October 14, 2004

MICHAEL GASPARD
MANAGER, OKLAHOMA DISTRICT

SUBJECT: Audit Report –Self-Service Vending Program – Oklahoma District
(Report Number DR-AR-05-001)

This is one of a series of audit reports on the Self-Service Vending Program in the Southwest Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Oklahoma District (Project Number 04YG024DR002). The information in this district report will be included in a report to the Southwest 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 (FY) 2001 through 2003. During FY 2003, the Southwest Area had 3,876 pieces of vending equipment that generated over $87 million in revenue, of which the Oklahoma District maintained 14 percent (533) of the total area machines that generated over 10 percent ($8.7 million) of the total area vending revenue. During the first quarter of FY 2004, the Southwest Area had 3,989 pieces[1] of vending equipment that generated over $23 million in revenue, of which the Oklahoma District maintained 15 percent (579[2]) of the total area machines that generated 10 percent ($2.2 million) of the total area vending revenue.

[1]The Southwest Area had 113 additional vending machines during the first quarter of FY 2004.
[2]The Oklahoma District had 46 additional vending machines during the first quarter of FY 2004.

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. We also physically observed a judgmental sample of 20 vending machines to determine whether the machines were operational and easily accessible. For the 533 vending machines operating in the Oklahoma District during FY 2003, 85 were classified as obsolete based on Postal Service guidance, while the remaining 448 were classified as current equipment. For the first quarter of FY 2004, 579 vending machines were operating in the Oklahoma District, of which 97 were classified as obsolete, and the remaining 482 were classified as current equipment.

During our audit, 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 FY 2003 and the first quarter of FY 2004 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements.[3] 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 Oklahoma District was conducted from July through October 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

The Office of Inspector General (OIG) has issued three reports related to the objective of this audit.

Self-Service Vending Program - Tennessee District (Report Number DR-AR-04-003, June 30, 2004), Self-Service Vending Program - Alabama District (Report Number DR-AR-04-004, June 30, 2004), and Self-Service Vending Program - Atlanta District (Report Number DR-AR-04-002, July 1, 2004). The reports stated that district officials could improve their process for redeploying vending equipment that does not meet minimum revenue requirements. In FY 2003, 54 percent (857 of 1,573) of the vending machines in the Tennessee, Alabama, and Atlanta Districts did not meet the minimum revenue requirements and the districts may have missed revenue opportunities of

[3] Obsolete equipment was not included in the minimum revenue analysis.

approximately $2.7 to $8.5 million by not redeploying this equipment. Additionally, these districts continued to use 250 obsolete machines and possibly incurred maintenance and repair expenses. Management agreed with all recommendations and the actions taken and planned were responsive to the recommendations.

Audit Results

Opportunities exist for Oklahoma 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, Oklahoma District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Oklahoma District officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. Additionally, our physical observation of vending machines in the Oklahoma District indicated that not all of the machines selected for review were operational or accessible.

Redeployment of Vending Machines

Oklahoma District officials could improve their process for redeploying vending equipment that does not meet Postal Service's minimum revenue requirements. Specifically, during FY 2003, our review of the vending equipment revenue reports indicated that 75 percent (336 of 448) did not meet the minimum revenue requirements. Vending equipment sales were approximately $2.4 million, which was significantly less than the minimum revenue requirement of $5.4 million. As a result, the Oklahoma District may have missed revenue opportunities of approximately $977,000 to $3.0 million by not redeploying this equipment.[4]

Additionally, in the first quarter of FY 2004, our review of the vending equipment revenue reports indicated that 75 percent (360 of 482) did not meet the minimum revenue requirements. Vending equipment sales were approximately $559,000, which was significantly less than the minimum revenue requirement of $1.3 million. As a result, the Oklahoma District may have missed revenue opportunities of approximately $750,000 by not redeploying this equipment.

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,

[4] 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 $977,000 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 $3 million represents the maximum total possible missed revenue opportunities for FY 2003 and is calculated by subtracting actual revenues generated from the total of all machine minimum revenue requirements.

Handbook PO-102, Self-Service Vending Operational and Marketing Program, Chapter 2, Section 256, 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 enough 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 (PS) Form 4805, Maintenance Work Order, and move the equipment to a better location.

District officials did not initiate redeployment action for the underperforming vending machines during FY 2003 and the first quarter of FY 2004 because it was not cost effective since these machines were generating some revenue. Additionally, district officials were concerned about the potential adverse impact to customer service if the machines were moved. Previous attempts to redeploy underperforming equipment were met with resistance from postmasters because the nonavailability of vending equipment would impact customer service in the locations. However, by not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials expressed that they did not have any concerns with the Postal Service's methodology used to establish minimum revenue requirement; however, they consider this criteria as guidance to manage the Self-Service Vending Program. District officials stated that although vending machines may not be meeting minimum revenue requirements, they were generating some revenue and were available for customers.

We discussed the results with Oklahoma 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. District officials indicated that plans were being developed to relocate vending locations based on an analysis of vending operations and receipt of 25 automated postal centers.[5]

Recommendation

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

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

[5] Automated postal centers are a newly developed kiosk that provides convenient 24-hour automated access to purchase stamps as well as many premium delivery services such as Express and Priority Mail.

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

Management's Comments

Management agreed with our finding and recommendation. The District Manager stated they can improve removing/relocating low performing machines in smaller offices. The District Manager instructed the Retail Manager to review the Equipment Relocation Analysis Report from VESS on a monthly basis to assess the opportunities and the impact of relocating equipment. In addition, management stated each site will be reviewed on an individual basis to determine if the equipment needs to be removed or relocated. The retail manager will notify Managers of Post Office Operations (MPOOs)/Postmasters of low performing equipment. The MPOOs/Postmaster will be given the opportunity to respond in writing to the Retail Manager to present a business case as to why the equipment should not be relocated or removed.

However, management stated disagreement that the district may have missed revenue opportunities as they have attempted to place their vending machines where the machines will have the highest traffic potential and that moving the machines would not guarantee they would produce the minimum revenue. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

Management's actions taken or planned are responsive to the recommendation and should resolve the issue identified in this finding. Regarding management's disagreement that they missed revenue opportunities, we determined that the term missed revenue opportunities was appropriate as our audit focused on vending revenue as reported in VESS and as compared to established minimums. The Postal Service measures the performance of vending operations by considering revenue generated; accordingly, we believe the term missed revenue opportunities appropriately represents the revenue-related performance measure within the confines of assessing individual machines only.

Use of Obsolete Equipment

In FY 2003, Oklahoma District officials continued to use 85 obsolete machines and possibly incurred maintenance and repair expenses, although Postal Service policy discontinued the maintenance and repair support for the machines in 2000.[6] Our review of vending equipment revenue reports showed five of the machines met minimum revenue requirements. Additionally, during the first quarter of FY 2004, our review of

[6] This Maintenance Management Order (MMO) supplements MMO-018-96, June 21, 1996, 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.

vending equipment revenue reports indicated that 97 percent (94 of 97) did not meet minimum revenue requirements.

District officials stated that they continued to use and maintain the obsolete equipment because removing the equipment would not be cost effective and because of concerns regarding the potential adverse impact on customer service since replacement equipment was not available. As a result, during FY 2003 and the first quarter of FY 2004, the district possibly incurred maintenance and repair expenses that may have exceeded the revenue generated by continuing to operate and maintain the obsolete machines. We were unable to determine the amount of repair and maintenance expenses associated with the machines because the Postal Service does not capture the data for each machine.[7]

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 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 possibly 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 costs to operate it. District officials indicated that plans will be made to replace the obsolete machines when new automated postal centers are deployed to the district locations.

Recommendation

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

2. Consider all feasible alternatives, and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment.

Management's Comments

Management agreed with our finding and recommendation. The District Manager stated the district has continued to use obsolete machines in FY 2003 and FY 2004. Seventy-five percent of the obsolete machines are located in small post offices.

[7] We plan to address this issue in a capping report to Postal Service Headquarters officials.

Postmasters maintain these machines and do not install new parts. However, the District Manager stated that, effective immediately, the retail manager will be directed to notify maintenance that obsolete equipment will not be repaired. Although management does not agree with the financial feasibility of removing all the equipment at one time the equipment will be removed as it malfunctions and sent to maintenance for proper disposition.

Evaluation of Management's Comments

Management's actions taken or planned are responsive to the recommendation and should resolve the issue identified in this finding.

Physical Observation of Vending Equipment

Our physical observation of vending machines in the Oklahoma District indicated that not all of the machines were accessible or operable. Specifically, 35 percent (7 of 20) of the machines judgmentally selected for review were not accessible or operating properly in July 2004. Two of the seven machines were not accessible; one machine was being replaced by a new APC in May 2004 and was redeployed to another location, and the other machine was not at the location recorded in VESS. District officials informed the OIG that the latter machine was in another location and the postmaster responsible for the machine had not updated the PS Form 8130, Vending Equipment Sales and Service Daily Activity Log, to ensure the information in VESS was accurate regarding the location of the machine. However, the district subsequently provided corrected PS Forms 8130 showing the new locations for these two machines.

The remaining five of the seven machines were inoperable in July 2004 during our physical observation. Two of the five machines had notices posted as being out of service in July 2004, while the remaining three had no postings. We reviewed PS Forms 8130 and found that four of the five inoperable machines showed no downtime for the month of July 2004. District officials stated that the forms did not show the machines' downtime because inoperable times were less than one day. However, officials added that if a machine is inoperable for any length of time, it must be recorded on the PS Form 8130. By not properly completing PS Forms 8130, Postal Service managers have no means of ensuring vending machines are operable or in need of repair, potentially resulting in a loss of revenue.

VESS is a nationwide computerized reporting system for the Self-Service Vending Program, which is used as a management tool for real-time tracking of vending cost in relation to sales. Data maintained in the VESS database is generated from PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.[8] Each employee associated with self-service vending equipment must complete a PS Form 8130 detailing the equipment serviced and maintained during each month.

[8] We plan to conduct an audit on the accuracy of data in VESS.

Recommendation

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

3. Require employees to accurately complete PS Form 8130, Vending Equipment Sales and Service Daily Activity Log, for the four machines, detailing the inoperable status for each machine, and consider retraining employees to accurately complete the forms.

Management's Comments

Management agreed with our finding and recommendation. The District Manager stated that effective immediately the retail manager will send information to the field regarding the proper completion and importance of the PS Form 8130.

Evaluation of Management's Comments

Management's actions taken or planned are responsive to the recommendation and should resolve the issue identified in this finding.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

Attachment

cc: John A. Rapp
Larry Flener
Lee Hawkins
Pam Gleason
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APPENDIX. MANAGEMENT'S COMMENTS

OKLAHOMA DISTRICT

UNITED STATES
POSTAL SERVICE

September 27, 2004

MARY W. DEMORY
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR OPERATIONS AND HUMAN CAPITAL
1735 N Lynn St
Arlington VA 22209-2020

SUBJECT: Review of Self-Service Vending Program – Oklahoma District
(Report Number DR-AR-04-DRAFT)

RECOMMENDATION 1:
Review revenue reports to identify underperforming equipment; notify Postmasters of vending equipment that generates low revenue; and giving consideration to all feasible alternatives, complete all necessary actions to redeploy underperforming equipment as often as possible.

Response
The Oklahoma District agrees that we have vending equipment that does not meet the monthly minimum requirements as set forth in Handbook PO102. However, it is not altogether reasonable to expect the same minimum revenue in each locale as the smaller rural communities cannot generate the same revenue equal to that of a large metropolitan area. Nevertheless, each piece of vending equipment has a base line to determine minimum revenue, and we look at that as a tool to make business decisions when locating or relocating machines. Costs that have to be considered in moving a machine are, maintenance hours and travel time, construction costs if a wall or floor has to be repaired, a base to sit the machine on if it is not free-standing, and training hours. To move a vending machine from one location to another without taking these costs into account and the impact that it could have on our customers would not be a good business decision.

We do not agree that the District may have missed revenue opportunities in the amount of approximately $977,000 to $3.0 million because we have attempted to place our machines where we have the highest traffic potential and moving them to new locations does not guarantee that they will produce the minimum revenue. Four Hundred and sixteen of these machines are not free standing and have to be wall mounted or put on a pedestal which most business customers are not agreeable to. Ninety-eight of the machines are obsolete and can not be redeployed once we remove them. Many of the underperforming machines are located in small post offices where removing them will cause a hardship on our customers.

It is agreed that we can do a better job removing/relocating low performing machines in smaller offices. I will instruct the Retail Manager to review the Equipment Relocation Analysis Report from the VESS reporting system on a monthly basis to assess the opportunities and the impact of relocating equipment. The Retail Manager will notify MPOOs/Postmasters of low performing equipment.

Each site will be looked at on an individual basis to determine if the equipment needs to be removed or relocated. The MPOO/Postmaster will be given the opportunity to respond in writing to the Retail Manager to present a business case as to why the equipment should not be relocated or removed.

Recommendation 2:
Consider all feasible alternatives, and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment.

Response
The Oklahoma District does agree that we have continued to use obsolete machines in FY2003 and FY2004. Seventy five percent of the obsolete machines are the PS53C which are located in small post offices. This is a single stamp machine that does not accept dollar bills. In early 1990's each district received a large number of bill acceptors (bam kits) that were used to modify existing PS53Cs. The machines that were not modified were deployed to smaller offices in the district instead of being placed in a warehouse or destroyed.

In May of 2000, the PS53C was deemed obsolete per MLB-PP-00-004. The Material Logistics Bulletin instructed maintenance to remove the parts in PS 53C and use to repair other machines as they were pulled from service. In the Oklahoma District these machines are basically maintained by the Postmaster and no new parts are installed by maintenance. Since new parts are not installed and the repair work is normally accomplished by the Postmaster costs would be minimal. It is possible that maintenance has repaired these machines without the knowledge of Marketing.

We do not agree that it would be financially feasible to remove all of this equipment at one time. The District could not bear the cost associated with construction to repair walls, travel by maintenance, and maintenance work hours. Some of the offices that have this equipment are 350 miles from the nearest facility that has maintenance personnel. This would also create a hardship on our customers that purchase from

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these machines when our lobbies are closed during the lunch hour and after the retail window is closed. The Oklahoma District would like to remove the PS53C through attrition. For example, when a machine needs work due to a malfunction or ceases to operate it will be removed.

Effective immediately the Retail Manager will be directed to notify Maintenance that obsolete equipment is not to be repaired. It will be removed and sent to maintenance for proper disposition.

Recommendation 3:

Require employees to accurately complete PS Form 8130 for the four machines detailing the inoperable status for each machine, and consider retraining employees to accurately complete the forms.

Response

A PS Form 8130 is completed for every vending machine in the Oklahoma District (565). Each form is reviewed by the Retail Specialist as it is entered into the VESS system. Updates are made on a monthly basis and new forms sent to those offices that indicate there have been changes. Telephone calls are made to each office that does not complete a PS Form 8130 to determine the problem and to provide assistance in getting the machine operational if necessary. However, it is difficult to determine that a machine has been down during the month if it is not documented on the PS 8130.

Effective immediately the Retail Manager will send information to the field regarding the proper completion and importance of the VESS report.

C. Michael Gaspard
District Manager
Oklahoma District

cc: SW Area Manager, MKT
SW Area Manager, Retail
POOMS