



April 11, 2005

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VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report – Self-Service Vending Program
(Report Number DR-AR-05-012)

This report summarizes the results of self-initiated audits of the Self-Service Vending Program (SSVP) in the Eastern, Northeast, Pacific, Southeast and Southwest Areas (Project Number 05YG018DR000). Our objective was to determine whether the SSVP is effectively and efficiently meeting program goals of increasing revenue and reducing operating costs. Specifically, we determined whether SSVP managers effectively redeployed vending equipment that did not meet minimum revenue requirements and discontinued using obsolete vending equipment. We also performed physical observations of vending machines to determine if they were operational and easily accessible.

Opportunities exist for Postal Service officials to improve the effectiveness and efficiency of the SSVP and meet or exceed program goals of increasing revenue and reducing operating costs. Specifically, Postal Service officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements and possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. Additionally, physical observations of vending machines indicated that overall the machines were operational and easily accessible.

Based on these findings, we recommended area officials direct district officials to review revenue reports to identify underperforming equipment; notify postmasters of vending equipment that generates low revenue and give consideration to all feasible alternatives; and complete all necessary actions to redeploy underperforming equipment as often as possible. We also recommended management consider all feasible alternatives and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment. Area officials concurred with the recommendations, but expressed concerns regarding establishing minimum revenue requirements and capturing repair and maintenance expenses for each machine. During our review (August 2004) the vice president, Delivery and Retail, issued a directive to implement nationwide

changes in the Postal Service's SSVP related to our area findings and concerns expressed by area officials. Therefore, we are making no recommendations that require management's comments.

The Postal Service's strategic goal is to provide convenient access to postal services for all customers and communities. Self-service vending machines have provided customers access to postal services since 1964 and continue to do so. Therefore, as the new automated postal centers are deployed, management must monitor locations to avoid redeployment issues similar to the self-service vending equipment. In addition, we recognize management's desire to provide customer service; however, because the Postal Service does not capture repair and maintenance costs, management has no means of assessing whether obsolete equipment revenues outweigh the costs to operate it.

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

/s/ Mary W. Demory

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Attachments

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TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	1
Prior Audit Coverage	2
Part II	
Audit Results	3
Improvements Needed in Redeploying Underperforming Equipment	3
Continued Use of Obsolete Equipment	4
District and Area Management Implemented Corrective Actions	5
Headquarters Management Implemented Corrective Action	5
Appendix. District Reports Issued	7

EXECUTIVE SUMMARY

Introduction

This report summarizes the results of self-initiated audits of the Self-Service Vending Program (SSVP) in the Eastern, Northeast, Pacific, Southeast and Southwest Areas. The objective of our audit was to determine whether the SSVP is effectively and efficiently meeting program goals of increasing revenue and reducing operating costs. Specifically, we determined whether SSVP managers effectively redeployed vending equipment that did not meet minimum revenue requirements in order to maximize revenue and discontinued using obsolete vending equipment.

Results in Brief

Our audits determined that opportunities existed for area officials to improve the effectiveness and efficiency of the SSVP and to meet or exceed program goals of increasing revenue and reducing operating costs. Officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. During fiscal year (FY) 2003, our review indicated that 59 percent (9,308 of 15,731) of the current vending machines in the Eastern, Northeast, Pacific, Southeast, and Southwest Areas did not meet the minimum revenue requirements, which resulted in the areas possibly missing revenue opportunities of \$30.85 to \$102.29 million by not redeploying this equipment. In addition, our review of first quarter of FY 2004,¹ indicated that 58 percent (7,024 of 12,166) of current machines did not meet the minimum revenue requirements, which resulted in the areas possibly missing revenue opportunities of approximately \$18.07 million by not redeploying this equipment.

Further, area officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. During FY 2003, 11 percent (2,038 of 17,769)² of the vending machines operating in these areas were classified as obsolete based on Postal Service guidance. Our review indicated that 89 percent (1,823 of 2,038) of these vending machines did not meet minimum revenue requirements during FY 2003. Further review indicated that during the first quarter of FY 2004, officials continued to use

¹ Due to the timing of the audit fieldwork we did not review the Southeast data for the first quarter of FY 2004.

² This number excludes 85 currency changers that do not generate revenue. The 85 currency changers are located in the Southeast (24 machines), Eastern (7 machines), Pacific (9 machines), Southwest (7 machines), and Northeast (38 machines) Areas.

13 percent (1,770 of 13,936)³ of the obsolete machines, 92 percent (1,632 of 1,770) of which did not meet minimum revenue requirements.

Additionally, our physical observations of vending machines indicated that, overall, the machines were operational and easily accessible.

We recommended retail management review revenue reports to identify underperforming equipment; notify postmasters of vending equipment that generates low revenue; give consideration to all feasible alternatives; and complete all necessary actions to redeploy underperforming equipment as often as possible. Additionally, we recommended management consider all feasible alternatives and complete all actions necessary to eliminate repair and maintenance costs for the obsolete equipment.

Area officials concurred with the recommendations, but expressed concerns regarding establishing of the minimum revenue requirements and capturing repair and maintenance expenses for each machine. During our review (August 2004), the vice president, Delivery and Retail, issued a directive to implement nationwide changes in the Postal Service's SSVP related to our area findings and concerns expressed by area officials.

**Summary of
Recommendations**

We are making no additional recommendations in this report that require management's comments. Management's comments to our individual reports were responsive to our recommendations and their planned actions should correct the identified issues.

³ This number excludes 67 currency changers that do not generate revenue. The 67 currency changers are located in the Eastern (11 machines), Pacific (9 machines), Southwest (7 machines), and Northeast (40 machines) Areas.

INTRODUCTION

Background

The Self-Service Vending Program (SSVP) was implemented in October 1964 and 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 standing 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 (FYs) 2001 through 2003.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the SSVP is effectively and efficiently meeting program goals of increasing revenue and reducing operating costs. Specifically, we determined whether SSVP managers effectively redeployed vending equipment that did not meet minimum revenue requirements in order to maximize revenue and discontinued the use of obsolete vending equipment.

During our audit, we visited selected Postal Service facilities in the Eastern, Northeast, Pacific, Southeast and Southwest, Areas. During these visits we interviewed managers and employees and reviewed documentation and applicable policies and procedures.

We analyzed data from the Postal Service's Vending Equipment Sales and Service System (VESS) for FYs 2002 through 2003 and the first quarter of FY 2004 for all district locations in the Eastern, Northeast, Pacific, Southeast, and Southwest Areas to identify equipment that did not meet the minimum revenue requirements and obsolete equipment. Although we relied on data obtained from VESS, we did not test the validity of this data due to time constraints. However, we are conducting a separate audit that includes determining the accuracy of the VESS data. The dollar amounts reported as missed revenue opportunities will not be affected by reliability of the data because the calculations were based on estimated dollar ranges for a period when the underperforming equipment was not redeployed.

This audit was conducted from January through April 2005 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 17 district reports on this subject. These reports stated that district officials could improve their process for redeploying vending equipment that does not meet minimum revenue requirements. Further, district officials continued to use obsolete machines and possibly incurred maintenance and repair expenses. A complete listing of the district reports issued is included in the appendix of this report.

AUDIT RESULTS

**Improvements
Needed in
Redeploying
Underperforming
Equipment**

Our review indicated that 59 percent (9,308 of 15,731) of the vending machines for the audited areas did not meet the minimum revenue requirements during FY 2003. Vending equipment sales totaled approximately \$101.24 million, which was significantly less than the minimum revenue requirement of \$203.75 million. As a result, these areas may have missed revenue opportunities of approximately \$30.85 to \$102.29 million by not redeploying this equipment during FY 2003. Further, during the first quarter of FY 2004, our review of the vending equipment revenue reports for the areas indicated that 58 percent (7,024 of 12,166) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales totaled approximately \$15.94 million, which was significantly less than the minimum revenue requirement of \$34.03 million. As a result, these areas may have missed revenue opportunities of approximately \$18.07 million by not redeploying this equipment during the first quarter of FY 2004.

One of the SSVP'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 (see 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; complete Postal Service Form 4805, Maintenance Work Order; and move the equipment to a better location.

Area and district officials stated they did not redeploy the underperforming vending machines during FY 2003 and the first quarter of FY 2004 because they did not consider the SSVF to be the highest priority. Instead, they directed work efforts to higher priorities, such as the automated postal centers. Further, area and district officials expressed concern regarding the Postal Service's methodology to establish minimum revenue requirements, in that the current requirements are too high in relation to the machines' geographic locations.

The Postal Service's strategic goal is to provide convenient access to postal services for all customers and communities. Self-service vending machines have provided access since 1964 and continue to serve customers. As the new automated postal centers are deployed, management must monitor locations to avoid redeployment issues similar to the self-service vending equipment.

**Continued Use of
Obsolete Equipment**

During FY 2003, area officials continued to use 2,038 obsolete machines, although Postal Service policy discontinued maintenance and repair support for the machines in June 2000. Our review of vending equipment revenue reports for the audited areas indicated that 89 percent (1,823 of 2,038) of these vending machines did not meet minimum revenue requirements during FY 2003. Further, during the first quarter of FY 2004, area officials continued to use 1,770 obsolete machines, 92 percent (1,632 of 1,770) of which did not meet minimum revenue requirements.

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 appropriate 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.

Area and 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, the areas possibly incurred maintenance and repair expenses by allowing the operation and maintenance of this equipment in the district locations. 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.

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 obsolete equipment revenues outweigh the costs to operate it.

We recommended retail management review revenue reports to identify underperforming equipment; notify postmasters of vending equipment that generates low revenue; give consideration to all feasible alternatives; and complete all necessary actions to redeploy underperforming equipment as often as possible. Additionally, we recommended management consider all feasible alternatives and complete all actions necessary to eliminate repair and maintenance costs for the obsolete equipment.

District and Area Management Implemented Corrective Actions	Area management agreed with the findings and recommendations of these reports. Based on these findings, these officials initiated corrective actions to redeploy underperforming vending equipment and remove obsolete equipment. Management's actions taken or planned should correct the issues identified in the reports.
Headquarters Management Implemented Corrective Action	Based on our findings and recommendations in these reports, the vice president, Delivery and Retail, issued a directive in August 2004 to implement nationwide changes in the Postal Service's SSVP. The changes included development of a task force to implement a self-service strategy that would eliminate costly obsolete vending equipment; remove and redeploy current, underperforming vending equipment; and revise removal and redeployment vending machine criteria.

Since management's comments to our individual reports were responsive to our recommendations and their planned actions should correct the identified issues, we are making no additional recommendations in this report.

APPENDIX DISTRICT REPORTS ISSUED

1. Self-Service Vending Program – Atlanta District
Report Number DR-AR-04-002, dated July 1, 2004
2. Self-Service Vending Program –Tennessee District
Report Number DR-AR-04-003, dated June 30, 2004
3. Self-Service Vending Program – Alabama District
Report Number DR-AR-04-004, dated June 30, 2004
4. Self-Service Vending Program – Greater South Carolina District
Report Number DR-AR-04-007, dated September 20, 2004
5. Self-Service Vending Program – Massachusetts District
Report Number DR-AR-04-008, dated September 24, 2004
6. Self-Service Vending Program – Nevada-Sierra District
Report Number DR-AR-04-009, dated September 24, 2004
7. Self-Service Vending Program – Rio Grande District
Report Number DR-AR-04-010, dated September 24, 2004
8. Self-Service Vending Program – Sacramento District
Report Number DR-AR-04-011 dated September 28, 2004
9. Self-Service Vending Program - Kentuckiana District
Report Number DR-AR-04-012, dated September 30, 2004
10. Self-Service Vending Program – Oklahoma District
Report Number DR-AR-05-001, dated October 14, 2004
11. Self-Service Vending Program – Boston District
Report Number DR-AR-05-002, dated October 14, 2004
12. Self-Service Vending Program – Fort Worth District
Report Number DR-AR-05-003, dated October 14, 2004
13. Self-Service Vending Program – Cincinnati District
Report Number DR-AR-05-004, dated October 14, 2004
14. Self-Service Vending Program – Greensboro District
Report Number DR-AR-05-005, dated October 19, 2004
15. Self-Service Vending Program – Albany District
Report Number DR-AR-04-006 dated September 13, 2004

16. Self-Service Vending Program - Santa Ana District
Report Number DR-AR-05-007 dated November 4, 2004
17. Self-Service Vending Program - Bay Valley District
Report Number DR-AR-05-008 dated November 1, 2004