November 2012

CONTRACT POSTAL UNITS

Analysis of Location, Service, and Financial Characteristics

G A O

Accountability ★ Integrity ★ Reliability

CONTRACT POSTAL UNITS

Analysis of Location, Service, and Financial Characteristics

Why GAO Did This Study

USPS's declining revenues have become insufficient to cover its costs. Its strategies to address losses include reducing hours of service at many post offices and expanding the use of post office alternatives, including CPUs. CPUs are independent businesses compensated by USPS to sell most of the same products and services as post offices at the same price. Although CPUs can provide important benefits, the number of CPUs has fallen from 5,290 in fiscal year 2002 to 3,619 in fiscal year 2011. As requested, this report discusses: (1) how CPUs supplement USPS's post office network, (2) USPS's revenue from CPUs and compensation to them from fiscal years 2007 to 2011, and (3) challenges USPS might face if it increases its use of CPUs. GAO analyzed USPS data on CPU locations, revenues, compensation, and hours of operation as well as on post office locations and hours of operation. GAO interviewed CPU owners and USPS staff in charge of managing CPUs.

What GAO Recommends

GAO previously recommended that USPS develop and implement a plan to modernize its retail network. GAO is not making any new recommendations at this time, but believes that it is important for USPS to consider the role of CPUs as USPS works to develop and implement its retail network plan and control costs. In commenting on a draft of this report, USPS provided information on its efforts to provide convenient access to its products and services.

View GAO-13-41. For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

What GAO Found

Although contract postal units (CPUs) have declined in number, their nationwide presence in urban and rural areas supplements the U.S. Postal Service's (USPS) network of post offices by providing additional locations and hours of service. More than 60 percent of CPUs are in urban areas where they can provide customers nearby alternatives for postal services when they face long lines at local post offices. Over one-half of CPUs are located less than 2 miles from the nearest post office. Urban CPUs are, on average, closer to post offices than rural CPUs. CPUs are also sometimes located in remote or fast-growing areas where post offices are not conveniently located or may not be cost effective. CPUs further supplement post offices by providing expanded hours of service. On average, CPUs are open 54 hours per week, compared to 41 hours for post offices. In addition, a greater proportion of CPUs than post offices are open after 6 p.m. and on Sundays. These factors are important as USPS considers expanding the use of post office alternatives to cut costs and maintain access to its products and services.

Total USPS revenues from CPUs fell from fiscal years 2007 to 2011, while USPS's compensation to them increased during this period; nonetheless, CPUs generated high revenues relative to USPS's compensation to CPUs. Declines in mail volumes and the number of CPUs drove revenues down 9 percent, from $672 million to $611 million from fiscal years 2007 to 2011. USPS total compensation to CPUs increased 6 percent during this period, from $76 million to $80 million; however, after increasing from fiscal year 2007 to 2008, compensation decreased every fiscal year from 2008 to 2011. According to USPS officials, the overall increase was because of increased compensation to individual CPUs and decreasing numbers of less expensive CPUs. In fiscal year 2011, after compensating CPUs, USPS retained 87 cents of every dollar of CPU revenue. USPS has a target to retain 80 cents for every dollar in revenue for individual CPUs. USPS did not meet this target at many individual CPUs— especially ones in rural areas. In fact, 49 percent of CPUs that USPS compensates a fixed amount regardless of their sales in small-town rural areas— where CPUs may serve as the de facto post office—generated less postal revenue than the CPUs received in compensation from USPS. CPU revenues and compensation are important factors as USPS seeks a more sustainable cost structure.

Limited interest from potential partners, competing demands on USPS staff resources, and changes to USPS's retail network may pose challenges to USPS's use of CPUs. USPS has no current plans to strategically increase the number of CPUs as part of its retail network transformation. However, a number of district USPS staff charged with identifying the need for CPUs told us they see a larger role for CPUs. Nevertheless, USPS may face limited interest from potential partners as many may not want to operate CPUs because of concerns over CPU contract requirements such as space requirements and prohibitions on selling products and services that compete with USPS. Many USPS district retail managers we spoke with in charge of opening CPUs said that finding partners to operate CPUs could be difficult. Furthermore, many of these managers said that they now have fewer staff and less time and, as a result, do not have the resources to manage opening CPUs to meet the need they have identified.

_____ **United States Government Accountability Office**

Contents

Abbreviations

CAMS Contract Authoring Management System
CPU contract postal unit
CPUT contract postal unit technology
FDB facilities database
RUCA Rural-Urban Commuting Area
USPS   U.S. Postal Service

November 14, 2012

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
House of Representatives

Dear Mr. Chairman:

The U.S. Postal Service's (USPS) cost structure has become unsustainable in part because its declining revenue is insufficient to cover the costs of operating USPS's vast network of post offices and mail-processing centers. USPS reached its statutory $15 billion borrowing limit in September, 2012,[1] and USPS's cash resources are so low that it is unable to meet all of its retiree health care prefunding obligations.[2] To reverse this course, USPS has stated that it must better align its operational network with the realities of declining mail volume through a number of actions, including reducing the costs of operating post offices.[3] Over the past year, GAO has issued a series of reports examining how aspects of USPS's current operations and financial obligations affect its costs and financial condition.[4] This report addresses USPS's use of contract postal units (CPUs)—independent retailers that, under contract with USPS, provide customers with a broad range of the same products and services as post offices at the same prices, but at a potentially lower

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[1]USPS is authorized to borrow $3 billion annually and a maximum of $15 billion. 39 U.S.C. § 2005(a).

[2]Originally due at the end of fiscal year 2011, USPS's $5.5 billion prefunding payment to the Postal Service Retiree Health Benefit Fund was delayed until August 1, 2012. Pub. L. No. 112-74 (Dec. 23, 2011). However, USPS missed that payment as well as the $5.6 billion prefunding payment that was due by September 30, 2012.

[3]See United States Postal Service, *Plan to Profitability: 5 Year Business Plan*, (Feb. 16, 2012).

[4]See GAO, *U.S. Postal Service: Field Offices' Role in Cost-Reduction and Revenue-Generation Efforts*, GAO-12-506, (Washington, D.C.: Apr. 25, 2012); GAO, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, GAO-12-433 (Washington, D.C.: Apr. 17, 2012); GAO, *U.S. Postal Service: Mail Processing network Exceeds What is Needed for Declining Mail Volume*, GAO-12-470 (Washington, D.C.: Apr. 12, 2012); and GAO, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government,* GAO-12-146 (Washington, D.C.: Oct. 13, 2011).

cost to USPS. CPUs are one component of USPS's broader efforts to expand access to USPS products and services outside of traditional post offices.

USPS has reported that many of its roughly 32,000 post offices[5] do not generate sufficient revenue to cover their costs. To better control retail costs, USPS has examined expanding retail access to postal services in locations other than post offices, including CPUs.[6] Our past work has shown that replacing postal-owned and -operated facilities with privately owned and operated facilities is a strategy some foreign posts have used to restructure their retail networks to reduce facility and labor costs.[7] Despite these potential benefits, the number of CPUs in the United States has declined, from 5,290 in 2002 to 3,619 in 2011. In a recent effort to reduce costs, USPS announced plans in May 2012 to reduce the hours of service to as little as 2 hours a day at over 13,000 underutilized post offices. USPS estimates potential savings of $500 million a year from these reduced hours. Given the potential for service reductions at post offices, expanding access through retail alternatives such as CPUs takes on increased relevance.

The role of CPUs is also addressed in postal reform legislation pending in both chambers of Congress. A bill passed in the Senate would require USPS to consider CPUs as a replacement for post offices as it makes post office closure decisions.[8] A bill passed by the House of Representatives Committee on Oversight and Government Reform would

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[5]USPS retail facilities include post offices, stations, and branches. While they have different classification meanings to USPS, they are all brick-and-mortar retail locations operated by USPS where customers can access postal products and services by conducting transactions with a USPS window clerk. In this report, we refer to these traditional places of access to USPS retail products and service simply as post offices. USPS also operates facilities known as carrier annexes that have delivery, but not retail, operations.

[6]USPS, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* (Washington, D.C.: March 2010).

[7]GAO, *U.S. Postal Service: Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize,* GAO-11-282 (Washington, D.C.: Feb. 16, 2011)

[8]21st Century Postal Service Act of 2011, S. 1789, 112th Cong. (2011).

prohibit appeals of certain post office closures when a CPU is located within 2 miles.[9]

Given the retail service decisions facing USPS and the potential USPS reforms that Congress is considering, you asked us to provide you with information on CPUs. This report describes:

1. how CPUs supplement USPS's post office network,

2. USPS revenue from CPUs and compensation to them from fiscal years 2007 to 2011, and

3. challenges USPS might face if it increases its use of CPUs.

To answer these objectives, we reviewed relevant laws and USPS documents related to CPUs. We analyzed data from fiscal years 2007 to 2011 on CPU locations, dates of CPU closures, and CPU revenues and USPS compensation to CPUs. This data comes from USPS's contract postal unit technology (CPUT) database. We analyzed data from USPS's Contract Authoring Management System (CAMS) on dates of CPU openings from fiscal years 2007 to 2011.[10] We classified CPU locations as urban, suburban, large-town rural, or small-town rural based on Rural-Urban Commuting Area codes.[11] We used data on post office locations from USPS's facilities database (FDB) to determine CPU locations relative to post offices. We also analyzed FDB data on CPU and post office hours of service. We interviewed USPS officials and reviewed documentation regarding the procedures and controls used to ensure the reliability of data contained in CPUT, FDB, and CAMS and determined that they were sufficiently reliable for our purposes.[12] In addition, we

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[9]Postal Reform Act of 2011, H.R. 2309, 112th Cong. (2011).

[10]We used data on CPU contract start dates. According to USPS officials, there is usually a 4 to 6 month lag between the start of soliciting for a new CPU and the CPU's opening date. We determined CPU contract start dates to be a reasonable approximation for CPU openings.

[11]The Rural-Urban Commuting Area (RUCA) codes developed by the Department of Agriculture's Economic Research Service are based on patterns of urbanization, population density, and daily commuting patterns. For more information on RUCAs, see http://*www.ers.usda.gov/data-products/rural-urban-commuting-area-codes.aspx*.

[12]However, as noted in our report, we found some inconsistencies between the number of CPU records in CPUT and FDB, as well as some duplicate records in CPUT. We do not believe that these problems affected the reliability of the data for our intended purposes.

interviewed CPU operators at 10 CPUs in the Chicago, Illinois; Dallas-Fort Worth, Texas; Southern California; and Washington, D.C., regions. We selected CPUs to achieve diversity in the location type, the type of CPU contract, and the level of revenues. We also interviewed USPS officials in headquarters who manage the CPU program and staff in USPS districts responsible for managing the CPUs that we visited. See appendix I for a more detailed description of our scope and methodology.

We conducted this performance audit from January 2012 to November 2012 in accordance with generally accepted government auditing standards. 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.

Background

USPS has a universal service obligation, part of which requires it to provide access to retail services.[13] It is required to serve the public and provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.[14] USPS is intended to be a financially self-sufficient entity that covers its expenses almost entirely through postal revenues.[15] USPS receives virtually no annual appropriations[16] but instead generates revenue through selling postage and other postal products and services.

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[13]39 U.S.C. § 101(a).

[14]39 U.S.C. § 101(b). In addition, no small post office shall be closed solely for operating at a deficit, §101(b), and USPS's annual appropriations acts has provided that none of the appropriated funds provided by the act may be used to consolidate or close small rural and other small post offices.

[15]The Postal Reorganization Act of 1970 stated that "[p]ostal rates and fees shall provide sufficient revenue so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." Pub. L. No. 91-375, 84 Stat. 760 (Aug. 12, 1970) (formerly U.S.C. 39 § 3621). *See also*, *Payments on Unfunded Liability by the U.S. Postal Service to Civil Service Retirement Fund: Hearing Before the Committee on Post Office and Civil Service, United States Senate, on H.R. 29*, 93rd Cong. 73-74 (statement by Post Office and Civil Service Committee Chairman Gale McGee).

[16]USPS does receive an annual appropriation for revenue foregone on free and reduced rate mail.

Retail alternatives are increasingly important to USPS; revenues from all retail alternatives—including self-service kiosks in post offices, USPS's website, and CPUs, among others—increased by about $1.6 billion from fiscal years 2007 to 2011 while post office revenues decreased by $3 billion. (See fig. 1.) During this same period, USPS's share of total retail revenues from all retail alternatives increased from about 24 percent to 35 percent. USPS projects that by 2020, retail alternatives will account for 60 percent of its retail revenues. Given this growing importance and USPS's planned-retail-network restructuring, we recommended in November 2011 that USPS implement a strategy to guide efforts to modernize its retail network that addresses both post offices and retail alternatives.[17]

According to USPS officials, USPS is currently in the process of finalizing its retail strategy.

Figure 1: USPS Retail and Retail Alternatives' Revenues, Fiscal Years 2007 to 2011
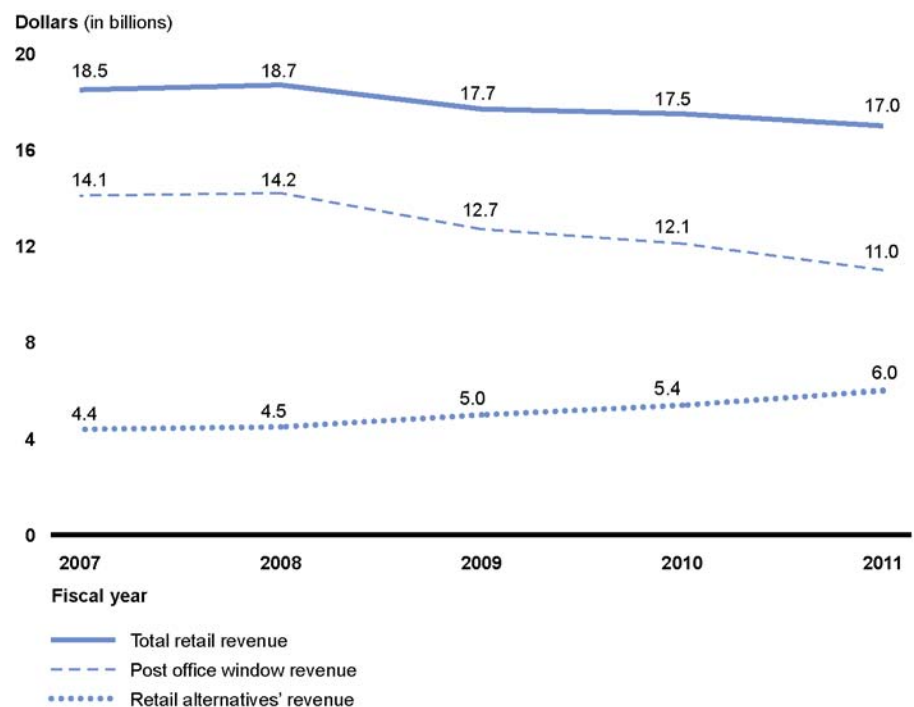
Source: GAO analysis of USPS data.

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[17]GAO, *U.S. Postal Service: Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices,* GAO-12-100, (Washington, D.C.: November 2011).

The retail alternatives most similar to post offices are CPUs. They are privately owned, operated, and staffed and are usually colocated with a primary business, such as a convenience store or supermarket. They provide most of the same products and services as post offices (see fig. 2) at the same prices.[18]

Figure 2: Products and Services Available at Post Offices and CPUs

	Stamps	Domestic mailing and shipping	International mailing and shipping	Money orders	Passports
Post offices	●	●	●	●	◐
CPUs	●	●	◐	◐	○

● Product/service is available

◐ Product/service may be available at some locations, but not others

○ Product/service is not available

Source: GAO analysis of USPS data.

CPUs typically have a counter with prominently displayed official USPS signage, provided by USPS, giving the CPU the look of a post office. (See fig. 3.)

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[18]Other USPS retail alternatives, however, do not necessarily sell postal products and services at the same prices as post offices. For example, USPS does not place any restrictions on what Approved Shippers—retailers that offer shipping services from multiple providers including USPS—are allowed to charge for USPS products and services.

Figure 3: CPU Window in a Dallas, Texas, Medical Center

Source: GAO.

According to USPS, CPUs offer potential service and financial benefits, and, as we have previously reported, some foreign posts have successfully used private partnerships similar to CPUs to realize such benefits.[19] CPUs can enhance service by being located closer to customers' homes and workplaces and operating at hours when post offices may not be open. They can alleviate long lines at existing post offices and provide postal services to areas with rapid population growth

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[19]GAO-11-282.

or where opening new post offices may be cost prohibitive.[20] Regarding financial benefits, USPS has reported that the costs it incurs for CPUs are less than those it incurs for post offices, relative to revenue earned. USPS estimated that in fiscal year 2011, it incurred $0.17 in costs for each dollar of revenue at CPUs and $0.51 in costs for each dollar of revenue at post offices.[21] Costs are lower, in part because CPU operators, and not USPS, are responsible for their operating costs, such as rent, utilities, and wages for their employees.

CPUs provide all their revenues from postal products and services to USPS, and USPS compensates CPUs for providing postal services under the terms of their contracts. The amount of compensation USPS pays to a CPU operator depends in large part on the type of contract the CPU operates under. Currently there are two basic types of contracts:

- fixed-price, under which USPS compensates the CPU a contractually determined amount regardless of sales, and
- performance-based, under which USPS compensates the CPU a contractually determined percentage of sales.

USPS's compensation to CPUs—either the amount under a fixed-price contract or the percentage under a performance-based contract—is specific for each CPU contract and the result of negotiation between USPS and the CPU operator. CPU hours of service are also negotiated for each contract, although USPS guidance on CPUs, in line with USPS's goal for CPUs to provide increased access and convenience, states that their days and hours of service should exceed those at post offices. Other terms and conditions are standardized in all contracts. For example, all CPUs are required to offer the same basic set of products and services such as stamps, Priority Mail, Express Mail, and Certified Mail.[22] In addition, all CPUs are contractually prohibited from selling services,

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[20]When considering placement of a new CPU, USPS assesses the needs of an area to determine the demand for and viability of a potential CPU. Some factors that USPS uses in this assessment include projected growth in an area and feedback from customers suggesting that access to services should be expanded.

[21]According to USPS, cost per revenue dollar of post offices is not a perfect comparison to cost per revenue dollar for CPUs, because it does not reflect certain other costs associated with CPUs such as the costs of package pick-up by postal carriers.

[22]There are a limited number of products and services—such as post office boxes and global express guaranteed service—not available at all CPUs.

including private mailboxes and others, that are competitive with USPS's products,[23] and all CPU contracts specify USPS's rights to inspect the CPU at any time during operating hours. CPU contracts are valid for an indefinite period, but CPU contracts specify that the CPU operator or USPS can terminate a contract and close the CPU at any time with 120 days notice.[24]

USPS management and oversight of CPUs, including identifying and justifying the need for new CPUs, is done at the district[25] and local levels. Staff at the district and local levels oversee day-to-day operations of CPUs and identify the need for new CPUs. When a district identifies the need for a new CPU, it approaches local businesses in the targeted area as potential partners and engages in a competitive application process.[26]

USPS has other partnerships with private entities to provide retail postal services, similar to CPUs. USPS launched a retail partnership called the Village Post Office in July 2011 in which existing small businesses provide a limited range of postal products and services in small communities where underutilized yet costly post offices may close, be consolidated with another nearby post office, or have their hours of service reduced.[27] In addition, USPS is in the early stages of planning for partnerships with national and regional retailers to provide postal services. These partnerships differ from CPUs in that they will not be subject to the same prohibitions as CPUs on selling competing services, and with them, USPS is attempting to expand access at a national or regional level as opposed to addressing specific local needs as CPUs do.

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[23]Some CPUs that predate this requirement sell such services even though new CPU contracts forbid them.

[24]This is the case with all contracts that USPS now enters into. Some older contracts may allow for less than 120 days notice.

[25]District offices are responsible for overseeing post offices and other facilities in their districts. There are currently 67 USPS district offices. District offices report to USPS's seven area offices, which report to headquarters.

[26]In rare cases, such as when there is a strong documented need for a CPU and limited potential partners, USPS may enter into a noncompetitive solicitation for a new CPU.

[27]Village Post Offices sell a more limited range of USPS products and services than CPUs do. Local USPS staff solicit a local business for a Village Post Office opportunity and a USPS contracting officer agrees to enter into a contract if they believe that the terms and conditions of that Village Post Office present a best value to USPS.

USPS plans to launch these partnerships in test markets in early 2013 and will evaluate the effectiveness of these partnerships before making decisions whether to expand the program.

USPS Uses CPUs to Provide Retail Services at Additional Locations and Hours

Although total number of CPUs has decreased in recent years, USPS continues to use CPUs to provide customers with access to postal services at additional locations and for more hours of service. CPUs are located in a variety of locations, both urban and rural, and range from very close to far from post offices, demonstrating how USPS uses CPUs to provide customers with alternatives located near crowded post offices—which are often found in urban areas— and to provide service where post offices are not conveniently located or may not be cost effective for USPS, often in rural areas. In addition, CPUs allow USPS to provide customer access at times often beyond the hours of service at post offices.

Decrease in Number of CPUs

According to USPS data, the number of CPUs fell from 5,290 in 2002 to 3,619 in 2011. During the past 5 fiscal years, USPS has opened new CPUs, but a higher number of CPUs have closed. (See table 1.) According to USPS headquarters officials who manage the CPU program, economic conditions forced many businesses that operated CPUs to close and declining mail volume and sales of postal products have been the primary factors behind the decrease in the number of CPUs. Although USPS does not track specific reasons for CPU closures in its contract postal unit technology (CPUT) database, retail managers in eight USPS districts that we met with cited specific local issues resulting in CPU closures, including the following:

- The CPU operator retired or otherwise stopped working. For example, an Indiana CPU operator closed his primary business and moved out of the area.
- The CPU operator moved the primary business to a new location and did not retain the CPU. For example, the operator of a CPU in Texas moved his primary business across the street, but the new space was too small to host a CPU.
- The CPU operator sold the primary business. For example, a California CPU operator sold his self-storage business, and the new operators were not interested in maintaining the CPU.
- The CPU operator chose to close for financial considerations. For example, a CPU operator in Virginia closed the CPU because he felt it did not help his primary business.

- USPS initiated the closure because the CPU failed to meet the terms of the contract or USPS determined that the CPU was not cost effective. For example, USPS determined that a Maryland CPU that operated out of a private residence no longer brought in enough revenue to justify USPS's compensation to the CPU, so USPS closed the CPU.

Table 1: New and Closed CPUs, Fiscal Years 2007 to 2011

	2007	2008	2009	2010	2011
New CPUs[a]	283	308	154	139	101
Closed CPUs	415	374	399	282	202

Source: GAO analysis of USPS data.

[a]We identified "new" CPUs using USPS data on the dates CPU contracts. According to USPS officials, there is, on average, about a 4 to 6 month time lag from when USPS initiates a CPU solicitation to when a CPU opens for business. We determined that the data on contract start dates provided an approximate estimation of when CPUs opened.

CPUs Are Concentrated in Urban Areas and Close to Post Offices

Consistent with USPS's goal to use CPUs to absorb excess demand at post offices, our analysis of the distance between CPUs and post offices shows that more than 56 percent of CPUs are less than 2 miles from the nearest post office and 26 percent are less than 1 mile. (See table 2.) For example, USPS opened a CPU in Frederick, Maryland, to better meet demand and reduce customer wait times in lines at the local post office about one-half mile away. Conversely, about 14 percent of CPUs are located 5 miles or more from the nearest post office, showing how CPUs can be used to provide services where post offices are not conveniently located, such as a CPU in rural Vigo Park, Texas, that is located 16 miles from the nearest post office. Similarly, USPS opened a CPU in Aubrey, Texas, located about 5 miles from the nearest post office, in order to serve customers in a fast growing area.

Table 2: Distribution of CPUs by Distance to Closest Post Office, as of March 30, 2012

Distance to nearest post office (in miles)	Percentage of CPUs
10 or more	4
5 to <10	10
3 to <5	13
2 to <3	17
1 to <2	30
Less than 1	26

Source: GAO analysis of USPS data.

Note: This analysis uses straight-line calculation of distances between two points resulting in actual driving distances that could be longer.

Consistent with the majority of CPUs' being within 2 miles of a post office, CPUs are also more likely to be in urban than rural areas, and recent CPU openings further demonstrate this pattern. As shown in figure 4, more than 60 percent of CPUs active as of March 30, 2012, were in urban areas, as defined by the Rural-Urban Commuting Area codes we used for this analysis.[28] This pattern is consistent with USPS's intention to use CPUs to reduce the time customers have to wait in line at a post office, more often in urban areas. Furthermore, more than three-fourths of new CPUs in fiscal year 2011 were in urban locations. This suggests that CPUs may be most viable in urban areas with higher populations and customer traffic. Our analysis shows that CPUs are rarer in suburban, large-town rural, and small-town rural locations.

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[28]We used the Rural-Urban Commuting Area (RUCA) codes developed by the Department of Agriculture's Economic Research Service to classify CPU locations as urban, suburban, large-town rural, and small-town rural. RUCA classifications are based on patterns of urbanization, population density, and daily commuting patterns. For more information on RUCAs, see http://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes.aspx.

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Figure 4: Percentage of CPUs by Location Type, as of March 30, 2012

Percentage of active CPUs
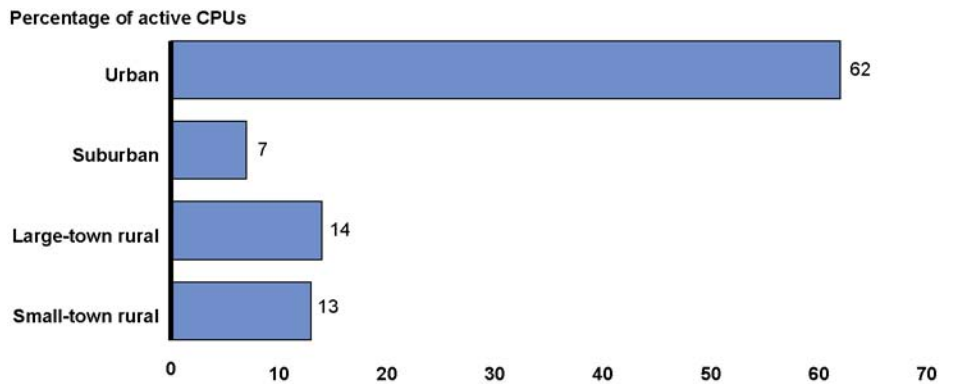
Source: GAO analysis of USPS data and RUCA codes.

Note: Because of data limitations, we could not determine the location types for 138 CPUs. As a result, the percentages in the figure do not sum to 100.

When considering both CPU location type and distance from the nearest post office, on average, urban CPUs are located closer to post offices than rural CPUs. (See fig. 5.) This is consistent with USPS's use of CPUs in urban areas to alleviate crowds at existing post offices and in rural areas to provide access where post offices are not conveniently located and may be cost prohibitive to operate.

Figure 5: Average Distance from CPU to Closest Post Office by Location Type, as of March 30, 2012
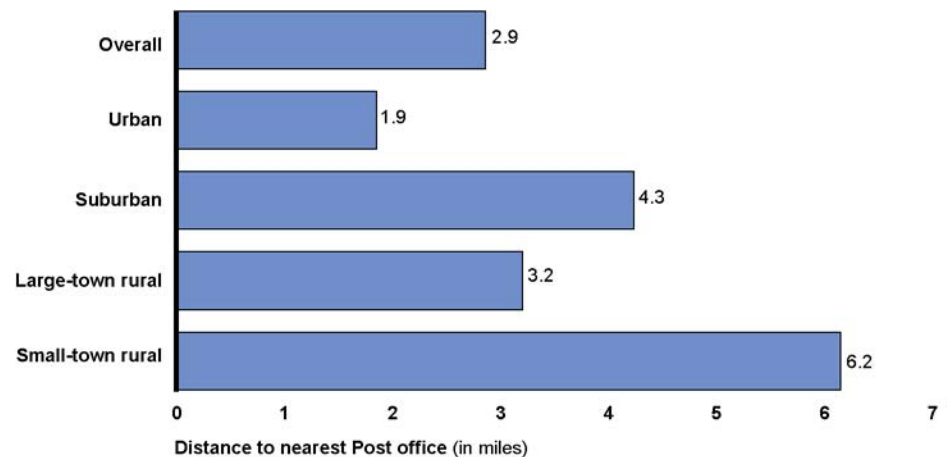
Source: GAO analysis of USPS data.

Note: Distances are straight-line calculations between two points. Driving distances could be longer. We were unable to determine location type for 138 CPUs and, as a result, they were not included in this analysis.

The relatively limited number of CPUs in rural areas could limit access to postal services for rural customers as USPS also reduces hours at underutilized post offices. As mentioned earlier, to reduce expenses, USPS is planning to reduce the hours of service at more than 13,000 underutilized post offices—which are primarily in rural areas. However, as stated by USPS officials and as shown in table 3, almost 80 percent of these post offices are at least 10 miles from the nearest CPU. As a result, existing CPUs may not provide alternate access to customers of these post offices.

Table 3: Distribution of Post Offices Being Considered for Reduced Hours of Service by Distance to Closest CPU, as of March 30, 2012

Distance to closest CPU (in miles)	Percentage of post offices being considered for hours-of-service reduction
10 or more	79
5 to <10	16
3 to <5	3
2 to <3	1
Less than 2	1

Source: GAO analysis of USPS data.

Note: Distances are straight-line calculations between two points. Driving distances could be longer. This data includes the 13,000 post offices at which USPS is planning to reduce hours of service.

Changes that USPS makes to its CPU program, such as any that may arise out of its retail network restructuring, could affect certain states more than others. Although CPUs are in all 50 states, the District of Columbia, and 4 territories, they are concentrated in certain parts of the country, as shown in figure 6.[29] Some states rely more on CPUs for providing access to USPS's products and services than others. USPS has opened many CPUs in states like Arizona, where the existing post office network may not be adequate to meet rapid population growth and where opening new post offices would be cost prohibitive. As a result, there are 141 CPUs in Arizona and 276 post offices. By contrast, states with limited population growth and a large existing network of post offices are generally less reliant on CPUs. For example, Pennsylvania has 90 CPUs supplementing its 1,786 post offices. Appendix II provides data on the number of CPUs and post offices in each state.

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[29]Based on CPUs that were active on March 30, 2012.

Figure 6: CPU Locations, as of March 30, 2012
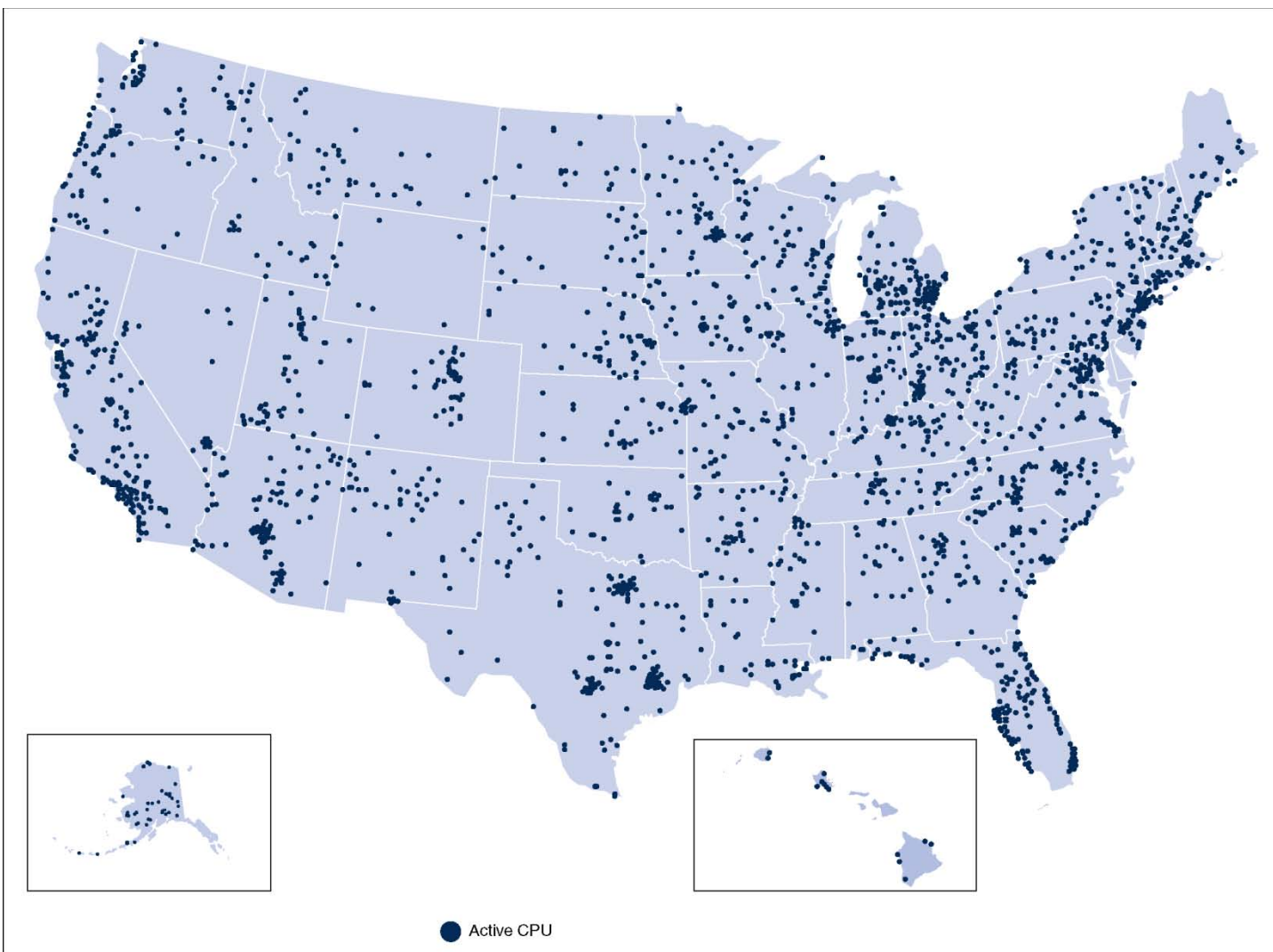
Source: GAO analysis of USPS data, Map, Map Resources (presentation).

CPUs Provide, on Average, More Hours of Service than Post Offices Do

CPUs currently provide more hours of service, on average, than post offices do, consistent with USPS's goal for CPUs to expand access to postal services. On average, CPUs operate more hours per day and per week than post offices and more are open at night and on Sundays. (See table 4.) However, slightly fewer CPUs are open on Saturdays than post offices.

Table 4: Hours and Days of Service for CPUs and Post Offices

	CPUs[a]	Post offices
Average hours of service per week	54	41
Average hours of service per weekday	9.1	7.7
Average hours of service on Saturdays[b]	7.6	3.4
Average hours of service on Sundays[b]	12.5	12.1
Open on Sundays	22.3%	1.7%
Open on Saturdays	76%	83%
Open after 6 pm	29%	4%
Open 24 hours a day	1%	0.1%

Source: GAO analysis of USPS data.

Note: For the purposes of this analysis, hours of service are those during which a post office's or CPU's windows or counters are open to customers. This analysis includes 25,660 post offices with window hours as listed in USPS's facility database (FDB) on June 27, 2012.

[a]We found that USPS's facilities database, which tracks hours of service for both CPUs and post offices, included hours of service data for 3,328 CPUs as of June 7, 2012. However, our analysis of USPS's contract postal unit technology database (CPUT), which USPS uses to track data on CPU locations and finances, indicated that there were 3,542 CPUs as of March 30, 2012. According to USPS officials, this difference is because field staff responsible for entering CPU data into FDB do not always do so. However, officials added that USPS is planning to request in early fiscal year 2013 that all relevant staff review FDB records to ensure completeness of CPUs and input any CPUs not already in FDB.

[b]Average only includes those CPUs or post offices open on those days. While about 3 percent of CPUs open on Sundays are open for 24 hours, about 5 percent of post offices open on Sundays are open for 24 hours, according to FDB.

Trends in CPU Contract Types, Revenues, and Compensation

Use of the Performance-Based Contract Type Increased

In recent years, USPS has intentionally shifted its means of compensating CPUs from fixed-price contracts—in which compensation to CPUs is a fixed amount regardless of sales—to performance-based contracts—under which compensation to CPUs is a percentage of the CPU's postal sales—resulting in potentially greater revenue and less financial exposure to USPS. (See fig. 7.) According to USPS officials, since 2002, USPS has entered into performance-based contracts for most new CPUs and has converted many fixed-price contracts to performance-based. The purpose of the shift is to incentivize CPU operators to market postal products and services to increase postal

revenues. CPUs with fixed-price contracts have limited incentive to sell more postal products, since their compensation is the same regardless of their sales. Furthermore, since USPS compensates CPUs with performance-based contracts a percentage of the CPU's sales, USPS does not compensate these CPUs more than it receives in revenues, a situation that can happen with CPUs with fixed-price contracts.

Figure 7: Number of CPUs by Contract Type, 2002 and 2011
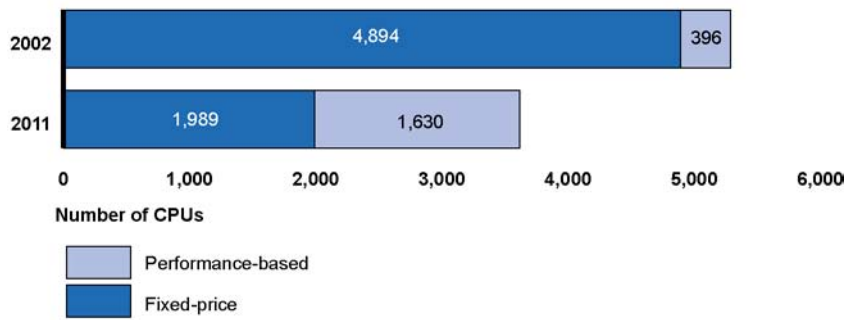
Source: GAO analysis of USPS data.

USPS Revenues from CPUs Decreased from Fiscal Years 2007 to 2011

The total revenues USPS received from sales of postal products and services at CPUs[30] declined about 9 percent from $672 million in fiscal year 2007 to $611 million in fiscal year 2011, as shown in figure 8. However, as mentioned earlier, USPS's revenues from post offices declined about 22 percent during this period. The decline in CPU revenues is part because of the decrease in the number of CPUs, as average CPU revenues decreased only 2 percent during this time. The downward trend in mail volume was also a factor, according to USPS officials. Several CPUs we visited experienced declining sales in recent years. For example, a CPU in Cedar Lake, Indiana, saw CPU revenues decline 17 percent from fiscal year 2007 to 2011. Several USPS district retail managers cited CPUs that closed because of low sales. For example, a CPU in Texas closed because neither the CPU nor the primary business generated sufficient revenue for the operator to stay in business. Our analysis of USPS data found that CPUs with lower than

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[30]As mentioned earlier, CPUs provide all revenues from their postal sales to USPS. USPS, in turn, provides compensation to the CPU as dictated by the terms of that CPU's contract.

average revenues were more likely to close than were those with higher revenues. On average, CPUs that closed from fiscal years 2008 to 2011 generated roughly 26 percent less revenue on average in the year prior to closure than the average CPU revenue for that year.

Figure 8: Total USPS Revenues from CPUs, Fiscal Years 2007 to 2011

Total CPU revenue (in millions)
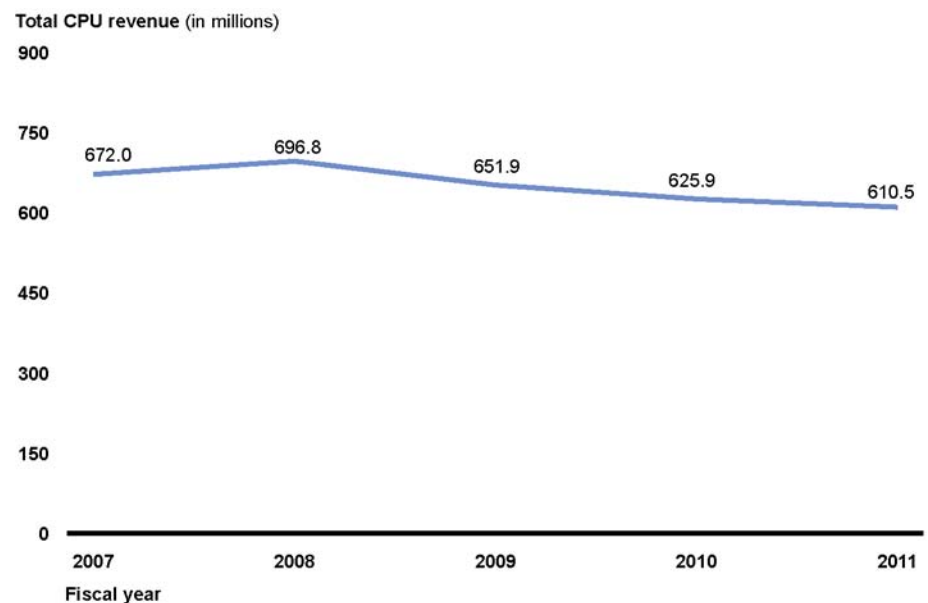
Source: GAO analysis of USPS data.

Individual CPU revenues vary widely, as shown in figure 9. On average, USPS's revenue from individual CPUs averaged about $160,000 in revenue in fiscal year 2011, but a substantial number (41 percent) generated less than $50,000. Moreover, low revenue CPUs are more likely to be located in rural areas where population is sparse and demand for services is lower; 22 percent of small-town rural and large-town rural CPUs had revenues under $5,000 in fiscal year 2011. High-revenue CPUs—such as the 7 percent that earned $500,000 or more in fiscal year 2011—are mostly located in urban areas where demand is likely higher and post offices are more likely to have long wait times. For instance, we visited one CPU in downtown Los Angeles with $1.8 million in revenues in fiscal year 2011. The ability to generate high revenues at this CPU led it

to increase capacity by adding postal windows to keep pace with demand.[31]

Figure 9: Distribution of CPU Revenues, Fiscal Year 2011
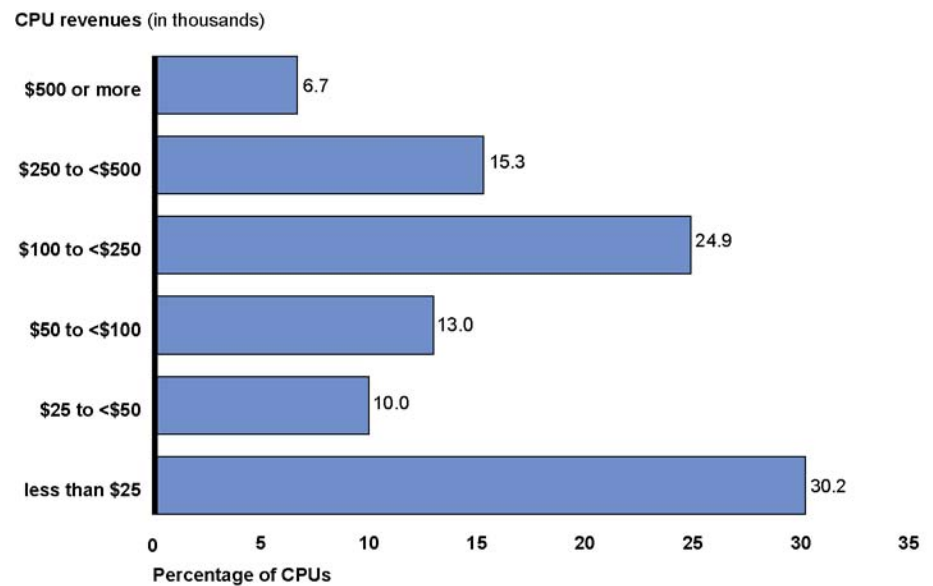
CPU revenues (in thousands)

Revenue range	Percentage of CPUs
$500 or more	6.7
$250 to <$500	15.3
$100 to <$250	24.9
$50 to <$100	13.0
$25 to <$50	10.0
less than $25	30.2

Percentage of CPUs

Source: GAO analysis of USPS data.

Note: This data includes all CPUs that reported any financial data for any part of the fiscal year.

[31]The CPU started with one service window as a supplement to the owner's primary business, an independent cellular phone store in a downtown area strip mall with free parking. According to the CPU operator, the postal business grew so much that the operator and USPS agreed to add windows to increase capacity, crowding out the operator's primary business. The CPU is now a standalone CPU with three windows and, according to the operator, USPS dedicates a large truck to picking up this one CPU's mail and packages each day.

USPS Compensation to CPUs Increased from Fiscal Years 2007 To 2011

USPS compensation to CPUs increased about 6 percent from $75.4 million in fiscal year 2007 to $79.9 million in fiscal year 2011.[32] However, USPS compensation to CPUs has decreased every fiscal year from 2008 to 2011. (See fig. 10). According to USPS officials, the increase in compensation from fiscal years 2007 and 2008 was because of larger numbers of performance-based contracts, fewer public service contracts, which are generally less expensive, individual CPUs' petitions for increased compensation because of increased cost of doing business, and economic conditions. The subsequent decline in USPS compensation to CPUs from fiscal years 2008 to 2011 was because of declining numbers of CPUs during the time.

Figure 10: Total USPS Compensation to CPUs, Fiscal Years 2007 to 2011
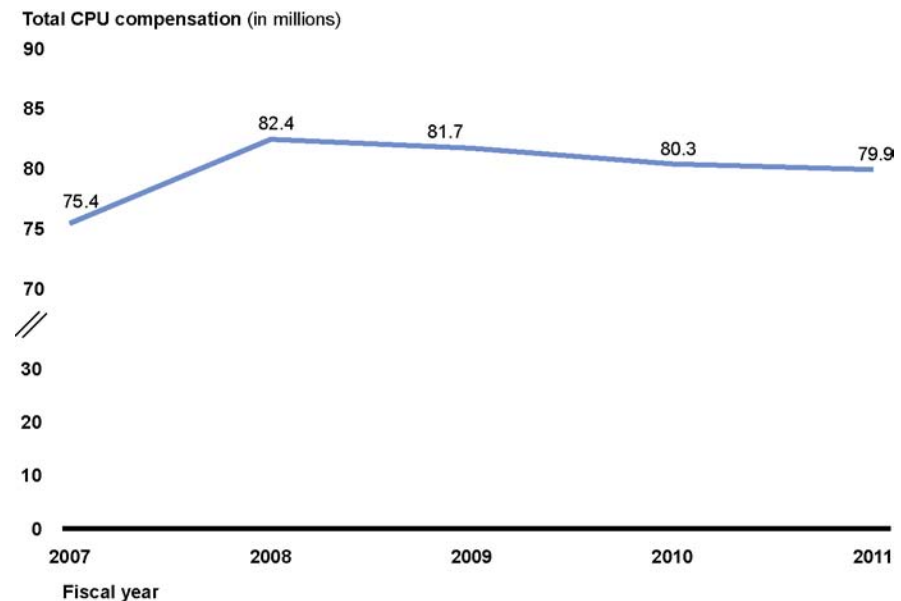
Source: GAO analysis of USPS data.

As with CPU revenues, USPS compensation to individual CPUs varies widely. (See fig. 11.) For example, 326 CPUs received no more than

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[32]In addition to compensating CPUs, USPS incurs other expenses for managing the CPU program. According to USPS, other CPU expenses such as CPU oversight and management and the costs of providing the contract access retail system—a device that weighs mail and reports transactions to USPS—for certain CPUs totaled about $9.5 million in fiscal year 2011.

$100 in annual compensation in fiscal year 2011. On the other hand, that same year, 55 high-revenue CPUs with performance-based contracts received over $100,000 in compensation. In fiscal year 2011, USPS compensated CPUs an average of about $21,000, but compensated more than a quarter of CPUs less than $5,000.

Figure 11: Distribution of USPS Compensation to CPUs, Fiscal Year 2011
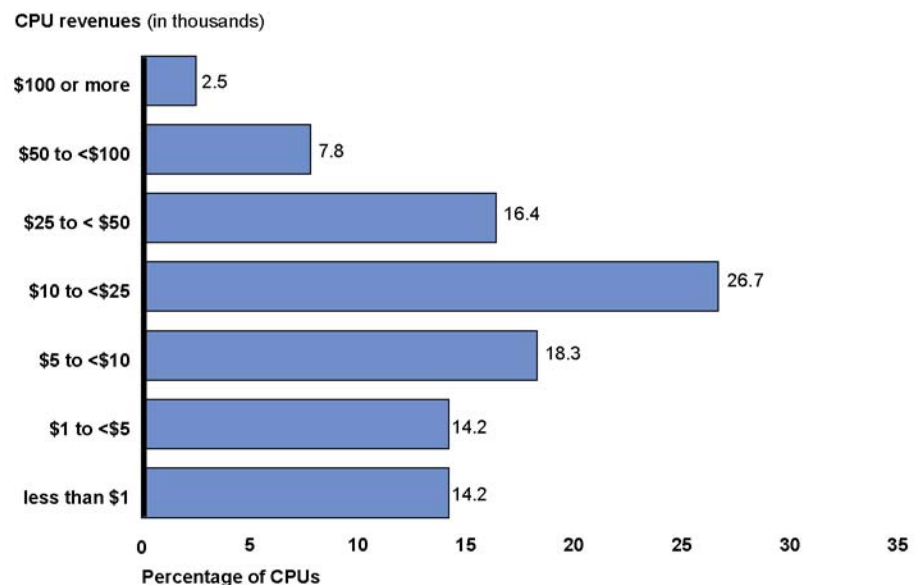
CPU revenues (in thousands)

CPU revenues	Percentage of CPUs
$100 or more	2.5
$50 to <$100	7.8
$25 to < $50	16.4
$10 to <$25	26.7
$5 to <$10	18.3
$1 to <$5	14.2
less than $1	14.2

Percentage of CPUs

Source: GAO analysis of USPS data.

Note: This data includes all CPUs that reported any financial data for any part of the fiscal year.

After Compensating CPUs, USPS Retains Most CPU Revenues

As USPS undertakes actions to achieve a sustainable cost structure, it will be important to understand the implications of CPUs for USPS's costs and revenues. Currently, USPS retains most of the revenues generated by CPUs, its major expense being compensation payments to CPU operators. As we described previously, in fiscal year 2011, USPS earned a total of $610.5 million in revenues from CPUs and, in return, compensated CPUs a total of $79.9 million, allowing USPS to retain $530.6 million in CPU revenues.[33] Measured in another way, after

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[33]USPS incurred about $9.5 million of other expenses in managing the CPU program in fiscal year 2011.

compensating CPUs, USPS retained $0.87 of every dollar of CPU revenues.[34]

However, for individual CPUs, the amount of revenues USPS retains after compensating the CPU varies significantly. USPS's target for individual CPUs is to retain, after compensation, $0.80 for every dollar in revenues.[35] In fiscal year 2011, USPS did not meet that target for 55 percent of the roughly half of CPUs that have fixed-price contracts. (See fig. 12.) Moreover, for 23 percent of CPUs with fixed-price contracts in fiscal year 2011, USPS did not retain any revenues as it compensated the CPU an amount greater than the revenue USPS received from the CPU. Most of these CPUs were in rural areas. Forty-nine percent of small-town rural CPUs with fixed-price contracts generated less revenue for USPS than the compensation USPS provided in fiscal year 2011. According to USPS officials, while USPS does not retain any revenue from these CPUs after compensating them, operating a post office in the same locations would be more onerous from a cost perspective. Because USPS compensates the roughly 45 percent of CPUs with performance-based contracts with a percentage of their sales—usually between 9 and 12 percent—USPS's revenues from CPUs with performance-based contracts will, by definition, always be greater than the amount of USPS compensation to them.[36]

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[34]By contrast, the ratio of revenues retained after compensating CPUs per dollar of revenue in fiscal year 2007—when CPU revenues were higher and USPS compensation to CPUs was lower—was about $0.89.

[35]USPS officials said that they review CPUs in which USPS retains less than $0.80 per dollar of revenue and attempts to take action to decrease CPU compensation or terminate the CPU if necessary.

[36]In rare cases where there is a very strong need for the CPU, USPS will compensate performance-based CPUs at a higher rate than 12 percent. As a result, in fiscal year 2011, USPS met its target of retaining $0.80 or more per dollar of revenue at 98 percent of performance-based CPUs.

Figure 12: Distribution of Revenue Retained by USPS per Dollar of Revenue for CPUs with Fixed-Price Contracts, Fiscal Year 2011
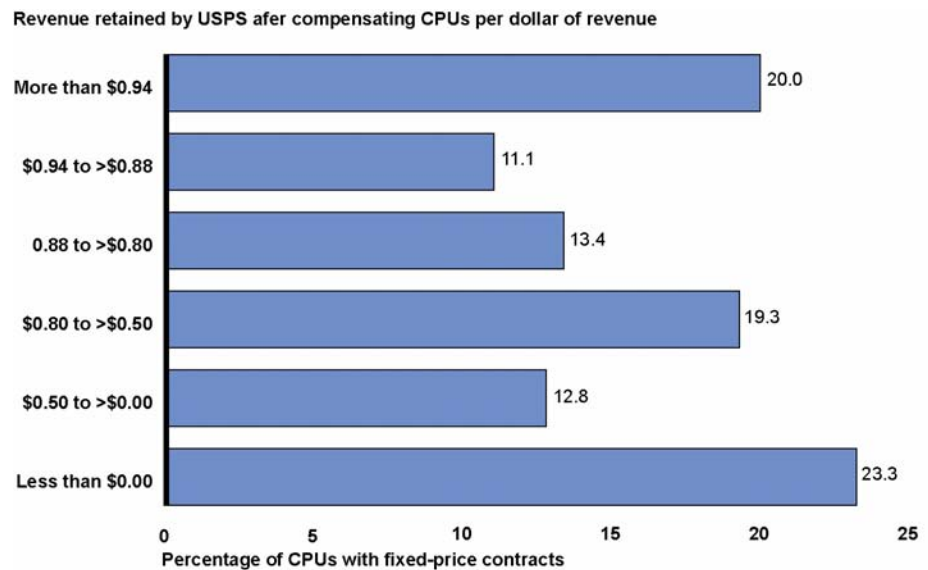
Revenue retained by USPS afer compensating CPUs per dollar of revenue

Source: GAO analysis of USPS data.

Note: This data includes all CPUs that reported any financial data for any part of the fiscal year.

According to USPS officials, USPS compensation to a CPU in excess of revenues is to be expected in some cases, especially in small towns, where demand for service may be low but USPS contracts with a CPU to help fulfill its universal service obligation. For example, the CPU in Fields, Oregon, which operates under a fixed-price contract, received $4,800 in compensation from USPS in fiscal year 2011, but had revenues of $1,521. However, the nearest post office to the CPU in Fields is over 40 miles away, demonstrating how USPS uses this CPU to provide service to an area where traditional retail access is not conveniently located.

USPS's Future Use of CPUs May Pose Challenges

USPS is embarking on a substantial makeover of its retail network, including reducing hours of service at thousands of underutilized post offices and expanding the use of retail alternatives through partnerships with national and regional retailers. According to USPS officials, at this time there are no plans to strategically increase the number of CPUs to help enhance service in the changing postal retail landscape. USPS officials said that they plan to continue to use CPUs to meet specific local needs identified by local and district officials. At the same time, pending legislation in the Senate would require USPS to consider opening CPUs

as replacements for post offices that it closes.[37] Although USPS has pared down its plans to close post offices by instead reducing their hours, to the extent that USPS closes post offices in the future, this requirement may put more pressure on USPS to open more CPUs. Furthermore, some district retail managers we spoke with said that they see a potentially larger role for CPUs in the future as USPS transforms its traditional retail network. However, we identified a number of challenges USPS might face in its future use of CPUs:

- **Limited Potential Business Partners**. USPS may face limited private interest in opening CPUs in certain areas. USPS planned to open thousands of Village Post Offices, which, similar to CPUs, involve partnerships with private businesses, by the end of 2012. However, as of August 20, 2012, USPS has opened only 41 Village Post Offices in part because of a lack of interested private parties. USPS officials said that this lack of interested parties is because in some rural areas, there may not be any businesses to host a Village Post Offices and in other rural areas, businesses may not want to partner with USPS in what some communities may perceive as a reduction in services they receive. In addition, some district retail managers told us there are a number of reasons that some interested businesses do not become CPUs, including financial instability and not wanting to meet the conditions of new CPU contracts, such as space requirements or prohibiting sales of competitors' products and services. As a result, district staff are not always able to open as many new CPUs as they would like.
- **Limited Staff Resources in USPS Districts**. As we have previously mentioned, local and district-level USPS officials identify and justify the need for new CPUs, determining when and where to approach businesses as potential CPU partners. Some USPS district retail managers we spoke with told us that although there are unmet needs for CPUs in their districts, compared to prior years, they now have fewer staff and less time to seek out opportunities for new CPUs. Given the resources required to seek opportunities and open new CPUs, USPS may be unable to meet all local needs for CPUs with existing resources.
- **Risk of Service Disruptions from CPU Closures**. Because CPUs can close at any time—unlike post offices, which must undergo a lengthy review process including a public comment period prior to

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[37]S. 1789.

closure—there is a risk in relying on CPUs to provide service, especially in underserved areas where there may be a limited number of potential CPU partners and other post office alternatives. As discussed earlier, CPU operators can decide to close their CPUs for a variety of reasons. Although CPU contracts require CPUs to provide 120 days notice to USPS before closing, some district retail managers we spoke with said that CPU operators often provide much less notice, often as little as one week. Given the other challenges in opening new CPUs, USPS may have trouble replacing the lost service from unexpectedly closed CPUs.

Concluding Observations

CPUs can play an important role in helping USPS provide universal service as it cuts costs to improve its financial condition—at times two conflicting goals. CPUs can help USPS reach customers in convenient locations during convenient hours at a potentially lower cost than through post offices. USPS data show that an increasing proportion of retail revenue is generated through channels other than post offices, which indicates a growing level of customer acceptance of these non-traditional means of accessing postal services.

While USPS plans to continue to use CPUs as one alternative to post offices to fill local needs for postal services, it is exploring planned national and regional partnerships to more broadly expand access to convenient retail alternatives nation-wide. As USPS develops these regional and national partnerships, reduces hours of service at many post offices, and continues to use CPUs to fill specific local needs, it is important for USPS to consider CPUs' continuing role in USPS's evolving national retail network. We recommended in November 2011 that USPS develop and implement a retail network strategy that would address customer access to both post offices and retail alternatives.[38] USPS officials told us that as of July 2012, the agency is in the process of finalizing this retail strategy. We continue to believe, as we stated in November 2011, that it is important that such a strategy discuss how USPS plans to increase its use of retail alternatives—including CPUs— while considering significant changes to its network of post offices and the means through which it provides access to USPS's customers. As USPS continues to develop this retail strategy, we believe that USPS can capitalize on growing acceptance of retail alternatives by using

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[38]GAO-12-100.

information about CPUs to inform its decisions. For example, by considering factors, such as the distance of CPUs to existing post offices, CPU hours and days of service, and USPS's costs of compensating CPUs, USPS could better inform its retail strategy in order to make better strategic use of CPUs in its future retail network, which will likely include reduced hours at thousands of post offices.

Agency Comments

We provided a draft of this report to USPS for review and comment. USPS provided a written response (see appendix III) in which they discussed USPS's efforts beyond CPUs to provide customers with sufficient and convenient access to its products and services through other types of partnerships and alternatives to post offices.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-2834 or stjamesl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely yours,

Lorelei St. James
Director, Physical Infrastructure Issues

Appendix I: Scope and Methodology

To determine how contract postal units (CPUs) supplement the U.S. Postal Service's (USPS's) network of post offices, we analyzed data from USPS's contract postal unit technology (CPUT) database. This database contains information for individual CPUs, including location, contract number, revenues, compensation, CPU contract type (fixed-price or performance-based), contract termination dates, and if the CPU is in active service. Location data for each CPU in CPUT includes a physical address including city, state,[1] and ZIP+4 code. USPS provided us these data on March 30, 2012. In determining the number of active CPUs, we encountered some duplicate CPU records. To avoid double counting, we used the CPU contract number to keep the record for only the oldest contact associated with each CPU. Based on the physical address, including ZIP+4 code, we determined the location type for each CPU by using the Department of Agriculture's Economic Research Service's Rural-Urban Commuting Area (RUCA) codes. RUCA codes classify a given location based on patterns of urbanization, population density, and daily commuting patterns. We classified CPU locations as one of four types: urban, suburban, large-town rural, and small-town rural. We also determined how many CPUs were located in each state using the state data in CPUT.

Based on data from CPUT, we identified which CPUs closed from fiscal years 2007 to 2011. We identified which CPUs opened during this time period based on contract start dates from USPS's Contract Authoring Management System (CAMS). Contract start dates generally do not match the date that a CPU opens because, according to USPS officials, it usually takes 4 to 6 months for a CPU to open after USPS initiates a solicitation. We determined this date to be a reasonable approximation of when a CPU opens. We determined the number of CPUs that opened or closed in each fiscal year by counting the number of contract start dates and closure dates for each year.

In addition, we obtained data from USPS's facilities database (FDB) on all post office locations including physical street address, city, state, and ZIP+4. USPS provided us these data on December 19, 2011. We determined the distance between the list of active CPUs as of March 30, 2012, and post offices as of December 19, 2011, using the latitude and

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[1]For the purposes of our analysis, the term "state" includes all 50 states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, and Puerto Rico.

longitude for each CPU and each post office and measuring the straight-line distance between the two points. We then determined which post office was closest to each CPU and by what distance. We also counted the number of post offices in each state and, along with using data on the number of CPUs in each state, to determine the number of CPUs per 100 post offices in each state.

We analyzed FDB data to determine the number of hours of service per day and per week for each CPU and post office, and how many locations are open at certain times, such as on Sundays. USPS provided these data for CPUs on June 7, 2012, and for post offices on June 27, 2012.[2]

We also visited 10 CPUs in the following regions: Chicago, Illinois; Dallas-Fort Worth, Texas; Southern California; and Washington, D.C. We selected those regions and the 10 CPUs to ensure diversity in geographic location, location type (urban, suburban, and rural), CPU revenue levels, and type of CPU contract (fixed-price and performance-based). We also selected locations close to GAO office locations in order to minimize the use of travel funds by GAO staff on this engagement. During our visits, we interviewed each CPU operator. We also interviewed district retail managers in each of the USPS districts responsible for managing these CPUs. During these interviews as well as interviews with USPS headquarters staff in charge of managing the CPU program, we discussed the reasons for and benefits from using CPUs, the reasons why CPUs have closed, and factors that affect CPU revenues and compensation. We also reviewed GAO reports and USPS documents detailing the CPU program, including USPS guidance on CPUs and standard CPU contracts.

To determine USPS revenue from CPUs and USPS's compensation to them from fiscal years 2007 to 2011, we analyzed data from CPUT. We encountered numerous duplicate records for a single CPU address. To

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[2]We found that FDB included hours of service data for 3,320 CPUs as of June 7, 2012. However, our analysis of USPS's Contract Postal Unit Technology database (CPUT), which USPS uses to track data on CPU locations and finances, indicated that there were 3,542 CPUs as of March 30, 2012. According to USPS officials, this difference is because field staff responsible for entering CPU data into FDB do not always do so. However, the officials added that USPS is planning to request in early fiscal year 2013 that all relevant staff review FDB records to ensure completeness of CPUs and input any CPUs not already in FDB. We determined that given that there was no indication that this set of CPUs not included in FDB is unique, that the data were reliable for our purposes.

avoid double counting, we merged all financial data for a given contract number into a single record by summing up data for each unique contract number. As CPUT stores CPU revenue and compensation data on a monthly basis, we summed monthly data to determine the total revenues and USPS compensation for each CPU for each fiscal year. We determined the amount of revenues USPS retains after compensating CPUs in each fiscal year by subtracting CPU compensation from CPU revenues and dividing that by CPU revenues. Finally, we linked data from CAMS on contract start dates to this financial data from CPUT by using the contract number for each CPU. As a result, we were able to determine the revenues and USPS compensation to each CPU for CPUs that opened in each fiscal year. We did the same for closed CPUs by using CPU closure dates included in CPUT.

We assessed the reliability of each of the data sources we used by interviewing responsible USPS officials about procedures for entering and maintaining the data and verifying their accuracy. We manually reviewed all data provided by USPS for any obvious outlying data. After reviewing this information, we determined that the CPUT data were sufficiently reliable for evaluating revenue and compensation trends, closure dates, and CPU locations. We did find that CPUT reported outlying data on revenues in certain months for four CPUs in fiscal year 2007. To address these outlying data, we averaged the revenues for each of the four CPU in the other months, where reported revenues seemed normal, and assumed that the CPU earned the average level of revenue in the outlying months. We determined that the CAMS data were sufficiently reliable for evaluating CPU start dates. We determined that the FDB post office and CPU hours-of-service data were sufficiently reliable for overall comparison purposes. As previously stated, the FDB included hours-of-service data for 3,320 CPUs as of June 27, 2012, 6.3 percent less than 3,542 CPUs indicated by our analysis of CPUT as of March 30, 2012. In discussing the discrepancy with USPS officials, we determined that there was no indication that the CPU records missing from the FDB differed from the general population and were therefore unlikely to affect the outcome of our analysis.[3]

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[3]According to USPS officials, this difference is because field staff responsible for entering CPU data into FDB do not always do so. However, officials added that USPS is planning to request, in early fiscal year 2013, that all relevant staff review FDB records to ensure completeness of CPUs and input any CPUs not already in FDB.

To determine challenges USPS might face if it increases its use of CPUs, we reviewed relevant legislation, USPS documents related to managing CPUs, prior GAO reports, and USPS Office of Inspector General reports. We also interviewed USPS officials responsible for implementing the CPU program, CPU operators, and USPS district retail managers at the sites and districts discussed earlier regarding current CPU operations and challenges the CPU program might face going forward.

Appendix II: Number of Contract Postal Units and Post Offices by State

Table 5 provides the number of Contract Postal Units (CPUs) and post offices in each state, as well as the number of CPUs per 100 post offices in each state as a measure of how reliant each state is on CPUs for providing access to postal services.

Table 5: Number of CPUs and Post Offices by State

	CPU[a]	Post Offices[b]	Number of CPUs per 100 Post Offices
Alaska	75	200	37.5
Alabama	30	601	5.0
American Samoa	3	1	300.0
Arkansas	40	615	6.5
Arizona	141	276	51.1
California	285	1667	17.1
Colorado	63	444	14.2
Connecticut	24	302	7.9
Delaware	3	63	4.8
District of Columbia	6	45	13.3
Florida	241	798	30.2
Georgia	54	744	7.3
Guam	6	6	100.0
Hawaii	22	103	21.4
Iowa	104	864	12.0
Idaho	32	235	13.6
Illinois	64	1352	4.7
Indiana	62	743	8.3
Kansas	88	592	14.9
Kentucky	71	710	10.0
Louisiana	34	486	7.0
Massachusetts	35	605	5.8
Maryland	37	471	7.9
Maine	32	438	7.3
Michigan	219	929	23.6
Minnesota	100	799	12.5
Missouri	90	912	9.9
Mississippi	30	423	7.1
Montana	42	311	13.5
North Carolina	86	824	10.4

	CPU[a]	Post Offices[b]	Number of CPUs per 100 Post Offices
North Dakota	36	309	11.7
Northern Mariana Islands	3	2	150.0
Nebraska	58	482	12.0
New Hampshire	17	241	7.1
New Jersey	23	708	3.2
New Mexico	51	305	16.7
Nevada	39	127	30.7
New York	105	1838	5.7
Ohio	131	1144	11.5
Oklahoma	35	595	5.9
Oregon	65	374	17.4
Pennsylvania	90	1786	5.0
Puerto Rico	19	120	15.8
Rhode Island	7	78	9.0
South Carolina	59	397	14.9
South Dakota	44	317	13.9
Tennessee	66	578	11.4
Texas	229	1666	13.7
Utah	69	195	35.4
Virginia	59	880	6.7
Vermont	13	272	4.8
Washington	74	523	14.1
Wisconsin	90	743	12.1
West Virginia	26	672	3.9
Wyoming	15	139	10.8

Source: GAO analysis of USPS data.

[a]Includes CPUs that were actively operating as of March 30, 2012.

[b]Includes post offices open as of December 19, 2011.

Appendix III: Comments from the U.S. Postal Service

KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS

UNITED STATES POSTAL SERVICE

November 5, 2012

Ms. Lorelei St. James
Director, Physical Infrastructure Issues
United States Government Accountability Office
Washington, DC 20548-0001

Dear Ms. St. James:

Thank you for providing the U.S. Postal Service (USPS) with the opportunity to review and comment on the draft report titled Contract Postal Units: Analysis of Location, Service, and Financial Characteristics.

While the Government Accountability Office is not making any new recommendations at this time, the Postal Service wanted to take this opportunity to reiterate its commitment to expanding partnerships in order to better manage retail costs. The Contract Postal Unit (CPU) program is just one component of a comprehensive retail strategy to insure that consumers have sufficient, convenient access to our goods and services. They will continue to be a vital part of the retail network and will be used wherever there are market demand imbalances, now and into the future. The Postal Service continues to believe that retail partnerships provide our customers with tremendous flexibility and many elements of the CPU program are being incorporated into key retail partner expansion programs. For example, future retail partnerships with national and regional retailers will have many of the same design elements, technological infrastructure, and volume variable incentives. Partners will be required to expand hours of operation beyond those of traditional Post Offices and provide a comprehensive product offering.

Based on the CPU experience, we are pursuing a multi-pronged strategy that creates a comprehensive retail network that we believe will fundamentally enhance the access and convenience of our existing network. First, earlier this year, we completed an agreement with a national retail shipping store, United Parcel Store, to expand our Approved Shipper Program. Second, we are developing a test of a retail partners program that builds upon the success of our existing Stamps To Go® program. Third, as part of the Post Office Structure (POSt) Plan we have begun promoting the opportunity to establish Village Post Offices (VPOs) to supplement access in rural locations. Fourth, we have substantially increased our investment in self-service kiosks. Finally, we are exploring ways to improve online and mobile access to our products.

Approved Shipper
In fiscal year (FY) 2013, the Postal Service has launched an aggressive expansion of the Approved Shipper program. Through the strategic alignment with a national retailer, over the next year, the Postal Service will add more than 2500 partner locations. This will grow access in this channel by 65 percent.

Stamps to Go®
In addition, we continue to increase revenue through our existing Stamps to Go® program with growth of 6.1 percent over the last year and FY 2012 total revenue of $1.2B.

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Village Post Office (VPO)
As part of our strategy, the Village Post Office (VPO) is another way we are reaching out to customers and establishing the VPO as an alternative access point in rural communities. Village Post Offices will provide access to the products and services most often purchased in those communities today: postage, flat rate priority, Post Office Boxes, collection boxes, and regular rural carrier pickup/support. As of October 29, 2012, 61 VPOs opened with additional expansion anticipated.

Self-Service Kiosks
In the last year, the Postal Service deployed additional self-service kiosks in our retail network to give customers additional 24-hour access within our post office lobbies. In October, we began testing a new kiosk in 15 locations. In January 2013, we will begin deployment of this kiosk to 117 locations in five markets.

Online Access
The Postal Service has continued to enhance our web services over the last year. Our mobile applications have introduced capabilities for consumers and small businesses to order free shipping supplies, schedule a free package pickup, initiate Hold Mail requests and scan barcodes for tracking. These additional functionalities, combined with the ability to find postal locations, look up ZIP Codes and determine prices continue to enhance the information available to customers at any time.

The Postal Service redesigned the Click-N-Ship application, creating a more streamlined shipping experience that allows customers to ship online in four easy steps. Additional enhancements include the "Ship Again" feature, an improved shipping history, and a very robust address book that will be leveraged with other usps.com applications. The Postal Service also added PayPal as a payment method. Improved military shipping features are planned for this fall.

Premium Forwarding Service (PFS) was expanded to an online application through usps.com which allows customers to temporarily forward their mail for up to one year. Customers can create an account, pay for services, and modify requested services through an online application.

Our third party web partners (PC Postage) continued to grow due to the ability of consumers and small business to purchase USPS mailing and shipping services from these sources. In the last year, our PC Postage providers grew 28 percent.

The Postal Service sees each of these efforts as complementary components of our overall retail strategy. Our current efforts will weave these components together into an integrated strategy. The foundation of our retail strategy is based on driving incremental revenue by enhancing the customer experience and providing expanded access, while at the same time, reducing the cost to serve and ensuring Postal Service remains a trusted American institution. Ultimately, we want to improve the customer experience through expanded access and maintain relevance in the marketplace while managing costs.

If you or your staff wishes to discuss any of these comments further, I am available at your convenience.

Sincerely,

Kelly M. Sigmon

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cc: Ms. Brennan
    Mr. Corbett
    Ms. Gibbons
    Ms. Manabe
    Ms. Brownell
    Ms. Dominguez
    Mr. Graves
    Mr. Pulcrano
    Mr. Code
    Mr. Partridge
    Ms. Haring
    Ms. Gallagher

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Acknowledgments

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