

GAO

Report to the Chairman, Committee on
Appropriations, U.S. Senate

February 1993

POSTAL SERVICE

Service Impact of South Dakota Mail Facility Not Fully Recognized





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-251104

February 25, 1993

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

Dear Mr. Chairman:

This report responds to the Committee's directive in Senate Report 102-353 that we examine planned changes in mail service to communities that will be served by a new Dakota Central Area Mail Processing Center in Huron, SD. Area mail processing is a program designed to reduce labor costs by consolidating mail processing (i.e., canceling and sorting) functions of multiple post offices into one facility. The Committee was concerned that area mail processing might adversely affect mail service in rural areas and that the Dakota Central facility, which is due to begin operations in March 1993, could result in a degradation in service due to the longer distances mail will be transported.

Background

Area mail processing has been a long-term, nationwide initiative by the Postal Service to improve productivity. Under the program, mail canceled and sorted at several post offices in an area is consolidated for processing and dispatch at a central facility. The Service began area mail processing in 1971 to take advantage of the savings opportunities from mechanization. These consolidations occurred in urban areas and were largely completed in the 1970s.

With the widespread introduction of automated processing equipment having productivity rates much higher than mechanization, the Service concluded that it made economic sense to extend area mail processing to rural areas of the country. From 1989 through 1992, the Service approved 75 area mail processing proposals, affecting mostly rural areas. Ultimately, the Service expects that 100 percent of the letter mail will be processed by automation.

The Service's guidelines on implementing area mail processing provide that a post office will not be included in an area mail processing plan if the action would not provide the same or better service. However, a trade-off can be made for a "minor adverse impact" provided it is clearly established that the "overall service/cost relationship" for an area is improved.

Postal customers and business and community leaders in South Dakota have predicted that a proposed area mail processing facility there will degrade mail service. The new automated Dakota Central facility in Huron will consolidate manual processing operations from Huron, Mitchell, Aberdeen, and Watertown, SD, and require additional transportation of mail. For example, a letter mailed in Aberdeen to an Aberdeen address will be trucked 90 miles to Huron for processing and then trucked back to Aberdeen for delivery. The consolidation will also affect service to part of North Dakota. (See app. I for a map showing the location of the affected communities.)

The Dakota Central facility was proposed by the postal management office in Sioux Falls, SD, and approved by Postal Service Headquarters in August 1991.

In response to community complaints, the Senate Appropriations Committee instructed us to examine and report on the anticipated effect that the facility will have on service to postal customers in the affected communities.¹

In October 1992, the Postal Service announced that it was suspending further action on area mail processing proposals not already approved. Beginning sometime in 1993, the Service intends to reexamine the area mail processing concept and current guidelines to ensure that they support the Service's priorities for "customer service, employee obligation, and operating efficiency."

Results in Brief

The plan for the Dakota Central mail processing facility called for some minor degradation of mail service and some improvements, with a net overall improvement in mail service to the affected communities. However, we found that the consolidation will have a more adverse impact on service than was indicated in the Postal Service's consolidation plan and could possibly result in a net downgrade of service.

Specifically, mail from Aberdeen, SD, to Fargo, ND, is likely to take a day longer to be delivered, but the consolidation plan depicts this as no change in service. The consolidation plan also overstated the service improvements that will occur from the new facility. For example, the plan

¹The Committee report referred to service as the delivery standards in effect on July 26, 1990. Those standards differ slightly from the standards currently in effect due to a nationwide adjustment of delivery standards later in 1990. See our report, Revised Delivery Standards: Postal Delivery Scores Improved but Service Is Slower (GAO/GGD-93-12, Nov. 25, 1992).

says that mail between Aberdeen and Sioux Falls, SD, will be upgraded from 2-day to overnight service. However, most of this mail already arrives overnight.

These inconsistencies stem from the fact that the Service, in its review and justification of area mail processing facilities, uses established delivery standards to measure and compare service. Postal customers understandably measure performance by time actually taken, which can vary from the standards, and evaluate the effects of any changes in service accordingly.

Changes to service will, according to some postal customers, negatively affect their businesses. For example, business mailers from Aberdeen, Watertown, and Mitchell, SD, will lose their bulk mail discounts for local mailings when the center opens. We also noted examples where the anticipated loss of overnight mail service caused small businesses to lose customers. Postal customers in South Dakota also cited other aspects of the area mail processing concept that they believed made it less appropriate for rural locations.

The Postal Service did not seek the comments of the local communities or discuss the service aspects of the consolidation with them before initially approving the Dakota Central facility because its policy is not to do so. We believe that as part of its reexamination of the area mail processing concept, the Postal Service should consider options for maintaining the same or better service to the affected communities and also adopt a policy of obtaining and evaluating comments from affected communities during the consolidation review process.

Objectives, Scope, and Methodology

Our objective was to determine the effect that the proposed Dakota Central facility will have on postal customers. To achieve this objective, we examined the Dakota Central facility proposal prepared by postal officials at the Sioux Falls Management Sectional Center of the Omaha Division. We subsequently visited Sioux Falls and discussed the Dakota Central proposal with these postal officials.

We also visited the South Dakota communities of Mitchell, Huron, Aberdeen, and Watertown. We met with public officials, civic leaders, business mailers, postmasters, postal union officials, postal employees, and other interested postal customers. We obtained their views on the Postal Service's proposed changes and determined the factors they believe

threaten maintaining postal delivery performance. We reviewed documents given to us by about 100 of these customers detailing the anticipated effects of the Dakota Central facility on them and their businesses. We also obtained Postal Service data on actual delivery times between the affected communities and compared this information to the standards used in the consolidation proposal and the perceptions of customers in the communities about their service.

As specified in Senate Report 102-353, we limited our review to service issues and did not examine cost savings claimed by the Postal Service from the consolidation. Cost and savings issues will be included in a second report required by Senate Report 102-353 that is due after the facility becomes fully operational.

Our work for this report, done from October 1992 through January 1993, was in accordance with generally accepted government auditing standards.

Postal Service Believes Overall Service Will Improve

The Postal Service has established delivery standards between all 3-digit ZIP Code areas in the United States. These standards specify that First-Class Mail will be delivered in 1, 2, or 3 days, depending mainly on the distance between the particular areas.² The Dakota Central plan called for seven service upgrades from 2- to 1-day delivery between affected communities, and three downgrades from 1 to 2 days. The downgrades applied to service to Fargo and Jamestown, ND, and Willmar, MN. The upgrades applied to service between various South Dakota communities. The Service estimated that the net result of the consolidation will be an increase of approximately 15,400 letters daily committed to 1-day service.

The plan noted that post offices in the affected communities are to remain open, that customers are to have the same window service they had before the consolidation, and that collection schedules in Watertown, Mitchell, and Aberdeen will not change.

²Nationally, about 93 percent of 1-day First-Class Mail was on time in 1992, according to an internal system that measures the time taken between a letter's postmark date and the date it is ready for delivery. According to another, newer system in which an independent contractor measures time from the collection box to actual delivery, about 83 percent of 1-day mail was on time.

Customers Believe Dakota Central Plan Is Flawed

Except in Huron, community members did not perceive that the center would improve service. The most common concerns were that (1) the use of service standards to justify the center is misleading because the standards do not reflect actual delivery times, (2) delivery times will get worse instead of better because of the Dakota Central facility, and (3) the cost of some mail service will increase. Each community had its own perspective, and the concerns we heard encompassed a range of issues. We are reporting those in which there was general agreement among the communities.

Delivery Standards Not Always an Accurate Measure of Actual Service

Although the Postal Service routinely uses delivery standards instead of actual performance to make its area mail processing service comparisons, the two are not the same. The standards are goals based on transportation, operational, and logistics considerations and are unique to each originating post office. Actual performance may differ from the goals. This was illustrated in an example pointed out by a postal operations official: service between two communities that occurs overnight 5 days a week but requires 2 days on the remaining day calls for a 2-day standard. We believe that by depicting standards or commitments as actual service, the Postal Service has in this case contributed to confusion and concerns among its customers.

Except in Huron, postal customers in the communities we visited did not believe the Service's contention that overall service will improve because the Service was citing delivery standards, which are not the same as actual performance. For example, customers and postal employees in Aberdeen generally agreed that Aberdeen has had 1-day service to Fargo, although the standard is 2 days. When the Dakota Central facility opens, actual service is expected to change to 2 days, matching the standard. Thus, although the consolidation plan characterizes this as no change in service, actual service between these communities is expected to decline. Postal Service delivery data confirm that most First-Class Mail from Aberdeen to Fargo arrives overnight. Although Aberdeen customers similarly believed that they had overnight service to Minneapolis, which would be lost, we found that not to be entirely the case. According to the delivery data, although some First-Class Mail arrives overnight to Minneapolis from Aberdeen, most of it takes 2 days, the current and anticipated delivery standard after the center opens.

The Dakota Central proposal lists the current service standard from Aberdeen to Sioux Falls as 2 days and from Watertown to Sioux Falls as 1

day. When the Dakota Central facility opens, the service standard from Aberdeen to Sioux Falls will also go to 1 day, and the proposal depicts this as a service upgrade. However, Aberdeen customers said that they already have 1-day service to Sioux Falls when the mail is canceled and sorted in Aberdeen. This was confirmed by the Service's delivery data and by postal employees who told us that the mail truck leaves Aberdeen each day with that day's outgoing mail and stops at Watertown on its way to Sioux Falls. As a result, the Aberdeen mail, with a 2-day standard, and the Watertown mail, with a 1-day standard, actually arrive at Sioux Falls on the same truck. Although the Postal Service is claiming a service upgrade, the actual service in this case will remain the same. A similar situation exists with respect to service from Sioux Falls to Pierre, SD. The consolidation proposal states that actual transportation will not change, but the standard will upgrade from 2 days to 1 day.

Communities Expect Delivery Times to Worsen

Since August 1991, part of the originating mail from Mitchell and Saturday mail from Aberdeen and Watertown has been sent to an automated center in Sioux Falls for processing. On the basis of that experience, customers were generally skeptical that sending their mail to Huron will improve service in the state.

Mitchell, Aberdeen, and Watertown customers told us that mail service had gotten worse since Sioux Falls began processing part of their mail. Business mailers in Mitchell told us that First-Class Mail from Mitchell to Mitchell addressees frequently takes several days to be delivered when it goes through the Sioux Falls Area Mail Processing Center; however, bulk mail that is still being processed in Mitchell continues to be delivered overnight. Business leaders in Huron said that there had been some worsening of mail service when the Sioux Falls facility first began processing their mail but that service subsequently improved.

Postal customers provided us with substantial documentation about mail that was not delivered to the Postal Service's standards. In many instances, customers claim, delayed delivery times will have negative and significant consequences for businesses that depend on overnight service to remain competitive. For example, a newspaper publisher in Mobridge, SD, lost about \$70,000 in contracts from two customers primarily because they expected that he would no longer be able to provide overnight service to them. We spoke with the two customers, who confirmed his report. Several business mailers said that they are dissatisfied with deteriorating mail delivery and are increasingly relying on other methods—such as fax

machines and competing overnight delivery services—to deliver important communications.

Cost of Bulk Mail to Increase

Bulk mail rates will increase for business mailers in all the communities we visited except Huron. Currently, the communities of Mitchell, Aberdeen, and Watertown are designated by the Postal Service as sectional center facilities. This designation allows mailers to get a discount on third class bulk mail delivered to the facility with a destination in the same three-digit ZIP Code as it is mailed. Since the Postal Service does not have to truck this mail to another location to be sorted, it is able to give the mailers a discount. Once the Dakota Central facility begins operation, Watertown, Mitchell, and Aberdeen post offices will lose their designations as sectional center facilities and the mail processing responsibility associated with that designation. As a result, mail deposited at those post offices will not be eligible to receive the present discounted rates for bulk mail.

Some mailers said the increase will be significant. For example, a small business in Aberdeen that mails out weekly advertising publications will see its postage rates increase about \$26,000 annually, over 16 percent, as a result of Aberdeen's loss of sectional center facility status. The Postal Service subsequently advised mailers whose rates will increase to band together and truck their bulk mail themselves to Huron, where they will be able to obtain their previous discounts.

Combination of Longer Distances and Other Factors Believed Likely to Adversely Affect Service

The longer distances that mail will travel combined with frequent adverse winter weather will increase the risk that mail will be delayed to and from the new center. Additionally, a network of alternate routes available during emergency road closures in urban areas does not exist in rural areas. The fact that most of the routes are two-lane roads increases the likelihood that roads might be closed altogether in case of accidents. Finally, mechanical help in case of breakdown or relief transportation is not readily available in more isolated areas.

Customers Want More Involvement and Attention to Other Issues

Postal policy stipulates that mail processing consolidations are not to be announced to the public until after they are fully reviewed and approved. Customers and postal officials confirmed that the Service did not communicate with the affected communities until the decision was a "done deal." Community members felt that this was a mistake and that if

they had been more involved the Postal Service could have been better informed of its customer base and their mailing requirements when deciding about the Dakota Central Center.

More specifically, business mailers and community officials felt that the Postal Service took a mail processing model that was developed in urban areas and applied it to rural areas without adequately considering the differences between urban and rural conditions. They believe that the relative inflexibility of rural economies magnifies the impact that facilities such as Dakota Central have.

Business representatives explained that in sparsely populated areas the loss through job transfer of even a few comparatively high Postal Service incomes can have a noticeable financial impact on the community. In addition, many businesses in the area depend very directly on mail services. Aberdeen business people explained that they have traditionally built up customer bases in areas in North Dakota and Minnesota. They fear that if they can no longer deliver their services overnight, they will lose business in these areas.

Conclusions

We believe that the changes in delivery standards depicted in the Dakota Central proposal overstate the benefits of the consolidation. It appears that (1) actual service will not change in some cases where service upgrades are claimed by the Postal Service and (2) actual service may decline in some cases although no change in the official service standards was anticipated. Customers also pointed out other negative aspects of the consolidation plan that they believe they should have been able to discuss with the Postal Service before it approved the consolidation. Had local views been obtained before the decision was made, the Postal Service could have more fully evaluated the customer service impact to balance against the cost savings anticipated.

The Postal Service's guidelines applicable to the Dakota Central consolidation decision provide that such consolidations are not to result in significant downgrading of the service provided by any post office. In light of that goal and our finding that some service will be adversely affected in South Dakota, we believe that the Service needs to look at the cost and benefits of options that would offer the same or better service to the affected communities after the consolidation. Such options could include revising or adding routes to the affected communities, adjusting collection schedules, keeping some processing capability in the communities,

retaining the sectional center facility designations for bulk mailing purposes, and establishing separate mail drops for local delivery.

Recommendations to the Postmaster General

We recommend that the Postmaster General (1) consider costs and benefits of options that would address the community-impact issues discussed in this report and (2) as a part of the Service's review of the area mail processing concept, include a requirement in the area mail processing guidelines to obtain and evaluate comments from affected communities before approving area mail processing consolidations in the future.

Agency Comments and Our Evaluation

The Postal Service provided written comments on a draft of this report, which are included in appendix II. The Service pointed out that it had substantial contact with the affected communities when it became apparent that they had reservations about the plan and, in fact, put the plan on hold while it considered their concerns. We agree that these contacts and meetings took place. We did not discuss them in this report because they happened after the plan had been initially approved and announced and did not change the basic consolidation plan.

The Service also said that it has initiated a review of the South Dakota consolidation, which is still under way, and pointed out that its goal is that consolidation of processing operations results in service benefits to the community. It added that our recommendation to incorporate community input into the planning process would be fully considered in its review of the guidelines.

We are also sending this report to the Postmaster General and the South Dakota congressional delegation. Copies will also be made available to others upon request.

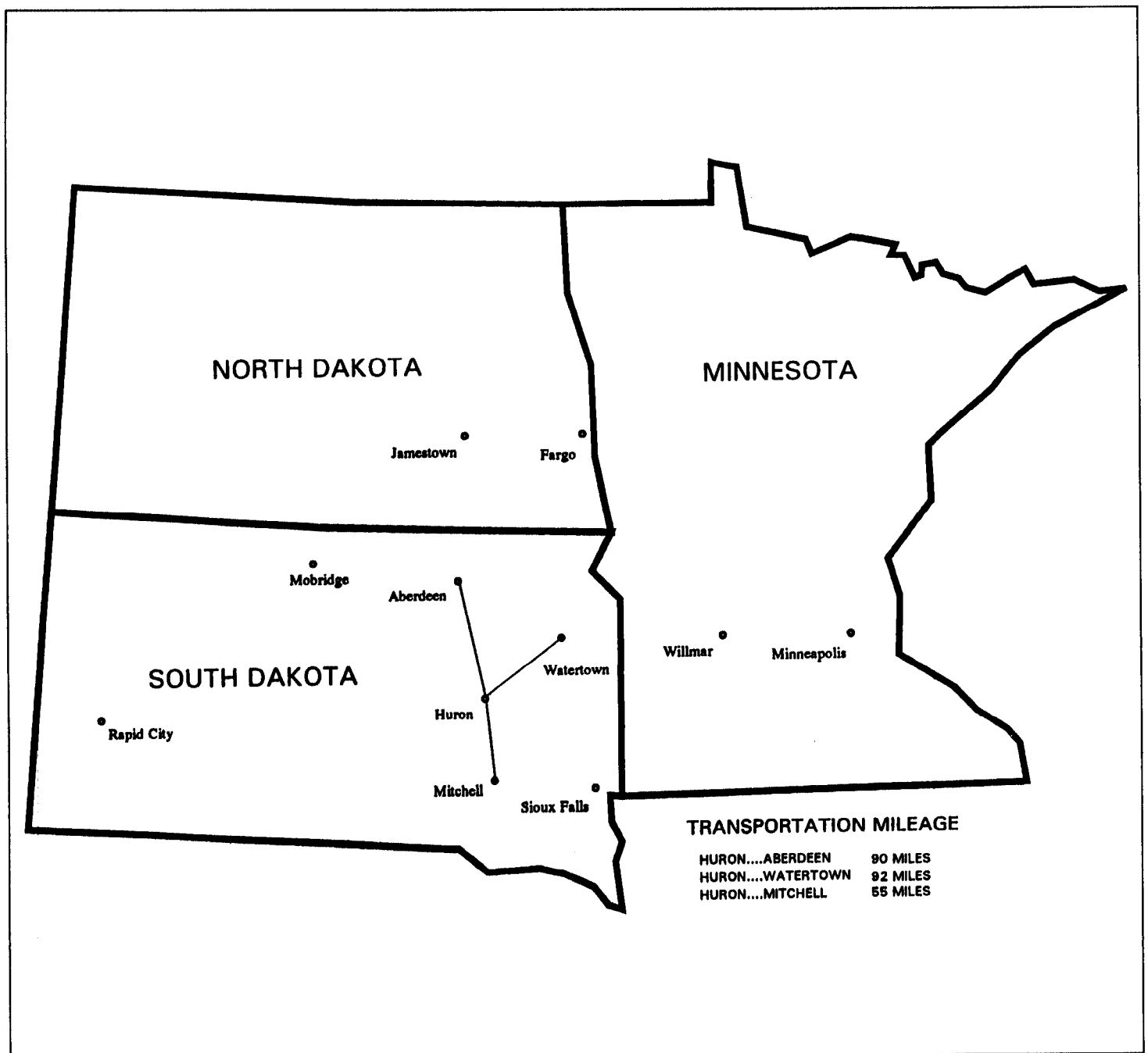
The major contributors to this report are listed in appendix III. Please call me on (202) 275-8676 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in black ink that reads "L. Nye Stevens". The signature is written in a cursive style with a large, sweeping initial "L" and a long horizontal stroke at the end.

L. Nye Stevens
Director, Government Business
Operations Issues

Location of Communities Affected by the Dakota Central Area Mail Processing Center



Source: GAO.

Comments From the United States Postal Service



MARVIN RUNYON
CHIEF EXECUTIVE OFFICER, PMG

UNITED STATES POSTAL SERVICE
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February 17, 1993

Mr. L. Nye Stevens
Director
Government Business Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Stevens:

Thank you for providing the opportunity to comment on the draft GAO report on the impact of the Dakota Central Area Mail Processing Plan.

Our Area Mail Processing Guidelines do not require formal community contact prior to the approval of an initial plan. Accordingly, there was no preliminary contact with respect to the Dakota Central Plan. Contrary to the findings in this report, however, once it became apparent that communities had serious reservations about the plan, it was put on hold. Extensive community contact then was undertaken prior to reaching a final decision to proceed with construction of a new facility in Huron, South Dakota. This included attendance by local postal managers at many community and major customers' meetings. Deputy Postmaster General Michael Coughlin also traveled to South Dakota to review the Dakota Central Plan and to meet with community and business leaders and hear their concerns. We initiated a further review subsequent to our nationwide restructuring. This review still is underway.

The Postal Service is in the process of updating our Area Mail Processing Guidelines. Your recommendation to incorporate community input into the planning process will be fully considered in our review of these guidelines. It is our goal that consolidation of processing operations result in service benefits to the community.

We appreciate the GAO analysis of the Dakota Central Area Mail Processing Plan and resulting recommendations.

Best regards,

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