



June 30, 2004

GLORIA E. TYSON
MANAGER, ALABAMA DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Alabama District
(Report Number DR-AR-04-004)

This is one of a series of audit reports on the Self-Service Vending Program in the Southeast Area. The report presents the results of our self-initiated audit on the Self Service Vending Program in the Alabama District (Project Number 04WG003DR003). The information in this district report will be included in a report to the Southeast Area Vice President.

Background

The Self-Service Vending Program, implemented in October 1964, is one of the Postal Service's major programs. It provides Postal Service customers with a convenient alternative for purchasing stamps and other basic Postal Service products after business hours and without the need to stand in line during business hours. Nationwide, the Postal Service maintains approximately 30,000 vending machines (27,000 self-service postal centers and 3,000 other types of vending equipment) that generated over \$1.9 billion in revenue during fiscal years (FYs) 2001 through 2003. The Southeast Area had 4,298 pieces of vending equipment that generated over \$109 million in revenue during FY 2003, of which the Alabama District maintained 518 (12 percent of the total area) machines that generated over \$8.2 million (8 percent of the total area) in revenue in the same year.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Self-Service Vending Program is effectively and efficiently meeting program goals of increasing revenue and reducing operating costs. Specifically, in this review, we determined whether Self-Service Vending Program managers have effectively redeployed vending equipment that does not meet minimum revenue requirements in order to maximize revenue, and

discontinued the use of obsolete vending equipment. Of the 518 vending machines operating in the Alabama District, 108¹ were classified as obsolete based on Postal Service guidance, while the remaining 410 were classified as current equipment. During our audit work, we visited Postal Service facilities, interviewed managers and employees, reviewed documentation and applicable policies and procedures, and analyzed data in the Postal Service's Vending Equipment Sales and Service System (VESS) for FYs 2002 through 2003 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements.² Although we relied on data obtained from VESS, we did not test the validity of the data and controls over the system. Audit work associated with the Alabama District was conducted from December 2003 through June 2004, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

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

Audit Results

Opportunities exist for Alabama District officials to improve the effectiveness and efficiency of the Self-Service Vending Program and to meet or exceed program goals of increasing revenue and reducing operating costs. Specifically, officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Alabama District officials could reduce maintenance and repair costs by discontinuing the use of obsolete equipment.

Redeployment of Vending Equipment

Alabama District officials could improve their process for redeploying vending equipment that does not meet Postal Service minimum revenue requirements. Specifically, in FY 2003, the Alabama District may have missed revenue opportunities totaling approximately \$0.5 to \$1.6 million by not redeploying vending equipment that did not meet the Postal Service's minimum revenue requirements.³ District officials reviewed vending equipment revenue reports and determined that 212 (52 percent) of

¹ This number includes 18 Rowe 420 SCC-3 Small Currency Changers. These machines do not generate revenue.

² Obsolete equipment was not included in the minimum revenue analysis.

³ For each vending machine, we calculated the shortfall in revenue compared to the established minimum for a particular machine type and referred to this shortfall as "missed revenue opportunities." The \$0.5 million represents the minimum total possible missed revenue opportunities after giving consideration to Postal Service guidance, which requires district officials to review revenue reports and take appropriate actions if a vending machine's revenue does not reach plan in three to six accounting periods. The \$1.6 million represents the maximum total possible missed revenue opportunities for the FY 2003 and is calculated by subtracting actual revenues generated from the total of all machine minimum revenue requirements.

the 410 vending machines did not meet the minimum revenue requirements during FY 2003. Average vending equipment sales totaled approximately \$1.9 million, which was significantly less than the average minimum revenue requirement of \$3.5 million.

One of the Self-Service Vending Program's goals is to increase revenue through the redeployment of equipment. The Postal Service should redeploy equipment that does not meet minimum revenue requirements to other locations. Postal Service policy, Handbook PO-102, Self Service Vending Operational and Marketing Program, May 1999 (updated with Postal Bulletin revisions through December 25, 2003), establishes the minimum revenue requirements for vending machines. The District Retail Office is responsible for evaluating equipment revenue to find the right location for the right machine. If self-service vending equipment is located in an area where it is unable to generate revenue to meet the minimum requirement, the equipment must be considered for redeployment. If revenue does not meet the minimum requirement in three to six accounting periods, the District Retail Office should place the equipment on a list for redeployment; notify any office where changes will be made; prepare a typewritten or computer-generated notice, approved through the District Retail Office, to be posted in the lobby informing customers 30 days before removing the equipment; and complete Postal Service Form 4805, Maintenance Work Order, and move the equipment to a better location.

During our review, district officials took action to redeploy two machines. For the remaining 210 machines, district officials did not initiate any redeployment action because of concern for the potential adverse impact on customer service due to the nonavailability of machines in rural locations. However, during our audit, district officials initiated action to issue low-revenue letters to the postmasters for redeployment of underperforming machines. Although officials initiated action to issue low-revenue letters, the district could miss revenue opportunities during FY 2004 if management does not take action to redeploy the under performing equipment. District officials also expressed concern regarding the Postal Service's methodology to establish minimum revenue requirements, and that the current requirements are too high in relation to the machines geographic locations. We plan to forward the district's concern to Postal Service Headquarters regarding the policy on minimum revenue requirements.

We discussed the results with Alabama District officials and they agreed that they could improve their redeployment process for equipment that does not meet the Postal Service's minimum revenue requirements.

Recommendation

We recommend the Manager, Alabama District, direct the Retail Manager to:

1. Review revenue reports to identify under performing equipment; notify postmasters of vending equipment that generates low revenue; and giving consideration to all

feasible alternatives, complete all necessary actions to redeploy under performing equipment as often as possible.

Management's Comments

Management agreed, in part, with the recommendation because of concern for the potential adverse impact on customer service. Revenue reports are reviewed monthly via the VESS report. In February 2004, the district office initiated 165 low revenue letters to postmasters where vending equipment fell short of the revenue goals. In the letter, a plan of action to improve low revenue deficiencies was requested. The office received various responses to this request. The district office will place the equipment on a redeployment list where feasible, and follow the proper procedures for removal. District officials realized this is an ongoing effort, and will remain diligent in their efforts to get the best return on their investment with available vending equipment. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

Management comments are responsive to our recommendation. Management's actions taken or planned should correct the issues identified in the finding.

Use of Obsolete Equipment

In FY 2003, Alabama District officials continued to use 108 obsolete machines and incurred maintenance and repair expenses, although Postal Service policy discontinued the maintenance and repair support for the machines in June 2000.⁴ Our review of vending equipment revenue reports showed that 85 (94 percent) of the 90 machines did not meet minimum revenue requirements during FY 2003. District officials stated that they continued to use and maintain the obsolete equipment because of the potential adverse impact on customer service since replacement equipment was not available. As a result, the district incurred maintenance and repair expenses in FY 2003 by continuing to operate and maintain the 108 obsolete machines. We were unable to determine the amount of repair and maintenance expenses associated with the 108 machines because the Postal Service does not capture the data for each machine.⁵

Periodically, the Postal Service lists vending equipment as obsolete, meaning that the equipment has exceeded its expected life cycle and will no longer receive support from maintenance organizations. All inactive retail vending equipment items must be reported to the District Material Management Specialist. When retail vending equipment items are obsolete or listed as excess, the Postal Service may consider them for

⁴ This Maintenance Management Order (MMO) supplements MMO-018-96, dated June 21, 1996, titled - Discontinuance of Support for Obsolete Vending Machines. This MMO includes discontinuance of support for recently obsolete models of vending machines announced in the Material Logistics Bulletin (MLB-PP-00-004), issued on May 18, 2000.

⁵ We plan to conduct a future audit on vending equipment maintenance and repair costs.

disposal action. Parts from obsolete machines may be salvaged and stored for maintenance or repair of other compatible equipment. In June 2000, Postal Service policy listed the obsolete vending equipment that should no longer receive support from maintenance organizations.

By continuing to use and maintain obsolete machines, the district will incur repair and maintenance costs that may exceed the revenue generated. We recognize management's desire to provide customer service; however, because the Postal Service does not capture repair and maintenance, management has no means of assessing whether the benefits of operating the obsolete equipment outweigh the cost to operate it. We are making no recommendations to the district regarding this finding. However, we plan to make a recommendation to Postal Service Headquarters to address the policy of discontinuing maintenance and repair support for obsolete equipment.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Debra D. Pettitt, Director, Delivery and Retail, at (404) 507-8329 or me at (703) 248-2300.

/s/ Mary Demory

Mary Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

cc: William J. Brown
Roger Wilson
Cynthia Sims
Ricardo Archbold
Joseph K. Moore

APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER, CUSTOMER SERVICE AND SALES
ALABAMA DISTRICT



June 15, 2004

MEMORANDUM FOR: Kim Stroud
Director, Audit Operations
Office of Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Review of Self-Service Vending Program – Alabama District
Project Number 04WG003DR003

The following is our revised response to the audit of the Self-Service Vending Program in the Alabama District conducted in January 2004.

We agree that opportunities exist to improve the effectiveness and efficiency of the Self-Service Vending Program within the Alabama District. Specifically, redeployment efforts of vending equipment that does not meet minimum revenue requirements should be increased.

Recommendation

Review revenue reports to identify under-performing equipment; notify postmasters of vending equipment that generates low revenue; and giving consideration to all feasible alternatives, complete all necessary actions to redeploy under-performing equipment as often as possible.

Response

Management agrees, in part, with the above recommendation. Revenue reports are reviewed monthly via the VESS report. In February 2004, our office initiated 165 low-revenue letters to postmasters where vending equipment fell short of revenue goals. In the letter, a plan of action to improve low revenue deficiencies was requested. We received 62 written responses, and an overwhelming amount of phone calls concerning the request. Of these responses, none were favorable to removing the vending equipment. Of the 165 pieces of vending noted, over 50% (83 pieces) of this equipment is obsolete (53Ds). Postmasters expressed concerns as to the feasibility of removing the equipment when it is at least making some money, and not costing anything for the USPS to maintain. In most instances this equipment is located in remote post offices where customers would have to travel in excess of 15 miles to purchase postage when the window is closed. With the additional 72 pieces of equipment, the District Retail Office will place the equipment on a redeployment list where feasible, and follow the proper procedures for removal. We must also note that in some cases, we do not have the type of equipment to replace some vending (1625Bs) with 624s. We realize this is an ongoing effort, and will remain diligent in our efforts to get the best return on our investment with available vending equipment.

Use of Obsolete Equipment

At the time of the audit, the Alabama District was utilizing 108 pieces of obsolete vending equipment. We are now down to 92 pieces and will continue to monitor and remove obsolete equipment from use. This will remain the policy because of the potential adverse impact on customer service if the machines are removed. There are no replacement machines available for deployment to these small rural offices within Alabama. The scheduled deployment of eighteen (18) Automated Postal Centers (APCs) for the district will include the major metropolitan areas with the highest retail walk-in revenue. This does not provide any relief for the small rural post offices which currently utilize the obsolete vending.

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The obsolete vending equipment does serve a purpose for our customers. However, as these machines become inoperable and spare parts are no longer available from salvaged compatible equipment, they will be removed from service. This will be an ongoing policy. Revenue from obsolete equipment off-sets some of the identified revenue loss from the under-utilized vending equipment.

If you have any questions or need further information, please contact Cynthia Sims, Manager, Retail, at 205-521-0957.



Gloria E. Tyson
District Manager, Customer Service and Sales

cc: Vice President, Area Operations, Southeast Area
Manager, Marketing, Alabama District
Manager, Finance, Alabama District
Manager, Corporate Audit and Response Management, Headquarters
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Manager, Retail, Alabama District