



October 14, 2004

ROGER NIENABER
MANAGER, CINCINNATI DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Cincinnati District
(Report Number DR-AR-05-004)

This is one of a series of audit reports on the Self-Service Vending Program in the Eastern Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Cincinnati District (Project Number 04YG014DR002). The information in this district report will be included in a report to the Eastern 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 Eastern Area had 4,242 pieces of vending equipment that generated over \$103 million in revenue, of which the Cincinnati District maintained 9 percent (370) of the total area machines that generated over 12 percent (\$11.9 million) of the total area vending revenue. During the first quarter of FY 2004, the Eastern Area had 4,443 pieces of vending equipment that generated over \$27.9 million in revenue, of which the Cincinnati District maintained 9 percent (411) of the total area machines that generated over 12 percent (\$3.3 million) of the total area vending revenue.¹

¹ During the first quarter of FY 2004, the Eastern Area had 201 additional vending machines and the Cincinnati District had 41 additional vending machines during the first quarter of FY 2004 due to an area-wide reorganization.

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 370 vending machines operating in the Cincinnati District during FY 2003, 22² were classified as obsolete based on Postal Service guidance, while the remaining 348 were classified as current equipment. For the first quarter of FY 2004, 411 vending machines were operating in the Cincinnati District, of which 25³ were classified as obsolete, and the remaining 386 were classified as current equipment.

During our audit, we visited Postal Service facilities and 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 and the first quarter of FY 2004 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements.⁴ 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 Cincinnati District was conducted from March 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

² This number includes two currency changer machines, which do not generate revenue.

³ This number includes two currency changer machines, which do not generate revenue.

⁴ Obsolete equipment was not included in the minimum revenue analysis.

machines in the Tennessee, Alabama, and Atlanta Districts did not meet the minimum revenue requirements and the districts may have missed revenue opportunities of 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 actions taken and planned were responsive to the recommendations.

Audit Results

Opportunities exist for Cincinnati 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, Cincinnati District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Cincinnati 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 Cincinnati District indicated that overall the machines were operational and easily accessible, with one exception.

Redeployment of Vending Equipment

Cincinnati District officials could improve their process for redeploying vending equipment that does not meet Postal Service minimum revenue requirements. Specifically, during FY 2003, our review of the vending equipment revenue reports indicated that 48 percent (165 of 348) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$1.8 million, which was significantly less than the minimum revenue requirement of \$3.3 million. As a result, the Cincinnati District may have missed revenue opportunities of approximately \$440,000 to \$1.5 million by not redeploying this equipment.⁵

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 48 percent (187 of 386) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$395,000, which was significantly less than the average minimum revenue requirement of \$734,000. As a result, the Cincinnati District may have missed revenue opportunities of approximately \$339,000 by not redeploying this equipment.

⁵ 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 \$440,000 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 \$1.5 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.

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, 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.

Although district officials initiated maintenance work order requests for 11 underperforming machines, no action was taken to redeploy any machines that did not meet minimum revenue requirements during FY 2003 and the first quarter of FY 2004. District officials indicated that redeployment of the machines was not considered a high priority due to the nonavailability of required vending equipment for the new locations. Work efforts were directed to higher priorities such as automated postal centers and other retail programs. By not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials also expressed concern regarding the Postal Service's methodology to establish minimum revenue requirements, and that current requirements are too high in relation to the machines' geographic locations. We plan to forward the district's concern to Postal Service Headquarters.

We discussed the results with Cincinnati 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 are being made to reassess vending machine locations based on receipt of 42 automated postal centers.⁶

Recommendation

We recommend the Manager, Cincinnati 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

⁶ 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

Cincinnati District management agreed their process for redeploying vending equipment that does not meet minimum revenue requirements can be improved. The District Retail Manager will review revenue reports to identify underperforming vending equipment and give notice to postmasters of underperforming vending equipment. Notices will be sent no later than November 1, 2004. The District Retail Manager will consider all feasible alternatives and complete all necessary actions to redeploy underperforming 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 actions taken or planned should correct the issues identified in the finding.

Use of Obsolete Equipment

In FY 2003, Cincinnati District officials continued to use 20 obsolete machines and possibly incurred maintenance and repair expenses, although Postal Service policy discontinued the maintenance and repair support for the machines in June 2000.⁷ Our review of vending equipment revenue reports indicated that 90 percent (18 of 20) of the machines during FY 2003 and all of the machines during the first quarter of FY 2004 did not meet minimum revenue requirements.

District officials stated they continued to use and maintain the obsolete equipment primarily because of 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 obsolete machines. We were unable to determine the amount of repair and maintenance expenses associated with the obsolete machines because the Postal Service does not capture the data for each machine.⁸

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

⁷ This policy supplements Maintenance Management Order, 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.

⁸ We plan to address this issue in a capping report to Postal Service Headquarters officials.

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

Recommendation

We recommend the Manager, Cincinnati 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 that the Cincinnati District continued to use obsolete vending machines. Cincinnati District officials believe no maintenance and repair costs were incurred during FYs 2003 and 2004 because usable parts were removed from 58 pieces of obsolete equipment removed from service over the last three years. The Retail Manager will initiate work orders to remove the 20 remaining pieces of obsolete vending equipment from service no later than December 1, 2004.

Evaluation of Management's Comments

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

Physical Observation of Vending Machines

Our physical observation of vending machines in the Cincinnati District indicated that overall the machines were operational and easily accessible, with one exception. Specifically, 95 percent (19 of 20) of the machines judgmentally selected for review were operating properly and easily accessible. The remaining one machine had a notice posted as being out of service in May 2004; however, the inoperable machine was not listed in VESS as of the first week in June 2004. District officials indicated that the information for the one machine was not listed in VESS due to an employee

inaccurately completing PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.⁹ By not properly completing PS Forms 8130, Postal Service managers have no means of ensuring vending machines are inoperable or in need of repair potentially resulting in a loss of revenue.

The 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. Each employee associated with self-service vending equipment must complete a PS Form 8130 detailing the equipment serviced and maintained during each month.

Recommendation

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

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

Management's Comments

Cincinnati District management agreed that an employee inaccurately completed the out of service section of the PS Form 8130, Vending Equipment Sales and Service Daily Activity Log. The District Retail Manager will direct all employees to accurately complete to PS Form 8130s. A new standard operating procedure will be issued by October 1, 2004, with detailed instructions on proper form completion.

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.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG request 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.

⁹ We plan to conduct an audit on the accuracy of data in VESS.

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, 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
John P. Bowling
Joy D. Upton
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APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
CINCINNATI DISTRICT



September 15, 2004

Ms. Kim H. Stroud
Director, Audit Operations
Office of Inspector General
United States Postal Service
1735 North Lynn Street
Arlington Virginia 22209-2020

Subject: Draft Audit Report-Self-Service Vending Program-Cincinnati District
Reference: USPS OIG Report Number DR-AR-04-DRAFT

The following response is being provided concerning the findings of the audit conducted March through August 2004, in Cincinnati, Ohio.

Redeployment of Vending Equipment

- It is agreed that Cincinnati management can improve their process for redeploying equipment that does not meet Postal Service minimum revenue requirements.
- The District Retail Manager will review revenue reports immediately to identify underperforming vending equipment. He will notify postmasters with underperforming vending equipment that they have three to six months to meet minimum revenue requirements or the machine will be placed on a list for redeployment. These notices will be sent no later than November 1, 2004.
- He will consider all feasible alternatives and complete all necessary actions to redeploy underperforming equipment if minimum requirements are not met within the three to six month period. The costs involved in removing, transporting, and installing the aging re-deployed equipment and the lack of prospective sites to re-deploy machines to will be given strong consideration.

Use Of Obsolete Equipment

- It is agreed that Cincinnati District officials continue to use twenty obsolete vending machines. There were no maintenance and repair costs for these twenty pieces of equipment in FY 2003 and FY 2004 because usable parts were removed from the fifty-eight pieces of obsolete equipment that were removed from service in the last three years.

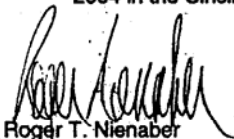
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- 2 -

- A computer-generated notice will be posted in postal lobbies/cafeterias no later than November 1, 2004 informing customers that the vending equipment will be removed from service.
- No later than December 1, 2004, the District Retail Manager will initiate work orders to remove the twenty remaining pieces of obsolete vending machines in the district.

Physical Observation of Vending Machines

- It is agreed that one vending employee inaccurately completed the out of service section on PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.
- The District Retail Manager will direct all vending employees to accurately complete the out of service sections on PS Form 8130, Vending Equipment Sales and Service Daily Activity Log. A Standard Operating Procedure will be posted by October 1, 2004 in the Cincinnati Weekly Digest with detailed instructions on proper completion.



Roger T. Nienaber
District Manager
Cincinnati District

cc: Manager, Finance
Manager, Marketing
Manager, Retail