization reviews.

WHAT THE OIG FOUND:

The Postal Service could benefit from an integrated retail network optimization strategy. While the Postal Service has implemented new regulations and policies, and the Retail Access Optimization Initiative, it is unclear what specific changes will be made, how long it will take to make them, and anticipated benefits. The new policy expanded authorization to initiate discontinuance studies to include nationwide directives and aligned procedures for all Postal Service-operated retail facilities. However, we found inconsistent application of the criteria for selection of facilities for discontinuance studies. In addition, the criteria could benefit from an objective

integrated economic modeling. Lastly, the Postal Service made improvements in the emergency suspension process; however, due to data limitations, we were unable to assess compliance of prior suspensions with established policy.

WHAT THE OIG RECOMMENDED:

We recommended management develop an integrated retail network optimization strategy and an economic model, improve the reliability of retail facilities data, and timely process and make decisions to approve or disapprove discontinuance proposals.

WHAT MANAGEMENT SAID:

Management generally agreed with our recommendations and will take actions to improve the retail network optimization strategy. In addition, management stated they will implement an economic model by February 2012, maintain accurate retail facilities data, and timely review and approve or disapprove discontinuance proposals. Management added they will complete by June 2012, feasibility studies of offices whose operations have been suspended prior to fiscal year 2010.

AUDITORS' COMMENTS:

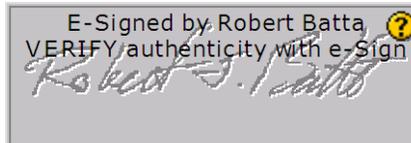
The U.S. Postal Service Office of Inspector General considers management's comments responsive.

[Link to review the entire report](#)



December 1, 2011

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



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

SUBJECT: Audit Report – Postal Service-Operated Retail Facilities
Discontinuance Program (Report Number EN-AR-12-002)

This report presents the results of our audit of the Postal Service-Operated Retail Facilities Discontinuance Program (Project Number 11XG035EN000).

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

Attachments

cc: James J. Boldt
Kenneth N. Hollies
Kevin V. Romero
Melissa A. Speelman
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 Post Office™ (PO) closing and consolidation process for retail facilities (Project Number 11XG035EN000). The objectives of this audit, which includes both self-initiated aspects as well as congressionally requested analyses, were to assess changes in Handbook PO-101 for the closing and consolidation process, discontinuance opportunities, and the process for suspending operations at retail facilities. This audit addresses strategic, operational, and financial risks and is part of an ongoing series of retail optimization reviews.

The Postal Service recognized the need for a comprehensive redesign of their vast network and identified network optimization as a key objective in their March 2010 *Action Plan*.¹ In recent months, the Postal Service has initiated several actions to optimize its retail facility network. Specifically, on March 31, 2011, the Postal Service proposed changes to regulations² to increase its flexibility to pursue retail network optimization. The changes focus on three key elements: enhancing transparency and public participation, increasing the efficiency of the discontinuance process, and ensuring sound business judgment when making decisions. On July 14, 2011, the Postal Service published the final regulations and incorporated them into its policies and procedures.³ On July 26, 2011, the Postal Service announced the new Retail Access Optimization Initiative (RAOI) made up of 3,652 Postal Service-operated retail offices to be studied for discontinuance opportunities. In addition, the Postal Service is reviewing 728 district-initiated studies concurrent with the RAOI.

Conclusion

The Postal Service could benefit from an integrated retail network optimization strategy that includes short- and long-term plans, milestones, and goals. While the Postal Service has implemented new regulations, policies, and procedures, and the RAOI, it is unclear what specific changes will be made, how long it will take to make them, and anticipated benefits. Management stated they have a strategy to expand alternate channel access as part of their plan to reduce the retail infrastructure but did not establish specific goals for closing and consolidation initiatives because each facility's discontinuance study must be considered individually within the context of the community.

Handbook PO-101 expanded the authorization to initiate discontinuance studies from Postal Service Headquarters (HQ) management (top-down approach), aligned procedures for all Postal Service-operated retail facilities, and added factors to consider for identifying retail offices for the discontinuance study. However, due to data

¹ *Ensuring a Viable Postal Service for the Future: An Action Plan, March 2010.*

² 39 C.F.R. Part 241, *Post Office Organization and Administration: Establishment, Classification, and Discontinuance*, July 14, 2011.

³ Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, July 14, 2011.

inaccuracies or incomplete information, we found inconsistent application of the criteria for selection of facilities for discontinuance studies. For example:

- Eight of the 164 randomly selected Group 1⁴ offices (5 percent) do not meet the annual revenue criteria of less than \$27,500.
- Thirty-two of the 123 randomly selected Group 2⁵ offices (26 percent) do not meet the criteria of having five or more access points within 2 miles.
- One of the 123 randomly selected Group 2 offices is a delivery unit with no retail operations.
- Sixty-three of the 93 randomly selected Group 3⁶ offices (68 percent) do not meet the criteria of having five or more access points within ½ mile.

Also, we found the top-down criteria used to select the offices could benefit from an objective integrated economic modeling. The economic modeling should determine potential revenue sales by geographic and demographic data and estimate revenue loss that may result from closing a retail facility.

Developing and implementing an integrated retail network strategy, improving facility data, gathering appropriate economic data, and timely processing discontinuance proposals can better position the Postal Service for success in retail optimization and raise stakeholders' confidence that it will make transparent, equitable, and fact-based decisions. Retail optimization is also a key factor for the Postal Service in achieving two of its core business strategies — improving the customer experience and becoming a leaner, faster, and smarter organization.

Postal Service Actions – Management has improved the process for managing the retail facility closing and consolidation process and stated they are planning to use economic modeling for the retail strategy and global mapping. In addition, management has developed a strategy to expand alternate access as part of their plan to reduce the retail infrastructure, which will become more defined after the RAOI is completed. Furthermore, management has implemented an expedited process to accelerate the closing of offices whose operations were suspended prior to fiscal year (FY) 2010.

⁴ Group 1 – offices earning less than \$27,500 in annual revenue and have less than 2 hours of workload daily.

⁵ Group 2 – offices earning less than \$600,000 in annual revenue and have five or more access points within 2 miles.

⁶ Group 3 – offices earning less than \$1 million in annual revenue and have five or more access points within ½ mile.

Nationwide Management of Retail Optimization Initiatives

While management has taken unprecedented action implementing the RAOI and district-initiated studies, additional efforts are needed to communicate and direct an integrated retail network optimization strategy. The Postal Service did not provide an overall strategy for optimizing the retail network, milestones, or goals. Consequently, it is unclear what specific changes would be made, how long it would take to make them, and the anticipated benefits. Prior U.S. Postal Service Office of Inspector General (OIG) work⁷ has shown that using economic modeling can help optimize the retail network by locating and sizing facilities to maximize public benefits and matching the demand for retail services to the cost of providing them. Management stated they are planning to use economic modeling for retail strategy and global mapping. Management added they have a strategy to expand alternate channel access as part of their plan to reduce the retail infrastructure, but did not establish specific goals for the RAOI because each facility's discontinuance study must be considered within the context of the community.

In addition, improving facility data, gathering appropriate economic data, and making timely decisions to approve or disapprove discontinuance proposals can better position the Postal Service for success in retail optimization and raise stakeholders' confidence that it will make transparent, equitable, and fact-based decisions.

Regulations and Policy

Implementation of new regulations and policy reflects the Postal Service's determination to address some of the institutional barriers that have inhibited modernizing the retail network. These changes should help enhance transparency and strengthen the accountability of retail optimization efforts. Significant changes include instituting a strategic (top-down) approach to initiate discontinuance studies and aligning procedures for all Postal Service-operated retail facilities. Also, management has incorporated five prior OIG audit recommendations⁸ on the discontinuance process into the regulations and policy changes.

Decision to Study

Under the previous policy, only the district manager could initiate a discontinuance study, a case-by-case (bottom-up) approach that did not allow for a comprehensive, consistent optimization program across the retail network. The new policy integrates the benefits of HQ optimization framework with local expert validations to ensure discontinuance opportunities are feasible. The district manager or the responsible HQ vice president or his or her designee may initiate a discontinuance study for the following circumstances: postmaster vacancy, emergency suspension, earned

⁷ *Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach* (Report Number RARC-WP-10-004, dated June 14, 2010).

⁸ *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).

workload, insufficient customer demand, reasonable alternate access, and incorporation of two communities.

While HQ may initiate a discontinuance study, all decisions related to the facility-specific discontinuance proposal remain the responsibility of local management. The district manager is also responsible for the accuracy and completeness of the facility-specific proposal before submission to HQ for review and final determination. If recommended by the district manager, the responsible HQ vice president makes the final determination to discontinue the operations of a PO, station, or branch.

Application of Procedures

Also under the previous policy, the Postal Service used one discontinuance process for POs and another for stations and branches. Although these processes were similar, they differed in regard to public posting requirements, input procedures, and appeals. The Postal Service recognized that the public does not see a difference between POs, stations, and branches. Hence, the new policy aligns discontinuance procedures for POs, stations, and branches, resulting in a single policy. It also makes a clear distinction between Postal Service-operated facilities and contractor-operated facilities, which are no longer subject to the Postal Service's discontinuance policy.

To enhance transparency and public input, the Postal Service expanded guidance to ensure notices and questionnaires reach affected customers, community meetings are held, and proposal and comment notices are posted and available upon customer request. The Postal Service did not change procedures on appeal rights for customers served by stations and branches. The Postal Service believes it does not have the authority to extend procedural requirements in 39 U.S.C. § 404(d)(5) to appeal any proposed closings of stations and branches to the Postal Regulatory Commission (PRC).

As part of our analysis, we obtained from the Postal Service 252 letters from federal and state legislators, the PRC, management organizations, a lessor organization,⁹ employees, and customers regarding the proposed regulations. We reviewed 468 comments from those letters on how the proposed regulations affected them (see Table 1). Our analysis found that the Postal Service considered and incorporated many of the comments in the new regulations. However, the Postal Service is in the process of consulting with general counsel regarding the redefinition of consolidation¹⁰ and staffing of POs¹¹ and, therefore, decided to defer these changes.

⁹ The OIG received and considered a July 27, 2011, letter from the Association of U.S. Postal Lessors expressing concerns that the Postal Service does not search for suitable alternate quarters in the community prior to the expiration or cancellation of a lease.

¹⁰ The proposed rule stated that the conversion of an independent PO to a subordinate Postal Service-operated retail facility would no longer constitute a consolidation that triggers discontinuance proceedings subject to 39 C.F.R Part 241.

¹¹ The proposed rule stated that POs may be managed by postmasters, as is commonly the case, or by other Postal Service employees.

Public debates loom over retail facility closures and consolidations because of concerns about how these actions might affect jobs, service, employees, and communities, particularly in small towns or rural areas. These concerns have led communities and members of Congress to question whether the Postal Service truly considers public comments obtained from community meetings and questionnaires. In prior OIG reviews,¹² we found the Postal Service collected and summarized public comments in discontinuance proposals. In addition, the Postal Service used form letters to respond to those who provided a return address. Federal statute and Postal Service policy require management to post discontinuance proposals and make them available for public review.

Table 1: Analysis of Comments Received for the Proposed Regulations

Economic Impact	Redefinition of Consolidation	Role of Vice President	Staffing of Post Office	Public Comment and Posting Period	Effect of Overall Service Network	Access to Postal Service	Site-Specific Concerns
15	118	17	67	25	12	159	54

Discontinuance Opportunities

Although the RAOI and the district-initiated studies may be viable options for the Postal Service to reduce over 4,000¹³ facilities in the retail network, we found issues with application of the criteria used to select facilities for discontinuance studies. In addition, we found the Postal Service included units without retail functions in the RAOI. On September 21, 2011, the Postal Service reported to the PRC that, as of August 31, 2011, five annexes were erroneously included on the original RAOI list. Further, according to the Postal Service, the proximity of the nearest PO was based on geographic coordinate distance, which management stated is a better measurement for potential impact on customers. Management added that to assess impact on customers, it would need the distance from the customer’s home to the nearest PO, not the distance from the losing facility to the nearest PO.

Retail Access Optimization Initiative

The Postal Service designed the RAOI to include a cross-section of POs, stations, and branches. As such, management established three HQ-defined criteria for the selection of Postal Service-operated facilities for the RAOI as follow:

¹² *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).

¹³ On September 21, 2011, the Postal Service filed with the PRC that, as of August 31, 2011, 84 of the 3,652 POs, stations, and branches were no longer being considered for closure under the RAOI. In addition, the Postal Service reported that five of the 84 offices were erroneously included on the original RAOI list.

- GROUP 1: Less than \$27,500 in annual revenue and less than 2 hours of workload¹⁴ daily.
- GROUP 2: Less than \$600,000 in annual revenue and five or more access points¹⁵ within 2 miles.
- GROUP 3: Less than \$1 million in annual revenue and five or more access points within ½ mile.

In addition, the Postal Service identified a fourth group of offices for inclusion in the RAOI. The fourth group included district-initiated discontinuance studies started under the old Handbook PO-101 policy. These studies have not reached the community meeting stage. Therefore, management expanded the RAOI to include these offices for the application of new discontinuance procedures.

The Postal Service provided information on the RAOI offices by the four groups on two public websites, USPS.com[®] and PRC.gov, on July 26 and 27, 2011, respectively. We noted that composition of the four groups differs between the two public postings. Management reported to the PRC that 265 offices were not subjected to the HQ-defined criteria. However, according to the Postal Service press release, only 19 offices were not subjected to the HQ-defined criteria (see Table 2). Management stated the RAOI list posted on USPS.com was simplified for the public.

¹⁴ Workload is the combined value for the mail distribution, PO Box™, delivery, and retail window service activity at a facility.

¹⁵ Access points includes Postal Service-operated and contractor-operated facilities, approved shippers, and consignment locations.

Table 2: Analysis of the RAOI Office Composition		
	Press Release (USPS.com, July 26, 2011)	Reported to the PRC (PRC.gov, July 27, 2011)
Group 1: <ul style="list-style-type: none"> ▪ Less than \$27,500 in annual revenue ▪ Less than 2 hours of workload daily 	3,061 offices	2,825 offices
Group 2: <ul style="list-style-type: none"> ▪ Less than \$600,000 in annual revenue ▪ Five or more access points within 2 miles 	384 offices	384 offices
Group 3: <ul style="list-style-type: none"> ▪ Less than \$1 million in annual revenue ▪ Five or more access points within ½ mile 	188 offices	178 offices
Group 4: <ul style="list-style-type: none"> ▪ No HQ-defined criteria 	19 offices - currently suspended	265 offices - discontinuance studies started under the old Handbook PO-101 policy
Total	3,652 offices	3,652 offices

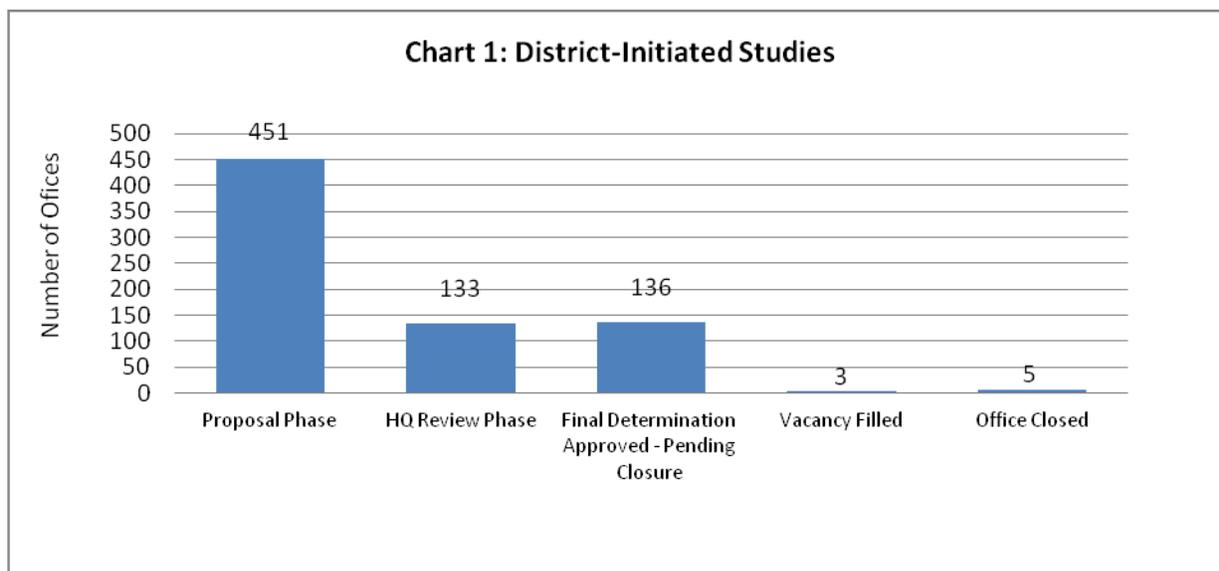
We randomly selected and tested offices in groups 1, 2, and 3 for discontinuance studies and found that some did not meet the HQ-defined criteria. Specifically:

- Eight of the 164 Group 1 offices (5 percent) we randomly selected do not meet the annual revenue criteria of less than \$27,500.
- Thirty-two of the 123 Group 2 offices (26 percent) we randomly selected do not meet the criteria of five or more access points within 2 miles.
- One of the 123 Group 2 offices we randomly selected is a delivery unit with no retail operations.
- Five of the 123 Group 2 offices (4 percent) we randomly selected do not meet the annual revenue criteria of less than \$600,000.
- Sixty-three of the 93 Group 3 offices (68 percent) we randomly selected do not meet the criteria of five or more access points within ½ mile.
- One of the 93 Group 3 offices we randomly selected does not meet the annual revenue criteria of less than \$1 million.

In addition, while the Postal Service did not establish a proximity criteria for Group 1 offices, we randomly selected and tested 164 offices and found seven offices (4 percent) are not within 15 miles of other access points.¹⁶

District-Initiated Studies

The Postal Service began 728 district-initiated studies before the start of the RAOI. These studies have advanced to or beyond the proposal phase at the time of the RAOI. We reviewed the August 3, 2011, web-based discontinuance tracking¹⁷ report for the status of these studies (see Chart 1) and identified that 103 of the 133 proposals submitted to HQ recommending discontinuance did not receive final determinations by the estimated dates. Management established 5 days as the new milestone for decisions to approve or disapprove a discontinuance proposal. In addition, we selected and tested 142 offices and found two offices are not within 15 miles of other access points.



Emergency Suspension

While suspension of PO operations is not governed by federal statutes, Postal Service policy provides circumstances that may justify an emergency suspension as follows:

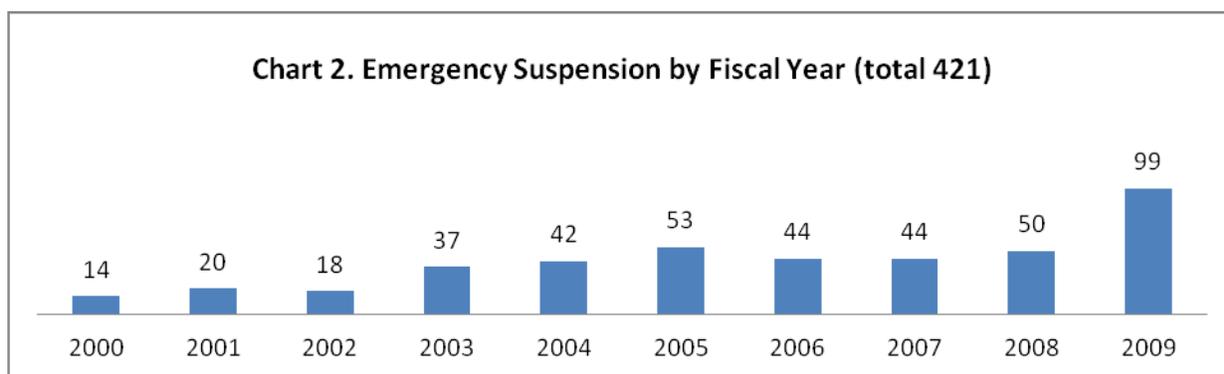
- A natural disaster.
- Termination of a lease agreement when no suitable alternate quarters are available in the community.
- Lack of qualified personnel to operate the office.
- Severe damage to, or destruction of, the office.
- Lack of adequate measures to safeguard the office or its revenues.

¹⁶ The OIG reported the optimal average distance between rural POs is 16 miles in *Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach* (Report Number RARC-WP-10-004, dated June 14, 2010).

¹⁷ Change, Suspension, Discontinuance Center Program.

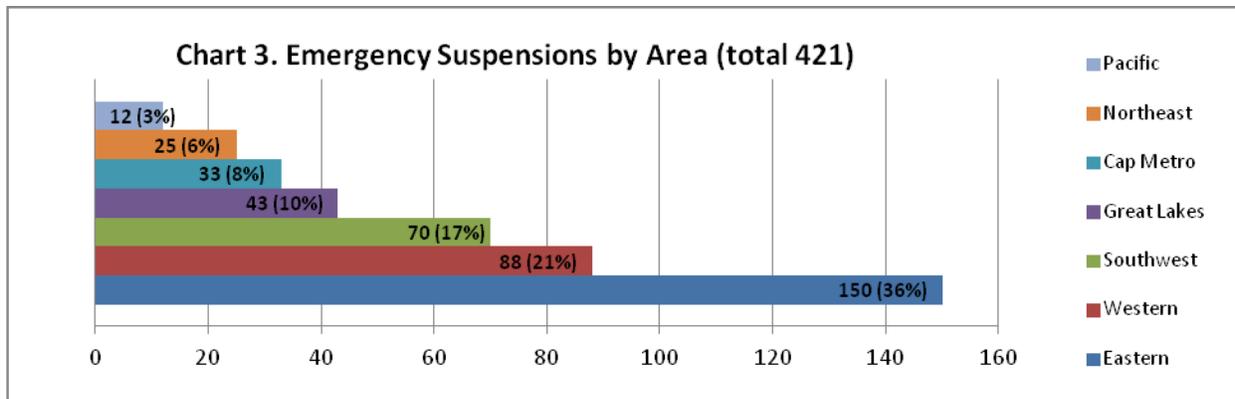
The policy further instructs the district manager to notify HQ, local officials, and customers with the effective date, reason for suspension, where alternate services are available, and a contact for more information. It also states the district manager must decide to secure alternate quarters, take necessary corrective action, or initiate a discontinuance study within 90 days of an emergency suspension.

Historically, offices remained in emergency suspension status for an extended period because the Postal Service did not effectively administer such offices due to deficiencies in the quality of data in their tracking systems. From FYs 2000 to 2009, Postal Service records show that the operations of 421 offices have been suspended (see Chart 2).



The justifications for these suspensions were not available, because the Postal Service did not ensure employees documented basic data such as justification for the suspension and a plan of action and restore or close dates in the tracking system. According to the tracking system data, about 73 percent (308 of 421) of the suspended offices were in Eastern, Western, and Southwest area offices (see Chart 3). Although the Postal Service implemented a new robust web-based program in 2010 for administering and processing emergency suspensions, the Postal Service manually tracks offices suspended before FY 2010.¹⁸ HQ did not require field offices to enter historical data into the new web-based discontinuance program. Consequently, due to data limitations, we were unable to assess compliance of prior suspensions with established policy.

¹⁸ According to an ongoing PRC public inquiry (PI2010-1), in May 2010 the Postal Service filed a list of offices suspended for periods during January 2004 through December 2009. Of the justifications on this list, termination of lease agreements was the most common cause.



In September 2010, the Postal Service reported that 262 retail offices suspended in FY 2010 and earlier need to be officially closed in the Postal Service systems. Management added that they have developed an expedited process to accelerate the closing of these offices. According to *Postal Bulletins* published in FY 2011 (through July 28, 2011) management closed 101 retail offices whose operations were effectively closed for periods ranging from FYs 1987 to 2009.

The new Handbook PO-101 added two procedural changes that are significant departures from previous guidance. Specifically, whenever possible, local management should initiate the discontinuance process in advance of the circumstances prompting the emergency suspension to allow opportunities for public input and continue operations as long as necessary to reach an outcome in the discontinuance process. Also, the responsible area or HQ vice president may override the suspension review team's recommendation to reopen a retail facility and keep a suspended office closed. The new policy also added two new circumstances that may justify a suspension: irreparable damage to the office and challenge to the sanctity of the mail.

The new policy emphasizes timely decisions and customer participation. According to the August 3, 2011, web-based discontinuance tracking report, 153 suspended offices were in the queue for a discontinuance study. Management migrated 110 of the 153 offices to the RAOI or district-initiated studies. Of the 110 offices, 74 percent (81 offices) of the justifications prompting an emergency suspension were termination of lease agreements and lack of qualified personnel. Twenty-six percent (29 offices) were suspended due to severe damage to the office and irreparable damage to the office.

Recommendations

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

1. Develop and implement an integrated retail network optimization strategy to include specific goals and milestones.
2. Develop and implement an economic model that determines market demand, including projected financial, geographic, market, and demographic data.

3. Improve the reliability and usefulness of retail facilities data by validating, correcting, and updating information in the database.
4. Approve or disapprove discontinuance proposals within established milestones.
5. Direct headquarters employees to assess the closing of offices whose operations have been suspended before fiscal year 2010.

Management's Comments

Management generally agreed with the findings and recommendations. In regard to recommendation 1, management stated they do evaluate data and national-level information to identify candidate offices for possible discontinuance, but it is ultimately the responsibility of field management to conduct feasibility studies. Management will direct the conduct of field management or set expectations for field management to achieve. Management added setting specific goals and milestones impede the progress and the process for the ROAI.

Management agreed with recommendation 2 and stated they will implement an economic model by February 2012 to predict customer demand based on accessibility of service. In regard to recommendations 3 and 4, management agreed to continuously improve on retail facility data and timely review and approve or disapprove discontinuance proposals. Management agreed with recommendation 5 and stated they will complete by June 2012, feasibility studies for offices whose operations have been suspended before FY 2010. Management added field management should conduct feasibility studies of suspended facilities as soon as possible so that affected communities' expectations can be best managed.

See [Appendix B](#) 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 setting specific goals and milestones for the ROAI, we understand that Postal Service regulations state that HQ may initiate a discontinuance study, but all decisions related to the facility-specific discontinuance proposal remain the responsibility of local management. While there are no Postal Service mandates to close a specific number of retail offices, we believe that management should develop a business plan to clearly define the organization's strategy to close approximately one-half of its Postal Service operated retail facilities over the next several years. We acknowledge that management recognized customers' mailing habits have changed and the need to look at opportunities to expand alternate channel access and reduce brick and mortar facilities.

Regarding suspended offices, we agreed with management that not all suspended offices should be closed. The intent of recommendation 5 was for management to review operations at offices that had been suspended for lengthy periods and to make timely decisions to either return these offices to operation or initiate discontinuance studies.

The OIG considers recommendations 1, 2, 3, and 5 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 July 2011, the Postal Service issued a new Handbook PO-101. This is the first revision to the policy since August 2004. Handbook PO-101 provides the framework for closing and consolidating retail facilities. The Postal Service uses these guidelines to ensure that retail facility closings and consolidations adhere to federal laws, make optimum use of available resources, and establish accountability for the discontinuance decision. These guidelines include standardized instructions, forms, and worksheets to document the effects on the community and employees, economic savings, and any other factors. Management also established 138 days as the new milestone to complete a discontinuance study.

The Postal Service aims to enhance transparency and public participation, increase the efficiency of the discontinuance process, and ensure sound business judgment when making decisions. Significant changes include expanding the authorization to HQ (top-down approach) to initiate discontinuance studies and aligning PO procedures with those of stations and branches. Process improvements were incorporated in public notices, input, and emergency suspension procedures.

Using the top-down approach, the Postal Service initiated the RAOI to review over 3,600 offices nationwide for discontinuance opportunities. This initiative is being conducted concurrent with 728 district-initiated discontinuance studies. In light of the potential impact to service, on July 27, 2011, the Postal Service asked the PRC for an advisory opinion on the national service implications of the proposed closures.

Objectives, Scope, and Methodology

Our objectives were to assess changes to Handbook PO-101 for the administration of the retail facility closing and consolidation process and discontinuance opportunities. We were also assessing the process for suspending operations at retail facilities. To accomplish our objectives, we:

- Reviewed applicable policies, procedures, laws, and regulations and consulted with OIG counsel.
- Reviewed Government Accountability Office (GAO) and PRC documents related to retail facility closures and consolidations.
- Reviewed congressional hearing documents and news articles related to retail facility closures and consolidations.
- Analyzed public comments regarding the proposed regulation changes.
- Tested the criteria for selected sites in the RAOI and district-initiated studies.

- Analyzed emergency suspensions from FYs 1990 through 2011 and assessed the process for suspending operations.
- Interviewed Postal Service officials and participated in RAOI training.

We conducted this performance audit from May through December 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 September 21, 2011, and included their comments where appropriate.

To assess the reliability of revenue data, we retrieved walk-in and total revenue data from accounting programs in the Enterprise Data Warehouse application. We assessed the reliability of alternate access points by verifying PO, automated postal centers[®], consignment, and Approved Postal Providers[™] locations on USPS.com[®]. We determined that the data were sufficiently reliable for the purposes of this report.

Scope Limitation

During our audit, we examined computer data generated from management's PO Discontinuance Tracking System and noted several control weaknesses that constrained our work. For example, the system had missing or incomplete suspension justification and status data. As a result, we were unable to assess compliance of prior emergency suspensions with established policy.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>University Station, Eugene, OR Consolidation</i>	EN-AR-11-007	7/20/2011	\$180,000	The Postal Service followed applicable federal law and Postal Service policies to discontinue University Station operations. However, we identified various concerns with the economic analysis and believe improvements could be made to allow for a more objective evaluation. Management agreed with our findings and recommendations.
<i>Web-Based Application for the Discontinuance of Postal Service-Operated Retail Facilities</i>	EN-AR-11-006(R)	7/7/2011	N/A	The web-based application for the discontinuance of Postal Service-operated retail facilities improves the retail facility closing and consolidation process and complies with federal law and Postal Service policies. In addition, the web-based program could reduce current cycle time by approximately 22 percent (up to 62 days), improve the standardization and tracking of retail facility closures and consolidations, and provide management greater visibility over discontinuance activities enterprise-wide. We made no recommendations.
<i>Dire Financial Outlook and Changing Mail Use Require Network Restructuring</i>	GAO-11-759T	6/15/2011	N/A	The Postal Service has provided alternatives to POs; however, it has been slow to modernize its network. For the Postal Service to be self-sustaining, it needs to significantly reduce its costs to match its revenues. The GAO has suggested the Postal Service revise legal requirements to facilitate network-wide restructuring; improve outreach and the transparency of information used to make decisions; and enhance public input by simplifying rules and requirements so that they are consistent, timely, and easy for the public to understand.

<p><i>Barriers to Retail Network Optimization</i></p>	<p>RARC-WP-11-005</p>	<p>6/9/2011</p>	<p>N/A</p>	<p>The obstacles standing in the way of retail modernization have many sources. These obstacles are statutory, regulatory, political, and institutional. Addressing them is essential to ensuring the success of any optimization and modernization effort.</p>
<p><i>Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize</i></p>	<p>GAO-11-282</p>	<p>February 2011</p>	<p>N/A</p>	<p>This report examines initiatives that foreign posts have implemented to improve mail delivery and retail networks and related results and modernization strategies used by foreign posts that improve the Postal Service's financial condition and customer service. Management generally agreed with the findings and mentioned both its own modernization efforts and the barriers it faces.</p>
<p><i>Stations and Branches Optimization and Consolidation Initiative</i></p>	<p>EN-AR-10-005</p>	<p>8/17/2010</p>	<p>\$2,773,043</p>	<p>The Postal Service needs to raise stakeholders' confidence that it will make transparent, equitable, and fact-based decisions by integrating a strategic approach (top-down) and establishing clear criteria for evaluating discontinuance decisions. Management agreed with the findings, recommendations, and monetary impact.</p>
<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>N/A</p>	<p>By adopting a thorough, transparent, and objective approach to retail modernization, the Postal Service can respond to stakeholder concerns and optimize its retail network. Modernization should not be thought of as solely a cost-saving response to the Postal Service's financial problems. Instead, it should be seen as a way to meet demand more efficiently and equitably in a way that cuts costs, encourages constant reevaluation and improvement, and aligns the Postal Service's retail network to the way people live now.</p>

Appendix B: Management's Comments

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



November 8, 2011

Shirian B. Holland
Acting Director, OIG Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report - Postal Service-Operated Retail Facilities
Discontinuance
(Report Number EN-AR-12-DRAFT)

The Postal Service (USPS) agrees with some of the basic tenets of this draft audit. We also appreciate the OIG for recognizing that Postal Service management has taken unprecedented action implementing the Retail Access Optimization Initiative (RAOI) and district-initiated studies.

Existing law defines the process that must be followed before a Post Office can be discontinued, 39 U.S.C. § 404(d). The detail of the consequent notice and comment proceedings, subject also to a right of appeal to the Postal Regulatory Commission, has evolved over several decades through a sequence of remands from the Commission, responsive updates to postal regulations, and changes to the statute by Congress. Heavily interwoven into this process is the Postal Service's universal service obligation driven, in part, by the policy in 39 U.S.C. §101(b), that specifies:

The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where [P]ost [O]ffices are not self-sustaining. No small [P]ost [O]ffice shall be closed solely for operating at a deficit....

Since most retail postal facilities operate at a deficit, the reach of section 101(b) is quite broad, making the language "rural areas, communities, and small towns" have a broad reach across the range of retail facilities. Indeed, *any* optimization plan that has as its goal an improvement of the overall efficiency in retail operations finds itself in conflict with the policy of section 101(b).

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As the audit report notes in its introduction, the Postal Service has defined network optimization as a key objective. This objective has been pursued through Delivery Unit Optimization, the ongoing Retail Access Optimization initiative, and on several fronts, network optimization.

Recommendation 1:

Develop and implement an integrated retail network optimization strategy to include specific goals and milestones.

Management Response/Action Plan:

We agree with the basic premise to review this recommendation to the extent it might suggest that HQ management direct the conduct of field management or set expectations for field management to achieve. While HQ may initiate a discontinuance study, all decisions related to the facility-specific discontinuance proposal remain the responsibility of local management, including all of the decisions to continue seeking discontinuance except for the final agency decision made at Headquarters. The involvement of field personnel in decision making is essential for compliance with legal obligations. While HQ management can and does undertake to evaluate data and national-level information to identify candidate offices for possible discontinuance, it is ultimately the responsibility of field management to conduct feasibility studies to address the required statutory factors of Title 39, which have been implemented in postal regulations. In accordance with these requirements, field personnel must evaluate and balance highly subjective information, such as the impact on community which necessarily requires local consideration and review in order to make a determination whether to discontinue a retail outlet. Thus, in order to satisfy its statutory obligations, the Postal Service questions whether this recommendation can be implemented consistently with statutory requirements. It invites the OIG to explain further how this recommendation could be implemented in a manner that facilitates consideration of the mandatory criteria of Title 39, as implemented by 39 C.F.R. Pt 241.3.

Specific goals and milestones impede the progress and the process improvements that we incorporated into RAOI, by which headquarters has first tested its newly established authority to nominate retail facilities for initiation of discontinuance studies, which themselves are controlled by statute. Structure has been added to this process through the top-down process, but we firmly believe that local conditions continue to dictate local decisions must guide, and perhaps thereby limit, the success of this initiative. It is detrimental to RAOI to embrace a philosophy that one-size fits all. Retail and Delivery Operations are not, and never will be uniform across our vast network.

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Target Implementation Date:

N/A

Responsible Official:

Dean Granholm, VP Delivery & Post Office Operations

Recommendation 2:

Develop and implement an economic model that determines market demand, including projected financial, geographic, market and demographic data.

Management Response/Action Plan:

We agree that as a matter of a sound process improvement strategy, we will look to new methodologies to gain new and innovative insight, and perhaps also approaches, for future discontinuance. As we navigate through this first of what may prove to be successive HQ directive, we look to our field and HQ management team to identify best practices and program enhancements to enhance transparency and public participation, increase the efficiency of the discontinuance process, and to ensure sound business judgment when making decisions.

As you know, to support our commitment to continued improvement, the USPS has entered into a contractual agreement with an academic consultant for the purpose of assisting with the development of an economic model to predict customer demand based on accessibility of services.

Target Implementation Date:

February, 2012.

Responsible Official:

Dean Granholm, VP Delivery & Post Office Operations

Recommendation 3:

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

Management Response/Action Plan:

Through the Retail Facility Database (FDB) web application, data are electronically collected and consolidated from facilities nationwide, to provide one source of accurate and complete Postal facility information for the Postal Service and Mailers. FDBweb stores data in the FDB, which is the authorized corporate

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repository for the inventory of USPS facilities and the source to which all interested employees and automated systems must refer for facilities or facility-related information.

The FDB contains the authorized list of USPS facilities and certain static information about a facility, such as name, address, physical characteristics, etc. It also contains facility information that is unique to a postal facility, like address, name, non-moveable structural features and characteristics unique to each of the facilities.

We *agree* in totality with the OIG recommendation that the Retail Facilities Database (FDB) be consistently and accurately maintained by field personnel. As a matter of protocol, and as stated above, the district manager is also responsible for the accuracy and the completeness of the facility-specific proposal prior to submission to HQ for review and final determination. This is a check and balance process that ensures reliable data are used to make discontinuance decisions.

Target Implementation Date:

Ongoing.

Responsible Official:

Dean Granholm, VP Delivery & Post Office Operations

Recommendation 4:

Approve or disapprove discontinuance proposals within established milestones.

Management Response/Action Plan:

We *agree* with the OIG recommendation that the approval process for discontinuance proposals should be timely, both at the district and headquarters level. The development of CSDC and the new Handbook PO-101 both demonstrate our commitment to process improvement opportunities.

However, as we have also explained to the PRC in its proceeding to prepare the advisory opinion, the law requires that we seek regarding RAOI such legal requirements as our universal service delegation, the need to provide a maximum degree of effective and regular postal services to rural areas, communities, and small town where post offices are not self sustaining. These steps do not always lend themselves to evaluation of how best to provide retail and delivery services in those areas based on a rigid schedule. We have found instead that full examination of each situation sometimes takes longer than

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planned. We have no interest in violating these critical constraints on how service must be provided on consideration of what we learn during a discontinuance study can require additional consideration than first planned.

Target Implementation Date:

Ongoing.

Responsible Official:

Dean Granholm, VP Delivery & Post Office Operations

Recommendation 5:

Direct headquarters employees to assess the closing of offices whose operations have been suspended prior to fiscal year 2010.

Management Response/Action Plan:

Management's obligation under Title 39 is to conduct a fair review of each retail outlet before it is closed or consolidated. Thus, we question whether the recommendation's premise, i.e., that each and every suspended Post Office must necessarily be "closed," is consistent with our statutory obligation. We recognize, of course, that long term suspensions are undesirable. We agree that field management should conduct the feasibility studies of suspended facilities as soon as possible, and conclude administrative procedures based on an administrative record, so that affected communities' expectations can be best managed.

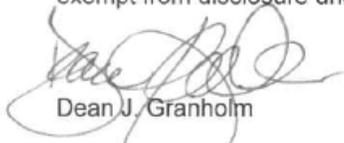
Target COMPLETION Date:

June 1, 2012.

Responsible Official:

Dean Granholm, VP Delivery & Post Office Operations

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



Dean J. Granholm

cc: Mr. Boldt
Mr. Hollies
Mr. Romero
Ms. Haring