



November 1, 2004

KIM R. FERNANDEZ  
ACTING MANAGER, BAY VALLEY DISTRICT

SUBJECT: Audit Report –Self-Service Vending Program – Bay Valley District  
(Report Number DR-AR-05-008)

This is one of a series of audit reports on the Self-Service Vending Program in the Pacific Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Bay Valley District (Project Number 04YG016DR003). The information in this district report will be included in a report to the Pacific 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 Pacific Area had 3,325 pieces of vending equipment that generated over \$145 million in revenue, of which the Bay Valley District maintained 14 percent (459) of the total area machines that generated over 14 percent (\$20.3 million) of the total area vending revenue. During the first quarter of FY 2004, the Pacific Area had 3,395 pieces<sup>1</sup> of vending equipment that generated over \$37.3 million in revenue, of which the Bay Valley District maintained 14 percent (467) of the total area machines that generated over 14 percent (\$5.1 million) of the total area vending revenue.

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<sup>1</sup> During the first quarter of FY 2004, the Pacific Area had 70 additional vending machines and the Bay Valley District had 8 additional vending machines during this period.

## **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 459 vending machines operating in the Bay Valley District during FY 2003, 44 were classified as obsolete based on Postal Service guidance, while the remaining 415 were classified as current equipment. For the first quarter of FY 2004, 467 vending machines were operating in the Bay Valley District, of which 44 were classified as obsolete, and the remaining 423 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.<sup>2</sup> 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 Bay Valley District was conducted from March through November 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

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<sup>2</sup> 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 Bay Valley 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, Bay Valley District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Bay Valley 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 Bay Valley District indicated that overall the machines were operational and easily accessible, with two exceptions.

### **Redeployment of Vending Equipment**

Bay Valley District officials could improve their process for redeploying vending equipment that does not meet Postal Service minimum revenue requirements. Specifically, our review of the vending equipment revenue reports indicated that 48 percent (201 of 415) of the vending machines did not meet the minimum revenue requirements during FY 2003. Vending equipment sales were approximately \$3.5 million, which was significantly less than the minimum revenue requirement of \$6.5 million. As a result, the Bay Valley District may have missed revenue opportunities of approximately \$950,000 to \$3 million by not redeploying this equipment.<sup>3</sup>

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 47 percent (200 of 423) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales for the first quarter of FY 2004 were approximately \$637,000, which was significantly less than the minimum revenue requirement of \$1.3 million. As a result, the Bay Valley District may have missed revenue opportunities of approximately \$689,000 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,

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<sup>3</sup> 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 \$950,000 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 the 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 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 two vending machines that did not meet minimum revenue requirements in FY 2003.<sup>4</sup> For the remaining 199 machines, district officials did not initiate any redeployment action. Additionally, during the first quarter of FY 2004, district officials did not initiate any redeployment actions for the 200 underperforming machines. District officials did not initiate any redeployment action for the underperforming vending machines during FY 2003 and the first quarter of FY 2004 because of concern for the potential adverse impact on customer service due to the nonavailability of machines. District officials also indicated the Self-Service Vending Program was not considered a high-priority, and limited resources were allocated to the program. Work efforts were directed to higher priorities such as mystery shopper, post office boxes, automated postal centers, contract postal units, retail products, and retail training. By not taking action to redeploy under performing equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials 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 this concern to Postal Service Headquarters.

We discussed the results with Bay Valley 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 trend analysis of historical vending data, and receipt of 54 automated postal centers.<sup>5</sup>

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<sup>4</sup> Our review of the revenue reports for the first quarter of FY 2004 indicated that the two machines revenue did not meet minimum revenue requirements.

<sup>5</sup> 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 Acting Manager, Bay Valley 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 with the finding and recommendation. The Retail Manager and District Vending Coordinator will review revenue reports to identify underperforming equipment, notify postmasters, and redeploy underperforming equipment as often as possible. Target completion for all machines meeting the minimum revenue is the end of FY 2005. Management's comments, in their entirety, are included in the appendix of this report.

## **Evaluation of Management's Comments**

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

## **Use of Obsolete Equipment**

In FY 2003, Bay Valley District officials continued to use 44 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.<sup>6</sup> Our review of vending equipment revenue reports indicated that 95 percent (42 of 44) of the vending machines did not meet minimum revenue requirements during FY 2003 and the first quarter of FY 2004.

District officials stated 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 obsolete machines because the Postal Service does not capture the data for each machine.<sup>7</sup>

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<sup>6</sup> 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.

<sup>7</sup> We plan to address this issue in a capping report to Postal Service Headquarters officials.

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 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 expenses 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 will be made to replace the obsolete machines when the new automated postal center machines are deployed to the district location.

### **Recommendation**

We recommend the Acting Manager, Bay Valley 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 recommendation and stated obsolete equipment will be removed by the end of FY 2005.

### **Evaluation of Management's Comments**

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

### **Physical Observation of Vending Machines**

Our physical observation of vending machines in the Bay Valley District indicated that overall the machines were operational and easily accessible, with two exceptions. Specifically, 90 percent (18 of 20) of the machines judgmentally selected for review were operating properly and easily accessible. Two of the machines were inoperable in April 2004; however, the inoperable machines were not yet listed in VESS as of June 8, 2004. In addition to the 20 machines judgmentally selected, we physically observed two machines that were not listed in VESS according to April 2004 data. District

officials indicated that the information for the inoperable machines was not listed in VESS due to employees inaccurately completing PS Forms 8130, Vending Equipment Sales and Service Daily Activity Log.<sup>8</sup> District officials also indicated that they were in the process of updating VESS to accurately reflect vending inventory. 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 Acting Manager, Bay Valley 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 four machines, detailing the inoperable and current location status for each machine, and consider retraining employees to accurately complete the forms.

### **Management's Comments**

Management provided subsequent comments stating that the Retail Manager and District Vending Coordinator will reiterate the proper procedures for updating VESS to accurately reflect vending inventory, and use this management tool for real-time tracking of vending cost in relation to sale.

### **Evaluation of Management's Comments**

Management's comments are responsive to our recommendation. Management's planned actions 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.

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<sup>8</sup> 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: Alfred Iniguez  
Karen S. Davis  
Kelly Fong  
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Steven R. Phelps



## APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER  
BAY-VALLEY CUSTOMER SERVICE AND SALES



September 22, 2004

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SUBJECT: Self-Service Vending Program - Bay-Valley District (Report # DR-AR-04-DRAFT)

This responds to the Self-Service Vending audit report completed in the Bay-Valley District by the Office Inspector General (OIG).

I am in agreement with the audit findings and following recommendations:

- Opportunities exist for Bay-Valley District 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.
- Bay-Valley District could redeploy equipment that does not meet minimum requirements, and possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment.

The Marketing Manager has taken the following steps to address the audit findings.

- The Retail Manager and district vending coordinator will review revenue reports to identify under performing equipment, notify postmasters of vending equipment that generates low revenue. Under performing equipment will be redeployed as often as possible. Target completion for all machines meeting minimum is end of FY05.
- Obsolete equipment (limited exceptions possible after review) will be removed by the end of FY 05.

Thank you for the detailed findings and information outlined in the Draft Audit Report. I assure you that we will utilize the data to increase both revenue and customer satisfaction within the Bay-Valley District.

  
Kim Fernandez  
Acting District Manager

cc: A. Laigo  
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DISTRICT MANAGER  
BAY-VALLEY CUSTOMER SERVICE AND SALES



October 6, 2004

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SUBJECT: Self-Service Vending Program - Bay-Valley District (Report # DR-AR-04-DRAFT) - **Addendum**

This is an addendum to my previous response, dated September 21, 2004, to the subject audit report completed in the Bay-Valley District.

This responds to the physical observation of two inoperable machines not yet listed in the Vending Equipment Sales and Service (VESS) program which was possibly due to employees inaccurately completing PS Forms 8130, Vending Equipment Sales and Service Daily Activity Log. In addition, there were two machines that were not listed in VESS according to April 2004 data.

The Marketing Manager has taken the following steps to address the audit findings.

- The Retail Manager and district vending coordinator will reiterate the proper procedures for updating VESS to accurately reflect vending inventory in order to ensure vending machines are determine if machines are inoperable or in need of repair.

Again, thank you for the detailed findings and information.



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Acting District Manager

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K. Fong

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