



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

Closure of Contract Postal Units Management Advisory Report

August 16, 2012

Report Number CI-MA-12-001



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UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 16, 2012

Closure of Contract Postal Units

Report Number CI-MA-12-001

BACKGROUND:

This review responds to a request from U.S. Congressman Gus M. Bilirakis, 9th District, Florida. Contract postal units (CPUs) are the retail alternative most similar to post offices (POs). They are operated and managed by independent retailers to provide a range of U.S. Postal Service products and services to customers at Postal Service prices. Retail alternatives, such as CPUs and self-serve kiosks, provide postal services at a lower cost than traditional brick and mortar POs. As of fiscal year 2011, the Postal Service had 2,904 CPUs out of a network of 35,756 retail facilities.

In May 2011, the Postal Service and the American Postal Workers Union (APWU) signed the 2010-2015 Collective Bargaining Agreement that included a memorandum of understanding (MOU) to close or convert 20 CPUs to Postal Service operated facilities staffed by Postal Service employees. The APWU and Postal Service selected the 20 CPUs, and both parties stated the MOU was part of an enterprise wide \$3.8 billion cost saving.

In June 2011, the Postal Service began closing the CPUs, and as of the end of May 2012, the 20 CPUs are closed. Our objective was to review the impact of the closures on Postal Service's retail

alternatives, financial position, and customer access.

WHAT THE OIG FOUND:

While CPUs are part of the Postal Service's overall strategy to expand retail alternatives, Postal Service management stated that the 20 CPU closures were needed to facilitate the 2010-2015 Collective Bargaining Agreement negotiation. Accordingly, the Postal Service closed the 20 CPUs in compliance with the MOU, the CPU contract termination clauses, and Postal Service guidance. The impact on retail alternatives was minimal, and we estimated the potential annual net revenue loss could range from about \$284,000 to \$1.4 million.

In addition, although customers have options to access postal products and services in nearby facilities, there are customer inconveniences such as changing PO box numbers, delivery options, and traveling new distances.

WHAT THE OIG RECOMMENDED:

Because the MOU to close CPUs was part of the Postal Service and APWU 2010-2015 Collective Bargaining Agreement, we are not making any recommendations.

[Link to review the entire report](#)



August 16, 2012

MEMORANDUM FOR: KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

E-Signed by Michael A. Magalski
VERIFY authenticity with e-Sign

A rectangular box containing a handwritten signature in grey ink, the text "E-Signed by Michael A. Magalski VERIFY authenticity with e-Sign", and a small yellow question mark icon in the top right corner.

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

SUBJECT: Management Advisory – Closure of Contract Postal
Units (Report Number CI-MA-12-001)

This report presents the results of our review of the Postal Service's closure of 20 contract postal units requested by U.S. Congressman Gus M. Bilirakis (Project Number 12YG021CI000).

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

Attachments

cc: Nagisa M. Manabe
Brian B. Code
Patrick M. Devine
Dennis W. Kelly
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction	1
Conclusion	2
Contract Postal Unit Operations	2
Customer Access	4
Management’s Comments	5
Evaluation of Management’s Comments	5
Appendix A: Additional Information.....	6
Background	6
Objective, Scope, and Methodology	6
Prior Audit Coverage	7
Appendix B: Other Impact.....	8
Appendix C: Contract Postal Unit Customer Access Details	9
Appendix D: Management’s Comments	10

Introduction

This report presents the results of our review of the U.S. Postal Service's closure of 20 contract postal units (CPU) (Project Number 12YG021CI000). The report responds to a request from U.S. Congressman Gus M. Bilirakis, 9th District, Florida, on the impact 20 CPU closures may have on the Postal Service's retail alternatives, financial position, and customer access. This review addresses financial and operational risks. See [Appendix A](#) for additional information about this review.

According to the Postal Service's 2011 Comprehensive Statement on Postal Operations,¹ retail alternatives provide postal services at a lower cost than traditional brick and mortar post offices (PO). Compared to fiscal year (FY) 2010, retail revenue from customer visits to POs has declined by 10 percent, while customer access through alternative retail access channels has increased by 12.1 percent, generating about 35 percent of total retail revenue. Retail alternatives² include *usps.com*, self-serve kiosks, (SSK) stamps on consignment (SoC), approved shippers (AS), and CPUs. CPUs are the retail alternative most similar to POs. A CPU may be a stand-alone business or may occupy space at a larger business, such as a counter within a store (for example, a grocery store, pharmacy, or college bookstore) that sells other products and services. CPUs are operated and managed by independent retailers to provide a range of postal products and services to customers at Postal Service prices. According to the Postal Service, as of FY 2011, there were 2,904 CPUs out of a network of 35,756 retail facilities.³

In September 2010, the Postal Service and American Postal Workers Union (APWU) began negotiations for the 2010-2015 Collective Bargaining Agreement⁴ (Collective Bargaining Agreement) that included a memorandum of understanding⁵ (MOU) to close 20 CPUs. During the negotiations, both parties agreed to close or convert CPUs to Postal Service operated facilities staffed by Postal Service employees. The APWU and Postal Service selected the 20 full-service CPUs that provide postal services with PO Box Service identified in the MOU (see [Table 1](#)). According to both parties, the MOU to close 20 CPUs was part of an enterprise wide \$3.8 billion cost saving effort. In June 2011, the Postal Service began closing the CPUs, and as of May 2012, all 20 CPUs were closed.

¹ 2011 Annual Report to Congress and Comprehensive Statement.

² The Postal Service also provides alternative retail access through Village POs, mobile retail vans, PO Express units (Postal Service operated outlets at privately owned facilities), stamps by mail, stamps by phone, and third-party online vendors.

³ The network is made up of POs, stations, branches, CPUs, and community POs. Stations and branches are staffed by Postal Service employees under the administration of a PO. Stations are located within and branches are located outside of the corporate limits of the city or town in which the PO is located. A community PO is a contract unit that provides postal services in small communities where a Postal Service operated facility has been discontinued. A community PO usually bears its community's name and ZIP Code.

⁴ Agreement Between the U.S. Postal Service and the American Postal Workers Union, AFL-CIO 2010-2015.

⁵ Memorandum of Understanding Between The U.S. Postal Service And The American Postal Workers Union, AFL-CIO, Re: Contract Postal Units.

Table 1 – List of 20 CPUs

CPU Name, City, and State			
1	A&L Management Company — Bronx, NY	11	Chubbuck Station — Pocatello, ID
2	Alplaus Community — Alplaus, NY	12	CPU #386 — Brooklyn, NY
3	Altosano Contract CPU — San Sebastian, PR	13	Denmark — Denmark, NY
4	Audry Hardy — Port Arthur, TX	14	Jake Alexander Boulevard CPU — Salisbury, NC
5	Better Letter — Brooklyn, NY	15	Kemp — Hendrix, OK
6	Boscawen — Boscawen, NH	16	Lake Buena Vista CPU — Orlando, FL
7	Callaway CPU — Panama City, FL	17	Market Place Center — Temple, TX
8	Cape Cottage — Cape Elizabeth, ME	18	North Robinson — North Robinson, OH
9	Central Commons — Bridgeport, CT	19	Salona Station — Mill Hall, PA
10	Chars Hallmark — Palm Harbor, FL	20	The Mailroom — Enid, OK

Source: MOU between the Postal Service and the APWU.

Conclusion

While CPUs are part of the Postal Service’s overall strategy to expand retail alternatives, Postal Service management stated that the CPU closures were needed to facilitate the Collective Bargaining Agreement negotiations. Accordingly, the Postal Service closed the 20 CPUs in compliance with the MOU, contract termination clauses, and Postal Service guidance.⁶ The impact on retail alternatives was minimal, and we estimated the potential annual net revenue loss could range from about \$284,000 to \$1.4 million. In addition, although customers have options to access postal products and services in nearby facilities, there are still customer inconveniences. Because the MOU to close CPUs was part of the Postal Service and APWU Collective Bargaining Agreement, we are not making any recommendations.

Contract Postal Unit Operations

According to management, initiatives to expand CPUs and increase retail alternatives at contractor operated locations are an ongoing effort. In January 2012, the Postal Service issued a request for information to 80 large national retailers regarding interest in

⁶ Publication 156, *Postal Service Employees Guide to Contract Postal Units*, May 2010.

establishing partnerships. Management also recognized the need to review the existing network of CPUs; some locations reflect decisions made over decades to ensure they meet current market demands and customer needs.

While CPUs are part of the Postal Service's overall strategy to expand retail alternatives, management stated that the Labor Relations office initiated and approved the closing of the 20 CPU as part of the Collective Bargaining Agreement negotiations. In addition, management stated the selection criteria for the CPU's were that CPUs be stand-alone, full-service units with PO Box Service.

We reviewed the 20 CPU contracts⁷ and applicable modifications and found:

- Twenty CPUs provided full postal products and services.
- Eighteen CPUs provided PO Box Service.⁸
- Six of the 20 contract units were community POs.⁹

Also, we determined the Postal Service paid more than \$116,000 in startup costs – ranging from \$5,000 to \$14,600 - for these 20 CPUs. The startup costs included costs for training contractor employees, issuing a contract, building out space to meet postal-specific requirements, and implementing the CPU. Furthermore, as of May 2, 2012, the Postal Service incurred more than \$127,000 in close-out costs¹⁰ for the 20 CPUs, ranging from no cost to \$72,300.

Lastly, the 20 CPUs had net revenue of more than \$10.4 million from FY 2010 through March 31, 2012 (see [Table 2](#)). While these CPUs in aggregate generated net revenue for the Postal Service, three of the 20 CPUs were operating with net losses.¹¹ According to Postal Service guidance, there is a link between customer traffic and revenue. However, under the MOU, the Postal Service was not required to examine or predict potential revenue loss. In addition, management stated they have not performed any studies to measure the impact a facility closure may have on the Postal Service's revenue or collected historical data that could be used to provide an estimate based on past CPU closures. As a result of the 20 CPU closures, we estimated the potential annual net revenue loss could range from about \$284,000 to \$1.4 million¹² (see [Appendix B](#) for our other impact calculation). We are not making a recommendation, because we will address this issue in a future retail optimization review.

⁷ The Postal Service was unable to provide the original contract for Cape Cottage, Elizabeth, ME. Instead, it provided contract modifications 2-8.

⁸ Two of 20 CPUs did not offer PO.Box Service: Better Letter, Brooklyn, NY and CPU #386, Brooklyn, NY.

⁹ Alplaus Community, Alplaus, NY; Audry Hardy, Port Arthur, TX; Boscawen, Boscawen, NH; Denmark, Denmark, NY; Kemp, Hendrix, OK; and Salona Station, Mill Hall, PA.

¹⁰ The costs to return contractor properties to their original condition upon vacating. For example, removing all postal-specific equipment, signage, and PO boxes.

¹¹ After subtracting contractor payments from revenue, net losses were reported for two CPUs from FYs 2010 through March 2012, and one CPU from FYs 2010 through 2011. The three CPUs are A&L Management Company, Bronx, NY; Denmark, Denmark, NY; and Salona Station, Mill Hall, PA.

¹² Our potential revenue loss estimates cannot be validated because management would need to provide additional data that they are not required to maintain.

Table 2: Net Revenue of the 20 CPUs

Fiscal Year	Revenue	Payments to CPU Contractors	Net Revenue
FY 2010	\$ 5,305,147	\$ (1,147,441)	\$ 4,157,706
FY 2011	5,211,423	(1,144,882)	4,066,541
October 2011 - March 2012	2,766,135	(541,113)	2,225,022
Total	\$ 13,282,705	\$ (2,833,436)	\$ 10,449,269

Sources: Enterprise Data Warehouse/Accounting Data Mart/Finance Performance Report and Contract Postal Unit Technology.

Customer Access

We determined that most former customers of the 20 closed CPUs have access to Postal Service facilities within 5 miles¹³ of the closed CPUs. We obtained surrounding access points within 5 miles¹⁴ for each of the 20 CPU addresses from the Postal Service’s public website, *usps.com* (see [Appendix C](#) for additional information). While these customers have access to POs and CPUs within a 5 miles radius, access and travel distances vary, Specifically:

- Within 1 mile of five of the 20 CPUs there are seven POs and one CPU.
- From 1 to 3 miles of 14 of the 20 CPUs there are 74 POs and eight CPUs.
- From 3 to 5 miles of 16 of the 20 CPUs there are 31 POs and six CPUs.

In addition, Postal Service management and data systems reported that of the 2,514 PO Box Service customers:

- Nine hundred one relocated to nearby Postal Service facilities.
- Seven hundred twenty-four have status unknown status.¹⁵
- Seven hundred three converted to street delivery, cluster box unit,¹⁶ or neighborhood delivery collection box unit¹⁷ options.
- One hundred eighty-six elected to use privately-owned mailbox service¹⁸ or closed their PO Box Service Accounts.

¹³ The nearest PO to the North Robinson CPU is the Galion PO at 5.3 miles.

¹⁴ Only the first 50 access points within the 5 - mile search criteria were used for our analysis.

¹⁵ Postal Service management was unable to provide the disposition for 724 P.O. Box Service customers.

¹⁶ A centralized grouping of individually locked and keyed compartments or mailboxes, such as a wall-mounted unit in an apartment building or a free-standing neighborhood delivery and collection box unit.

¹⁷ A centralized unit of more than eight individually locked compartments sized to accommodate the delivery of magazines, merchandise samples, and several days’ accumulation of mail. In addition, collection mail may be deposited in a designated compartment.

¹⁸ A private business that acts as the mail receiving agent for clients.

While customers have options to access products and transfer or convert PO Box Service to nearby facilities or delivery service, there are customer inconveniences, such as changing PO box numbers, and ZIP Codes, choosing delivery options, and traveling to new locations. Because the MOU to close 20 CPUs was part of the Collective Bargaining Agreement between the Postal Service and APWU, we are not making any recommendations.

Our blog on the U.S. Postal Service Office of Inspector General (OIG's) public website about the affect of the CPU closures received 14 public comments as of May 25, 2012. Of the 14 comments, we noted that nine were opposed to closing of the Market Place Center in Temple, TX. In addition, a small business owner raised concerns about incurring costs to change business letterhead, cards, and envelopes as a result of the required PO Box Service address change. The remaining five comments fell into these general categories: ¹⁹

- Concerns about union influences.
- Loss of convenience or service.
- Revenue loss for the Postal Service.
- Loss of jobs.
- Unexpected business expenses.

Management's Comments

Postal Service management agreed with the findings and other impact in the report. Management stated that, while they were unable to validate our revenue analysis, they agreed with the methodology. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

Although the report does not contain any recommendations, the OIG considers management's comments responsive. We agree management could not validate our revenue analysis because data was not available to determine an exact amount of revenue at risk associated with retail facility closures. However, we believe our revenue analysis is conservative and the range from about \$284,000 to \$1.4 million is an accurate representation of the potential annual revenue loss the Postal Service could realize by closing the 20 CPUs.

¹⁹ The categories represent the major concerns raised by each commenter. Additionally, most comments addressed multiple issues and areas of concern.

Appendix A: Additional Information

Background

Historically, brick and mortar POs were the main source of retail revenue for the Postal Service. However, in today's business environment, about 35 percent of retail revenue is generated from alternate access including; *usps.com*, self-serve kiosks (SSK), SoC, CPUs, and AS. CPUs are the retail alternative most similar to POs. They are operated and managed by independent retailers to provide a range of Postal Service products and services to customers at Postal Service prices.

The MOU to close the 20 CPUs was part of the Postal Service and APWU Collective Bargaining Agreement. The APWU selected five of the 20 CPUs identified in the MOU, and the Postal Service selected the remaining 15. Under the terms of the MOU, the Postal Service agreed to close or convert 20 full-service CPUs that solely provide Postal Service products and services and have PO Box Service to Postal Service operated facility staffed by Postal Service employees. On May 23, 2011, the Postal Service and APWU signed the Collective Bargaining Agreement.

Objective, Scope, and Methodology

Our announced objective reported in our April 9, 2012, audit fieldwork announcement letter was to evaluate the operational and customer impacts of closing the 20 CPUs. We refined our objective to review the impact of the closures on Postal Service's retail alternatives, financial position, and customer access. To accomplish our objective, we:

- Reviewed the MOU and contracts associated with each of the CPUs.
- Conducted interviews with Postal Service Headquarters Labor Relations and Channel Access managers and APWU representatives.
- Reviewed applicable policies, procedures, and regulations.
- Analyzed data from Postal Service systems.
- Reviewed news articles and public comments regarding the CPU closures.

We conducted this review from March through August 2012 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 June 29, 2012, and included their comments where appropriate.

We collected and relied upon computer generated data from the Postal Service's CPU Technology, Web Box Activity Tracking System, and the Financial Performance Report in the Accounting Data Mart. We assessed the reliability of computer generated data

from these systems by tracing financial and PO box data back to each original hard copy contract. We determined that the data were reliable for the purpose of this report.

Scope Limitation

During our review, we noted the Postal Service does not collect data to measure the impact a facility closure may have on the Postal Service's revenue. As a result, we were only able to estimate a potential annual net revenue loss range for the 20 closed CPUs. We will address this issue in a future retail optimization review.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this review.

Appendix B: Other Impact

Finding	Impact Category	Amount
CPU Operations	Net Revenue at Risk ²⁰	\$284,658

According to Postal Service guidance, there is a link between customer visits and revenue. As such, we believe there is a relationship between former PO Box Service Account customers and customer visits in nearby Postal Service operated facilities or CPUs. To estimate potential revenue loss, we computed the revenue at risk based on the 889 former customers who have converted to delivery options (703 customers) or closed (186 customers) their PO Box Service Accounts. We estimated that the potential annual net revenue loss could range from \$284,658 to \$1,423,289²¹ as a result of the 20 closed CPUs.

Former PO Box Service Account Customers	Number of PO Box Service Accounts	Percentage of PO Box Service Accounts	FY11 Net Revenue	Total Potential Net Revenue at Risk (B x C)
Relocated to nearby Postal Service facilities	901	36%	-	-
Status Unknown	724	29%	-	-
Converted to street delivery or box unit options.	703	28%	\$4,066,541	\$1,138,631
Closed their PO Box Service Accounts	186	7%	\$4,066,541	284,658
			Total	\$1,423,289

²⁰ Revenue that the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

²¹ For the OIG's *Semiannual Report to Congress*, we will report \$284,658.

Appendix C: Contract Postal Unit Customer Access Details

The number of POs, CPUs, SSK, AS, and SoC within 5 miles of the 20 CPU addresses.

CPU name	Within 1 Mile					From 1 to 3 Miles					From 3 to 5 Miles				
	PO	CPU	SSK	AS	SoC	PO	CPU	SSK	AS	SoC	PO	CPU	SSK	AS	SoC
A & L Management Company	2					25	1	1		21					
Alplaus Community	1					2		1		6	4				8
Altosano Contract CPU	1						3				1				
Audry Hardy											1			1	7
Better Letter	1	1	1		1	15	2	7		22					
Boscawen											2				
Callaway CPU										4	3				3
Cape Cottage						2	1	1		3	3	1	1		7
Central Commons						5		1		13	3	1	1		21
Chars Hallmark					3	2	1	1	2	21	3	2	2		11
Chubbuck Station					5	1				10	2		1		6
CPU #386	2				3	16		6		23					
Denmark											1				
Jake Alexander Boulevard CPU					4	1		1	1	13	3				1
Kemp						1									
Lake Buena Vista CPU					4	1		1		2		1		2	19
Market Place Center					1					5	2				2
North Robinson											1				2
Salona Station						2				2	2				1
The Mailroom					1	1		1		4		1			1
Total	7	1	1		22	74	8	21	3	149	31	6	5	3	89

Source: [usps.com/Find Locations](https://usps.com/FindLocations)

Appendix D: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS



August 7, 2012

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE
WASHINGTON, DC 20260

SUBJECT: Draft Management Advisory – Closure of Contract Postal Units
(Report Number CI-MA-12-DRAFT)

This letter is in response to Draft Management Advisory Report – Closure of Contract Postal Units (Report Number CI-MA-12-DRAFT) dated June XX, 2012.

Management agrees with the conclusion that no recommendation will be given. We have reviewed the OIG revenue analysis and, though we are unable to validate their analysis, we agree with the methodology.

Responsible Official

A handwritten signature in blue ink that reads "Kelly M. Sigmon".

Kelly M. Sigmon
Vice President, Channel Access

A handwritten date in blue ink that reads "8/7/2012".

Date

cc: Brian Code
Jamie Gallagher
Lori Dillard

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