October 14, 2004

SUSAN M. PLONKEY
MANAGER, FORT WORTH DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Fort Worth District
(Report Number DR-AR-05-003)

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 Fort Worth District (Project Number 04YG024DR003). 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 Fort Worth District maintained 14 percent (545) of the total area machines that generated 13 percent ($11.1 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 Fort Worth District maintained 14 percent (564[2]) of the total area machines that generated 13 percent ($2.9 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 Fort Worth District had 19 additional vending machines during the first quarter of FY 2004.

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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 545 vending machines operating in the Fort Worth District during FY 2003, 108 were classified as obsolete based on Postal Service guidance, while the remaining 437 were classified as current equipment. For the first quarter of FY 2004, 564 vending machines were operating in the Fort Worth District, of which 108 were classified as obsolete, and the remaining 456 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 Fort Worth 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 Fort Worth 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, Fort Worth District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Fort Worth District officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. However, our physical observation of vending machines in the Fort Worth District indicated that overall the machines were operational and easily accessible.

Redeployment of Vending Machines

Fort Worth 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 61 percent (268 of 437) did not meet the minimum revenue requirements. Vending equipment sales were approximately $2 million, which was significantly less than the minimum revenue requirement of $4.1 million. As a result, the Fort Worth District may have missed revenue opportunities of approximately $664,000 to $2.1 million by not redeploying this equipment.[4]

Additionally, during the first quarter of FY 2004, our review of the vending equipment revenue reports indicated that 59 percent (271 of 456) did not meet the minimum revenue requirements. Vending equipment sales were approximately $423,000, which was significantly less than the minimum revenue requirement of $886,000. As a result, the Fort Worth District may have missed revenue opportunities of approximately $463,000 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, Handbook PO-102, Self-Service Vending Operational and Marketing Program,

[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 $664,000 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 $2.1 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.

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 they did not believe it was cost effective. District officials informed the OIG that it was not cost effective to redeploy underperforming machines because the machines generated some revenue. Further, officials told the OIG that if machines were removed, they would be stored in a warehouse where they would not generate any 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 in their facilities would impact customer service in the rural locations. However, by not taking action to redeploy under performing equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials stated they did not have a problem with the Postal Service's methodology used to establish minimum revenue requirements; however, they considered this criterion as guidance to manage the Self-Service Vending Program. District officials stated that although vending machines may not have met minimum revenue requirements, they did generate some revenue and were available for customers.

We discussed the results with Fort Worth 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 reassess vending locations based on an analysis of vending operations and receipt of 32 automated postal centers.[5]

[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.

Recommendation

We recommend the Manager, Fort Worth 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 feasible alternatives, complete all necessary actions to redeploy underperforming equipment as often as possible.

Management's Comments

Management agreed that the Fort Worth District has vending equipment that does not meet the minimum revenue requirements. However, they disagreed with the amount reported as missed revenue opportunities. District officials view the minimum revenue requirement for underperforming equipment as a tool to make business decisions when relocating or removing low producing machines. Management also agreed the process to remove/relocate low performing machines in smaller offices could be improved, but that other costs must be considered. In addition, management stated the retail manager will review the Equipment Relocation Analysis Report from VESS to assess the opportunities and the impact of relocating equipment on a monthly basis. Each site will be reviewed on an individual basis to determine if the equipment needs to be removed or relocated based on cost and other factors. The retail manager will notify Managers of Post Office Operations (MPOOs)/Postmasters of low performing equipment. The MPOOs/Postmasters will be given the opportunity to respond to the retail manager and present a business case concerning potential relocation or removal. 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. Management's action taken and planned should correct the issue identified in the finding.

Use of Obsolete Equipment

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 operations. The Postal Service measures the performance of vending operations by revenue generated; accordingly, we believe the term missed revenue opportunities appropriately represents the performance measure and that a direct correlation exists between lost revenue and equipment not meeting minimum revenue requirements within the confines of assessing the self-service vending program only.

In FY 2003, Fort Worth District officials continued to use 108 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 that only two of the machines met minimum revenue requirements. Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 96 percent (104 of 108) of the machines did not meet minimum revenue requirements.

District officials stated that they continued to use and maintain the obsolete equipment 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 the new automated postal centers are deployed to district locations.

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

Recommendation

We recommend the Manager, Fort Worth 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 the finding and the recommendation. The District Manager stated the district has 108 obsolete pieces of vending equipment. However, they do not agree that it would be financially feasible to remove all of the obsolete equipment at one time and plan to remove the equipment through attrition. The Retail Manger notified district maintenance officials on September 17, 2004, that effectively immediately, obsolete equipment must not be repaired, but must be removed and sent to maintenance for proper disposition.

Evaluation of Management's Comments

Management's comments are responsive to our recommendations. Management's action taken and planned should correct the issues identified in the 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
Karen Schott
Gary Holcomb
Pam Gleason
Steven R. Phelps

APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
FORT WORTH DISTRICT

UNITED STATES
POSTAL SERVICE

September 23, 2004

MARY W. DEMORY
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR OPERATIONS AND HUMAN CAPITAL
1735 N LYNN ST
ARLINGTON VA 22209-2020

SUBJECT: Self-Service Vending Program – Fort Worth 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
While the Fort Worth District agrees that we have vending equipment that does not meet the monthly minimum requirements, we do find fault in the amount of money listed in the audit as missed revenue opportunities. 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 relocating or removing low producing machines. For instance, it would not benefit the Fort Worth District to go to the expense to move a large piece of equipment such as a 1625B if it was generating 70 percent of its required base line. Other costs have to be considered. Maintenance charges the receiving office hours and travel time to move one of these machines. Construction cost could be involved if a wall or floor has to be repaired. There are instances where an office could utilize a larger piece of equipment, but does not have the lobby space to support it. It would not be a good business decision to remove a large piece of equipment and send it to a warehouse where it would not be utilized at all. We do have approximately 30 1625Bs that will be redeployed due to Automated Postal Center rollout.

It is agreed the process to remove/relocate low performing machines in smaller offices could be improved.

The Retail Manager will review the Equipment Relocation Analysis Report from the VESS reporting system to assess the opportunities and the impact of relocating equipment on a monthly basis. The Retail Manager will notify MPOOs/Postmasters of low performing equipment. Each site will be reviewed on an individual basis to determine if the equipment needs to be removed or relocated based on:

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1. Cost: does revenue exceed actual or alternative cost.
2. Other factors: potential customer complaints, increase in Wait Time In Line, current hours of service.

The MPOO/Postmaster will be given the opportunity to respond to the Retail Manager and present a business case concerning potential relocation or removal.

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

Response
We agree with the audit that the Fort Worth District has 108 obsolete pieces of vending equipment, each being a PS 53C. This is a single stamp machine that does not accept dollar bills. In the early 1990s each District received a large number of bill acceptors (bam kits) that were used to modify existing PS 53Cs. The machines that were not modified were deployed to smaller offices in the district instead of being placed in a warehouse and not utilized at all. 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 53Cs and use them to repair other machines.

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 150 miles from the nearest facility that has maintenance personnel. This would also create a hardship on our customers who purchase from these machines after the lobby is closed. The Fort Worth 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 this equipment is not to be repaired (see attached). It will be removed and sent to maintenance for proper disposition.

David E. [illegible]
for Susan M. Plonkey

Attachment

cc: Pam Gleason, SWA Manager, Marketing
Karen Schott, FTW (A) Manager, Marketing
Gary Holcomb, FTW Manager, Retail

[redacted] - Fort Worth, TX

From: [redacted]
Sent:
To:
Cc:

Subject: Obsolete Vending Equipment

Scan343,
nber 17, 2004

[redacted] **please ensure all Maintenance Managers in the District are in compliance with the following:**

Per attached Material Logistics Bulletin PP-OO-004 the PS-53C vending machine is obsolete. This machine is a single vend stamp machine and accepts coins only. We have 108 of these machines currently in service. Effective immediately if these machines break down and require parts they are to be removed from service. There will be no exceptions. If the machine is meeting monthly performance revenue goals ($300.00) it will be replaced with another piece of equipment. Thanks for your usual cooperation, [redacted]

[redacted]

UNITED STATES POSTAL SERVICE	**ORIGINATOR** [redacted]	**APPROVED BY** [redacted]
MATERIAL LOGISTICS BULLETIN	**DATE ISSUED** May 18, 2000	**EXPIRATION DATE** Indefinite
No. MLB-PP-00-004	**SUBJECT:** Self Service Vending Equipment--List of Current and Obsolete Items/Blanket Dispositions Authorizations	
THIS MLB REPLACES MLB-PP-95-002, AMENDMENT 3, DATED MAY 22,1997		

I. Purpose

To provide updated information on Self Service Vending Equipment. The following information has been updated in this MLB release:

II. Action

A. **In Attachment A under Stamp Vending Machines heading, the following item has been added: PS-22B, V-3510, Model Code 121, Cost $3,570, Quantity Purchased 2,000. Also, under Booklet Stamp Machine heading, an additional item has been added PBSM-624B, V-3508D, Model Code 602, Cost $7,550, Quantity Purchased 1,000.**

B. **In Attachment B, the following vending machine does not require Headquarters approval for disposition: (1) Rowe SCC-3 Small Currency Changer.**

C. **In Attachment B, Item PS-53C and PBM-2 have been added as Obsolete equipment.** This equipment can only be operated with coins and has exceeded its life cycle. These two machines contain parts that need to be removed and used as spares in other equipment. Both the PS-53C and PBM-2 machines are to be disposed of using local recycling firms. All references to the USPS must be defaced with spray paint, parts listed below removed, and permission is requested and received from TMDC to return parts to Topeka via the Return Authorization process, or these parts are retained as spares.

Machine	Parts to be Removed
PS-53C	NSN 3550010006532 Module, Master
	NSN 3550010006533 Module, Slave
	NSN 3550010007121 Coin Acceptor
	NSN 3550010008980 Coin Changer
	NSN 3550020007120 Coin Changer
	NSN 3550030001857 Chassis Assy, w/Harness
	NSN 599010000537PCB Assy, Program
PBM-2	NSN 3550010003974 Coin Acceptor
	NSN 3550030001854 Coin Changer

ATTACHMENTS

MLB-PP-00-004