October 19, 2004

DAVID C. FIELDS
MANAGER, GREENSBORO DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Greensboro District
(Report Number DR-AR-05-005)

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 Greensboro District (Project Number 04YG014DR001). 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 Greensboro District maintained 11 percent (466) of the total area machines that generated 10 percent ($10.3 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 Greensboro District maintained 11 percent (471) of the total area machines that generated over 9 percent ($2.6 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 Greensboro District had 5 additional vending machines during the first quarter of FY 2004.

1735 N Lynn St.
Arlington, VA 22209-2020
(703) 248-2100
Fax: (703) 248-2256

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 466 vending machines operating in the Greensboro District during FY 2003, 71 were classified as obsolete based on Postal Service guidance, while the remaining 395 were classified as current equipment. For the first quarter of FY 2004, 471 vending machines were operating in the Greensboro District, of which 72 were classified as obsolete, and the remaining 399 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 FY 2003 and the first quarter of FY 2004 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 Greensboro 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 machines in the Tennessee, Alabama, and Atlanta Districts did not meet the minimum revenue requirements and the districts may have missed revenue opportunities of

[2] 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 Greensboro 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, Greensboro District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Greensboro 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 Greensboro District indicated that overall the machines were operational and easily accessible, with one exception.

Redeployment of Vending Equipment

Greensboro 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 57 percent (225 of 395) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately $2.53 million, which was significantly less than the minimum revenue requirement of $4.52 million. As a result, the Greensboro District may have missed revenue opportunities of approximately $550,000 to $1.99 million by not redeploying this equipment.[3]

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 56 percent (224 of 399) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately $531,000, which was significantly less than the minimum revenue requirement of $950,000. As a result, the Greensboro District may have missed revenue opportunities of approximately $419,000 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

[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 $550,000 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 $1.99 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.

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 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 took action to redeploy one vending machine that did not meet minimum revenue requirements during FY 2003.[4] For the remaining 224 vending machines, district officials did not initiate any redeployment action. Additionally, during the first quarter of FY 2004, district officials did not initiate any redeployment action for the 224 underperforming machines. District officials indicated that redeployment of the machines was not considered a high priority due to the unavailability of vending equipment for new locations. Work efforts were directed to higher priorities such as contract postal units. By not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials expressed concern about 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.

We discussed the results with Greensboro District officials and they agreed 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 locations based on an analysis of vending operations and receipt of 20 automated postal centers.[5]

[4] Our review of the revenue reports for the first quarter of FY 2004 indicated that this machine did not meet minimum revenue requirements.
[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, Greensboro 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 opportunities exist to improve the effectiveness and efficiency of the Self-Service Vending Program. The Retail Vending Coordinator now monitors the VESS summary reports monthly and makes appropriate recommendations to the Managers of Retail and Marketing regarding which machines should be redeployed. The impact on customer satisfaction is considered in making these determinations.

However, management stated disagreement with the assertion that a direct correlation exists between lost revenue and vending equipment not meeting minimum revenue requirements. 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. Regarding management's disagreement with a direct correlation between lost revenue and vending equipment not meeting minimum revenue requirements, 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. Management's actions taken or planned should correct the issues identified in the finding.

Use of Obsolete Equipment

In FY 2003, Greensboro District officials continued to use 71 obsolete machines and possibly incurred maintenance and repair expenses, even though Postal Service policy discontinued the maintenance and repair support for the machines in June 2000.[6] Our review of vending equipment revenue reports indicated that 87 percent (62 of 71) of the machines did not meet minimum revenue requirements during FY 2003. Additionally,

[6] 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.

during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 90 percent (65 of 72) of the machines did not meet minimum revenue requirements.

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, 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 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 the district locations.

Recommendation

We recommend the Manager, Greensboro 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 to consider all feasible alternatives and complete all necessary actions to reduce repair and maintenance cost for obsolete equipment, subject to availability of replacement equipment. District officials are monitoring the service of

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

obsolete equipment and will remove any obsolete equipment that requires maintenance, other than equipment requiring minor repairs. Further, Postal Service Headquarters officials advised that they are in the process of redefining the definition of obsolete equipment which will impact the number of machines that will be classified as obsolete in the area and district locations.

<u>Evaluation of Management's Comments</u>

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

<u>Physical Observation of Vending Machines</u>

Our physical observation of vending machines in the Greensboro 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 were easily accessible. One machine had a notice posted as being out of service in May 2004; however, this machine was not yet listed in VESS as of the first week in June 2004. District officials indicated the information for the one machine was not listed in VESS due to a recording time delay. Therefore, we are making no recommendations to the district regarding this finding.[8]

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.

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.

[8] 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
Tori L. White
Linda W. Price
Brenda Miller
Steven R. Phelps

APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
GREENSBORO DISTRICT

UNITED STATES
POSTAL SERVICE

September 17, 2004

Kim H. Stroud
Director, Audit Operations

SUBJECT: OIG Vending Audit -- Greensboro District

This is in response to the self-initiated audit on the Self-Service Program in the Greensboro District (Project number O4YG014DR001).

I have attached our response to the audit. Thank you for this opportunity to respond. If you have any questions, please contact Tori White, Manager, Retail, at (336) 668-1290.

David C. Fields, Sr.

Attachment

P.O. Box 27[illegible]
Greensboro NC 27[illegible]-[illegible]
(336) [illegible]-1202
Fax (336) [illegible]-13[illegible]

GREENSBORO DISTRICT ANALYSIS/RESPONSE
OIG VENDING AUDIT
SEPTEMBER 14, 2004

This is in response to the self-initiated audit on the Self-Service Program in the Greensboro District (Project Number 04YG014DR001).

<u>Audit Results</u>
The Greensboro District agrees opportunities exist for the improvement of our Self-Service Vending Program in order to maintain efficiency, be cost effective, and meet or exceed program goals of increasing revenue and reducing operating costs. We continue to review the redeployment of equipment throughout the district as a result of APC installations.

Vending Revenue for the Greensboro District over the past four fiscal years indicate a steady growth in revenue:

FY2000: $ 8,686,041
FY2001: $ 9,774,369
FY2002: $10,073,220
FY2003: $10,249,899

The Greensboro District's FY2003 actual vending revenue (without 53C machines) was $9,945,158. This is a positive revenue trend of $1.5 million above the minimum requirements.

<u>Background</u>
As of AP13, FY2003, the Greensboro District maintained 473 pieces of equipment, with total revenue of $10.39 million.

During Quarter I of FY2004, the Greensboro District maintained 471 pieces of vending equipment, generating $2.6 million.

<u>Redeployment of Vending Equipment</u>
In FY2003, the Greensboro District maintained 401 pieces of vending equipment, with 229 of these machines not making the minimum requirements. The audit report stated we may have missed revenue opportunities of approximately $550,000 to $1.99 million by not redeploying these machines.

While we acknowledge opportunities exist for redeployment of vending equipment on a continuous basis, we disagree with the assertion that a direct correlation exists between lost revenue and vending equipment not meeting minimum revenue requirements.

<u>**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.**</u>

We agree with this recommendation, subject to the following issues and considerations.

The Retail Vending Coordinator now monitors the VESS summary reports monthly and makes appropriate recommendations to the managers of retail and marketing.

The VESS Equipment Relocation Analysis Report (attachment 2), does not always recommend removing vending equipment in offices not making the minimum revenue. For example: on the Equipment Relocation Analysis Report, ZIP 27102-9998 has a MCM-1625B, producing an average of $2700 per month. Recommendation on report is 'No change'.

It is our position customer satisfaction levels will be negatively impacted if all underperforming vending machines are removed. In some cases, vending machines were installed in Post Offices that are closed for 1-2 hours for lunchtime, offices that were experiencing high waiting time in line problems, and offices with low customer satisfaction measurement scores. Others were installed due to customer complaints. Customers in small communities rely on vending when Post Offices are closed for lunch during the week and are open for short periods of time on Saturdays, if at all.

Currently, the monthly minimum revenue requirement for single stamp machines is $500, a stamp booklet machine is $550, and a multi-commodity machine is $5000. In this district, 65% of the single vendors, 84% of the booklet machines, and 46% of the multi-commodity machines do not make the minimum revenue requirements.

As indicated during the OIG audit review, retail operations continue to review all vending equipment in the District. The primary indicators for redeploying vending equipment are: CSM scores, Waiting Time in Line reports, revenue, staffing, and distance to other vending locations. Our primary focus is on vending equipment not making at least 50% of the minimum requirements. During performance reviews, some machines warrant being retained in the office, while others warrant removal or replacement.

Items that will be considered prior to removing and/or relocating vending equipment:

- Along the east coast, many machines produce more than the minimum requirement during high vacation periods but do not meet the minimum requirements when averaged annually. Local management has deemed it necessary to keep vending equipment at these locations.
- In rural communities, customers have no alternate access to purchase stamps at Post Offices after the retail counter closes (in the small towns without stamps on consignments and with customers without computers to order online, etc.). It is very difficult for these rural locations to meet the minimum revenue requirements; however, vending equipment is deemed necessary.

<u>**RECOMMENDATION #2- Consider all feasible alternatives, and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment.**</u>

We agree with this recommendation, subject to the following issues and considerations.

Obsolete vending equipment consists of 68 53C machines and six 1625A machines. Replacement equipment is not available. If all obsolete machines are removed, smaller offices would have no vending equipment. Larger offices would lose single vending machines, forcing customers to stand in line for single stamp purchases.

The Multi-commodity 1625A machines were recently added to the obsolete vending machine listing. We have 6 active 1625A machines, which will require replacements with a 1625B or PBSM624 machine. We will pursue removing these machines and replacing them with PBSM624s from low revenue off-site locations, such as Wal-Mart, malls, and hospitals as the opportunity presents itself.

<u>Revenue for 53C Machines:</u>
In FY2003, the Greensboro District had a total of (72) obsolete 53-C vending machines in service. These machines require very little maintenance; there are no recorded repair expenses in FY2003. These (72) machines remain in service due to the lack of replacement vending equipment. In FY2003, (10) of the 53C machines made/exceeded the $500 minimum requirement; (62) machines did not make/exceed the $500 minimum revenue requirement. Minimum requirement for all 53C machines was $468,000; total revenue $304,743. A total of (30) 53C machines made 50% of the minimum revenue goal. The obsolete machines brought in 65% of the minimum revenue requirement.

In Quarter I of FY 2004, the district had a total of (72) 53C machines in service. A total of (8) machines made/exceeded the $500 minimum requirements; (64) did not make the $500 minimum requirement. A total of (29) 53C machines made 50% of the minimum revenue goal. Minimum requirement for 53C machines was $106,650; total revenue $56,713. The obsolete machines brought in 53% of the minimum revenue requirement.

As of July 2004, the Greensboro District had a total of (68) 53C machines in service (4 were removed since Quarter I). Four of the 68 machines made/exceeded the $500 minimum requirements; (64) did not make/exceed the $500 minimum requirement. A total of (30) machines made 50% of the minimum revenue goal. Total minimum requirement for all (68) 53C machines was $340,000; total revenue $171,554. The obsolete machines brought in 50% of the minimum revenue requirement.

Costs of 53C machines
There were no noted expenses incurred from maintenance or local post offices for the repair of the obsolete 53C vending machines in service during FY2003 and/or FY2004. It is our view the benefits of operating these obsolete machines far outweigh the costs to operate them. The cost has not offset the revenue generated, as stated in the audit report.

The retail department, with the assistance of SSPC technicians and maintenance personnel monitor service with 53C machines continuously. When a 53C vending machine requires maintenance other than minor repairs, the machine is removed from service immediately.

Observation of vending equipment
During the OIG audit, a physical observation of 20 vending machines was conducted that indicated overall the machines were operational and easily accessible, with only one exception. One machine was out of service during the review. This machine was repaired the next day (system had a jam). Reports showed 95% of the machines judgmentally selected for review were operating properly and were easily accessible.