



Office of Inspector General | United States Postal Service

Audit Report

San Francisco International Service Center Closure

Report Number 21-267-R22 | May 13, 2022



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Highlights

Background

The U.S. Postal Service's International Service Center in San Francisco, CA (SFO ISC) houses select international and military mail processing functions and a retail unit. In April 2020, the lessor notified the Postal Service that they were discontinuing the facility lease and subsequent discussions about potential on-airport facility alternatives proved unsuccessful. As a result, the Postal Service decided to permanently relocate processing operations to local and regional facilities and temporarily suspend retail services, steering customers to nearby post offices pending a final Postal Service decision on the unit. This report responds to a September 2021 congressional request regarding closure of the SFO ISC.

What We Did

Our objective was to evaluate Postal Service communication and documentation related to the closure. We conducted site visits to the SFO ISC, reviewed documentation, and interviewed Postal Service officials and stakeholders.

What We Found

The Postal Service did not fully communicate and document information regarding the closure. Regarding communication, while the Postal Service began notifying employees, unions, and management associations in January 2021 about closing

processing operations, they did not timely notify retail customers about the service suspension and temporary relocation. Specifically, the Postal Service did not communicate the May 2021 decision to suspend retail operations until January 2022. Regarding documentation associated with the consideration of facility alternatives, management stated that there was none as their inquiries with the lessor were unsuccessful. The Postal Service also did not document processing operations service and cost impacts in a timely or complete manner.

The full cost and service impacts of these relocations are uncertain as operational adjustments continue. For example, new sorting equipment has yet to be deployed at the Los Angeles ISC and a final decision on the retail unit remains pending. The Postal Service can help mitigate this uncertainty by ensuring sufficient documentation of future service and cost impacts and timely communication of decisions.

Recommendations

We recommended management ensure they monitor and document service and cost impacts for relocating processing and retail operations out of the SFO ISC and timely communicate their final retail decision to customers and adhere to applicable customer comment requirements.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 13, 2022

MEMORANDUM FOR: MIKE L. BARBER
VICE PRESIDENT, PROCESSING AND MAINTENANCE
OPERATIONS

TODD S. HAWKINS
VICE PRESIDENT, REGIONAL PROCESSING
OPERATIONS, WESTERN AREA, ACTING

EDUARDO H. RUIZ, JR.
VICE PRESIDENT, RETAIL AND DELIVERY OPERATIONS,
WESTPAC AREA

A handwritten signature in cursive script, reading "Kelly I. Thresher", is positioned above the "FROM:" field.

FROM: Kelly I. Thresher
Deputy Assistant Inspector General
for Retail, Delivery and Marketing, Acting

SUBJECT: Audit Report – San Francisco International Service Center
Closure (Report Number 21-267-R22)

This report presents the results of our review of the closure of the U.S. Postal Service's San Francisco International Service Center (Project Number 21-267). Our objective was to evaluate Postal Service communication and documentation related to the closure.

We appreciate the cooperation and courtesies provided by your staff. If you have questions or need additional information, please contact Janet Sorenson, Director, Sales, Marketing, and International, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report responds to a September 3, 2021, congressional request regarding closure of the U.S. Postal Service’s San Francisco International Service Center (SFO ISC) (Project Number 21-267). Our objective was to evaluate the Postal Service’s communication and documentation related to the closure. See [Appendix A](#) for additional information about this audit.

Background

The Postal Service leases 8.6 acres of land and a facility from the City and County of San Francisco Airport Commission (Airport Commission) to operate the SFO ISC. The building was constructed in 1967 and houses a variety of international, military, and retail operations including:

- Mail processing operations related to the receipt, acceptance, sorting, and dispatching of international civil import, export, and military volumes servicing the Pacific and Northwest areas.
- U.S. Department of Homeland Security Customs and Border Protection (CBP) and other federal agency¹ activities associated with international mail processing.
- Postal Service retail unit and related operations, which include about 900 post office (PO) boxes that generated retail revenue of almost [REDACTED] in fiscal year (FY) 2021.

On April 25, 2020, the Airport Commission notified the Postal Service of their intent not to renew the SFO ISC lease. Postal Service management then met with the lessor about other potential on-airport facility options, but these discussions proved unsuccessful as the lessor stated that none were available. Postal Service management subsequently coordinated across relevant groups, including Mail Processing Operations, Logistics, Labor Relations, and Human Resources at the local, regional, and national levels on relocation options. Postal Service

management decided on the following strategies for relocating SFO ISC operations:

- *International mail processing operations* – Processing operations for inbound and outbound international mail will be permanently routed to a mix of local or regional facilities (see Table 1).
- *Domestic mail operations* – Will be transferred to the [REDACTED] about [REDACTED] from the SFO ISC.
- *Retail operations* – PO box and counter service at the SFO retail unit will be temporarily suspended and these retail services will be shifted to the Stanton Post Office (in Burlingame, CA, about 2.8 miles from the SFO ISC).² Retail counter service will also be available at the Millbrae Post Office in Millbrae, CA, about 1.5 miles away.

Table 1. Relocation of International Mail Processing Operations from the SFO ISC

Type of Mail	Updated Facility (from the SFO ISC)
Military (International) – Standard Packages	[REDACTED]
Military (International) – Express	[REDACTED]
Military (International) – Retrograde (inbound)	[REDACTED]
Import International – Canada	[REDACTED]
Export International – Canada	[REDACTED]
Import International – non-Canada	[REDACTED]
Export International – non-Canada	[REDACTED]

Source: Postal Service.

*The Postal Service is expanding operations at the [REDACTED] and relocating [REDACTED] operations into a new building.

1 Other federal agencies have operations at the SFO ISC include Environmental Protection Agency (EPA), Food and Drug Administration (FDA), and Fish and Wildlife Service.

2 Postal Service regulations stipulate a variety of requirements for the closure of retail facilities within a post office such as notice, public comment, record, and documented final decision. 39 CFR §241.3 – Discontinuance of USPS-operated Retail Facilities, August 2012.

The Postal Service began transitioning mail processing operations to other facilities and shifting volume and employee complement out of the SFO ISC in August 2021 (the facility employed about 320 Postal Service staff in mid-January 2021 and processed about 33 million pieces in FY 2021). The current lease option is scheduled to end on August 31, 2022. Processing and retail operations will end by April 2022 and the building will be vacated by August 2022.³

Finding #1: SFO ISC Closure Communication and Documentation

The Postal Service did not fully communicate and document information regarding the facility closure.

Communication

The Postal Service began notifying employees, unions, and management associations of the pending closure in January 2021. This preliminary communication centered on the closure of SFO ISC processing operations. Postal Service officials subsequently notified other key stakeholders, including those summarized in Table 2.

Table 2. Key Stakeholder Notification Activities, SFO ISC Closure

Date	Action
January 15, 2021	Unions - Headquarters
February 5, 2021	CBP
March 26, 2021	Unions - regional offices
March 29, 2021	Universal Postal Union
March 30, 2021	Business Mail Entry Unit mailers
June 4, 2021	EPA, FDA, and Fish and Wildlife Service

Date	Action
January 13, 2022	Retail customers (counter)
January 14, 2022	PO Box customers

Source: OIG analysis of Postal Service and union information.

Postal Service officials stated they worked to keep union officials notified of closure-related developments consistent with that of the respective collective bargaining agreements and to address concerns that arose. Postal Service officials communicated information to employees impacted by the closure regarding other available positions and related reassignment options and procedures. Officials notified employees that sufficient positions will be within a 50-mile radius of the San Francisco bid cluster⁴ – actions that comply with applicable collective bargaining agreements.

Officials also stated they communicated information about priority consideration for other local postings, future postings, and other administrative matters (e.g., timing of abolishment and 60-day notice letters). Postal Service management also noted that SFO ISC management and other administrative⁵ employees would have available opportunities at other locations.

The Postal Service decided in May 2021 that it would move retail services out of the SFO ISC. The Postal Service, however, did not notify customers until January 2022 about the March 2022 service suspension. The Postal Service’s notification also stated that it had a forthcoming final decision regarding the retail unit at the SFO ISC.

“The Postal Service did not fully communicate and document information regarding the facility closure.”

³ The Postal Service plans to cease processing and retail operations by April 2022, followed by other building departure functions (e.g., removing equipment and cleaning) through August.

⁴ A group of facilities for which all employees at each facility can bid on posted positions at any other facility within the cluster.

⁵ Staff in the Postal Service’s Executive and Administrative Schedule generally includes managers, supervisors, and other non-bargaining administrative staff.

Postal Service policy⁶ requires that it immediately notify customers of a suspension due to a lease termination.

Documentation

The Postal Service did not fully document information regarding the consideration of facility alternatives. The Postal Service also did not document processing operations service and cost impacts in a timely or complete manner.

Documentation – Facility Alternatives

Postal Service management stated they did not document the consideration of processing or retail facility alternatives at the airport as the lessor stated that no other on-airport options were available. Regarding processing operations, after the Postal Service's unsuccessful discussions with the lessor in April 2020, it immediately began assessing various processing facility alternatives and factoring in the following operational developments:

- *Decline in international volume* – Postal Service officials provided documentation illustrating ISC-specific volume projections through FY 2030; this data projected FY 2019-2030 SFO ISC-specific volume declines of 36 percent for inbound and 24 percent for outbound. Postal Service managers attributed these declines to growing competition in the international marketplace and the Postal Service reported on international volume declines in its recent financial filing (see sidebar).
- *Other available capacity* – Postal Service officials determined they could efficiently transition SFO ISC processing operations to other Postal Service facilities, such as the LA ISC and Seattle P&DC. In particular, the Postal Service is expanding the LA ISC's processing capacity through the following new equipment rollout:
 - Sack sorting equipment (Sack Sorting Machine) is expected to quadruple throughput from 250-300 receptacles per hour to nearly 1,000-1,200 through greater sort and induction capabilities.

- Parcel sorting equipment (Universal Sorting System) is projected to quadruple throughput from nearly 250-300 pieces per hour to 850-1,000 by increasing the number of large, oversized packages sorted per hour.
- International acceptance equipment (Receipt Verification System) is anticipated to increase throughput by nearly five times from about 180-190 receptacles per hour to 960 through greater induction and processing capabilities.

The Postal Service projects that the LA ISC's capacity will increase to about 204 million pieces per year upon implementation of all planned enhancements. Considering the SFO and LA ISCs combined volumes in FY 2021 were just over 74 million pieces (LA ISC had 41 million and the SFO ISC had 33 million), Postal Service officials expect the new facility to have sufficient capacity to handle displaced SFO ISC volumes. Postal Service management stated that the combination of these factors, along with unsuccessful attempt to secure a local, on-airport processing location, pushed them to transition their focus to other processing options outside the San Francisco area.

International mail volume declines were “due to various competitive pricing, political and economic factors, including the impact of the pandemic on transportation logistics, and the global economy in general.”



Source: U.S. Postal Service Form 10-Q, Quarter 1, FY 2022.

⁶ Postal Service Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, October 2012. Since this retail unit is a station of the San Francisco Post Office, only discontinuance procedures related to customer notification and comments apply.

Regarding retail facility alternatives, management stated they had discussions with the lessor about potential retail locations at the airport, but no on-site airport options were available. By May 2021, Postal Service officials determined that retail counter and PO box service could temporarily be absorbed by other, nearby post offices (i.e., the Stanton and Millbrae post offices) based on proximity and capacity. While the Postal Service noted a temporary transition in its January 2022 communication to customers and is currently moving retail operations, management has not yet made a final decision regarding the future of the retail unit.

Documentation – Processing Operations Service and Cost Impact Analyses

The Postal Service also did not document service and cost impacts related to mail processing operation changes until January 2022. Regarding service, management stated they assessed potential impacts, leading to a documented January 2022 analysis for shifting 72.2 million international mailpieces from the SFO ISC to the LA ISC. This analysis showed a 3.3 percent decrease in the percentage of pieces that would qualify for Zone A service (e.g., quicker service standards⁷) between the two ISCs (25.4 percent of the pieces would have qualified for Zone A service at the SFO ISC while only 22.1 percent of these mailings would have qualified for Zone A service at the LA ISC) (see Table 3).

“By May 2021, Postal Service officials determined that retail counter and PO box service could temporarily be absorbed by other, nearby post offices (i.e., the Stanton and Millbrae post offices) based on proximity and capacity.”

⁷ Service standards depend on the type and class of mail, with mail sent to Zone A having quicker service standards and mail sent to Zone D having lengthier service standards. For example, for letters and parcels, the following service standards apply for each zone: Zone A, 2-day; Zone B, 3-day; Zone C, 4-day; and Zone D, 5-day.

Table 3. Summary of the Postal Service’s International Mail Service Impact Analysis

International Mail Processing Zone	If Kept at SFO ISC	If Moved to LA ISC	Difference
Zone A (0-300 miles from ISC)	25.4%	22.1%	(3.3%)
Zone B (301-600 miles from ISC)	14.6%	16.8%	2.2%
Zone C (601-1,000 miles from ISC)	15.8%	17.3%	1.5%
Zone D (1,001 miles + from ISC)	44.3%	43.8%	(0.5%)

Source: OIG analysis of Postal Service data.

Note: The Postal Service’s analysis assumed 72.2 million pieces of international mail would shift from the SFO ISC to the LA ISC.

While Postal Service officials acknowledged the decrease in the number of pieces receiving the timelier Zone A service, they stated that mail moving to Zones B, C, and D may still be processed faster than service standard due to the anticipated processing enhancements at the LA ISC.

Additionally, officials summarized the following other service-related impacts:

- Minimal service impacts on military and international export mail as it will be processed in the San Francisco District;
- More timely inbound Canada mail processing shifted to the Seattle P&DC;
- Effective service during peak-seasons; and
- Potential less timely service for volumes of certain origin and destination points proximate to the existing SFO ISC facility.

While these analyses helped show potential service impacts for mail shifted to the LA ISC from the SFO ISC, the detailed analysis was not timely (it was not documented until January 2022, a full year after key stakeholders were notified of the pending closure) and not complete (it did not include service impact data for

mail that would be shifted to the Seattle P&DC). Going forward, Postal Service management stated they have mechanisms for monitoring service impacts associated with these new operations, including the international mail service performance measurement system.

Regarding the cost impact, Postal Service officials stated they analyzed various processing costs associated with the shifting of volumes out of the SFO ISC including the following as part of their January 2022 analysis:

- **Transportation costs** – Postal Service officials stated that transportation savings would occur by shifting Canada import/export volumes to Seattle – over \$1 million annually. These officials stated that they expect existing transportation capacity to be sufficient for mail processed out of Los Angeles and for any mail still having to move between various processing centers in Los Angeles and San Francisco.
- **Mail processing costs** – Postal Service officials stated that there will be little, if any, cost variance as the operations would generally be the same occurring in either the SFO or LA ISC. They also noted expected productivity improvements that would result from increased operational throughputs on LA ISCs new mail processing equipment.
- **Lease savings** – Postal Service officials also factored in \$1.7 million of lease cost savings in FY 2022, as a result of the discontinued lease.

Postal Service management stated they will monitor cost impacts associated with these operations, including assessing the efficiency and throughput of new equipment, staff workhours, and other budget metrics. These officials, however, noted that some of these operational adjustments are still in process (i.e., the new sack sorting machines are still being built at the LA ISC). The Postal Service's ability to generate expected cost impacts will be predicated on the extent to which they complete these remaining adjustments in a timely manner.

Conclusion

The Postal Service faced sizable processing and retail operational challenges when the lessor decided to discontinue the SFO ISC lease. These challenges were formidable considering other external factors, including the COVID-19

pandemic and increasing competition in the international mailing and shipping market. The Postal Service proceeded to evaluate and select alternate processing and temporary retail locations while communicating with employees and other stakeholders, although not always in a timely manner.

Uncertainties remain that may put stakeholder confidence in these decisions at risk. First, the full service and costs impacts resulting from the displaced SFO ISC processing operations remain unknown, particularly as new equipment and processes have yet to be implemented. Second, a final decision on the retail space at the SFO ISC has not been made. The Postal Service has an opportunity to help mitigate this uncertainty by ensuring sufficient documentation of future service and cost impacts and timely communication of decisions.

Recommendation #1

We recommend the **Vice Presidents, Processing and Maintenance Operations and Regional Processing Operations, Western Area**, ensure service and cost impacts for relocating processing and retail operations out of the San Francisco International Service Center are monitored and documented.

Recommendation #2

We recommend the **Vice President, Retail & Delivery Operations, WestPac Area**, timely communicate their final retail decision to customers and adhere to applicable customer comment requirements.

“The Postal Service has an opportunity to help mitigate this uncertainty by ensuring sufficient documentation of future service and cost impacts and timely communication of decisions.”

Management's Comments

Management partially agreed with finding 1 and agreed with finding 2 and recommendations 1 and 2.

Regarding finding 1, management stated that the report did not clearly define the full magnitude of the impact of the coordinated effort needed across the relevant groups involved, including Mail Processing Operations, Logistics, Labor Relations, and Human Resources at the local, regional, and national levels.

Regarding recommendation 1, management stated that they established systems for tracking service performance and cost analysis. Management also stated that they will continue monitoring service and cost impacts that result from the closure and provide a summary of these indicators. The target implementation date is August 31, 2022.

Regarding recommendation 2, management stated that they will provide a process for communicating decisions regarding retail services in accordance with applicable Postal Service policies for timelines and customer notification. The target implementation date is August 31, 2022.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive for all recommendations.

Regarding management's statement that the report did not clearly define the full magnitude of impact of the coordinated effort throughout its organization, our report specifically noted Postal Service management coordinated across relevant groups, including Mail Processing Operations, Logistics, Labor Relations, and Human Resources at the local, regional, and national levels on relocation options.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

Our objective was to evaluate the Postal Service's communication and documentation related to the SFO ISC's pending closure. To accomplish our objective we:

- Reviewed Postal Service communication and outreach with key stakeholders including employees, unions, management associations, congressional staff, customers (both mailer and retail), and federal agency partners.
- Reviewed Postal Service documentation and analysis related to:
 - Projected impacts, such as on costs, service (military, international, and retail), and employees
 - Efforts to evaluate potential local alternate locations
 - International inbound and outbound volume projections; and
 - Operational timelines
- Reviewed post office closure policies.
- Interviewed management at the SFO ISC and headquarters.
- Interviewed representatives from the American Postal Workers Union, United Postmasters and Managers of America, and National Association of Postal Supervisors.
- Observed operations at the SFO ISC on September 27-29, 2021.

We conducted this performance audit from September 2021 through May 2022 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 7, 2022, and included their comments where appropriate.

We collected SFO ISC processing and retail data and international volume projections from Postal Service program managers. We assessed the data's reliability by reviewing its completeness and reasonableness and interviewing knowledgeable Postal Service officials. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments



May 6, 2022

JOHN CIHOTA
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response: San Francisco International Service Center
Closure (Project Number 21-267-DRAFT)

Postal Management appreciates the opportunity to review and comment on the findings and recommendations contained in the Draft Audit: San Francisco International Service Center Closure (Project Number 21-267-DRAFT). While the draft provides the timeline of events and some of the related nuances surrounding the International Service Center (ISC) closure, it does not clearly define the full magnitude of impact of the coordinated effort needed across the relevant groups involved, including Mail Processing Operations, Logistics, Labor Relations, and Human Resources at the local, regional, and national levels.

The Airport Commission notified the Postal Service in April 2020 of their intentions to not renew the SFO ISC lease. Despite attempts by Postal Management to secure other potential on-airport facility options, the discussions proved unsuccessful. Postal Service management was subsequently forced to transition the mail processing operations of more than 33 million pieces (processed in FY21) and an employee complement of 320 employees to other facilities. It was likewise tasked with finding a means of relocating PO Box services for 900 customers and retail services for a site that generated more than [REDACTED] in revenue (FY21).

Finding #1: SFO ISC Closure Communication and Documentation.

The Postal Service did not fully communicate and document information regarding the facility closure. Management partially agrees.

After the Postal Service's unsuccessful discussions with the lessor, it immediately began assessing various processing facility and retail alternatives. It was determined that mail processing operations could efficiently be transitioned to other Postal Service processing facilities. The Postal Service began notifying employees, unions, and management associations of the pending closure in January 2021. Postal Service Management likewise determined that retail counter and PO Box services could temporarily be absorbed by nearby post offices and communicated this to those customers when alternative service locations were identified. Management has not yet made a final decision regarding the future of the retail unit previously located at the SFO ISC.

Recommendation [1]:

We recommend the **Vice Presidents, Processing and Maintenance Operations and Regional Processing Operations, Western Area**, ensure service and cost

impacts for relocating processing and retail operations out of the San Francisco International Service Center are monitored and documented.

Management Response/Action Plan:

Management agrees with this recommendation.

The Postal Service has established systems for tracking service performance and cost analysis. Management will continue to monitor service performance and costs, as well as any possible impacts that may result from the closure of the SFO ISC, and provide a summary of these indicators.

Target Implementation Date: 08/31/2022

Responsible Official: Director, International Processing Operations

Recommendation [2]:

We recommend the **Vice President, Retail & Delivery Operations, WestPac Area**, timely communicate their final retail decision to customers and adhere to applicable customer comment requirements.

Management Response/Action Plan:

Management agrees with this recommendation.

Postal Service Management will provide the process for communicating any decisions regarding retail services by following Postal Service policies that define the required timelines and the appropriate means for notifying customers.

Target Implementation Date: 08/31/2022

Responsible Official:

District Manager, CA1



MIKE L. BARBER

Vice President, Processing and Maintenance Operations and behalf of
Vice President, Regional Processing Operations, Western Area



EDUARDO H. RUIZ, JR.

Vice President, Retail & Delivery Operations, WestPac Area

cc: *Manager, Corporate Audit Response Management*

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