



September 26, 2005

WILLIAM J. MITCHELL
DISTRICT MANAGER, ATLANTA DISTRICT

SUBJECT: Audit Report – Vending Equipment Sales and Service Data –
Atlanta District (Report Number DR-AR-05-016)

This report presents the results of our self-initiated audit of the Postal Service's Vending Equipment Sales and Service (VESS) Data in the Atlanta District (Project Number 04YG028DR002). The objective of our audit was to determine whether the VESS data is accurate. Specifically, in this audit, we determined whether Self-Service Vending Program (SSVP) managers have: (1) adequately managed the VESS data to ensure the sales and service information is accurately and completely captured, (2) accurately and timely transferred SSVP revenue information into the Postal Service financial systems, and (3) initiated investigative and corrective action to resolve vending credit shortages/overages.

Opportunities exist for Atlanta District officials to improve the accuracy of the VESS data. Specifically, SSVP managers did not adequately manage VESS data. Also, managers did not ensure sales and service information was accurate and transferred timely to the Postal Service financial systems during fiscal years (FYs) 2003 and 2004. As a result, the Atlanta District's FYs 2003 and 2004 VESS Sales Data was understated by approximately \$1.31 million when compared to Postal Service (PS) Form 8130, VESS Daily Activity Log. Our review also disclosed vending credit accountability concerns during our analysis

We recommended the manager, Atlanta District, direct vending program managers to ensure technicians enter complete information in all required fields of the PS Form 8130. We also recommended the district manager direct vending program managers to ensure vending sales amounts are accurately and timely transferred into the Postal Service financial systems and additionally, provide training to supervisors with vending oversight on reconciling the VESS and the Postal Service financial system and monitoring vending financial control activities.

[REDACTED]

Management agreed with our findings and recommendations and has initiatives completed and planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in this report.

The OIG considers recommendations 1, 2, and 3 significant, and requires OIG concurrence before closure. The OIG considers the support provided by management detailing corrective actions taken to be sufficient to close these recommendations.

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

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: William J. Brown
John F. Landwehr
Daryl J. Pichoff
Steven R. Phelps

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EXECUTIVE SUMMARY

Introduction	This report summarizes the results of our self-initiated audit of the Postal Service's Vending Equipment Sales and Service (VESS) Data in the Atlanta District. The objective of our audit was to determine whether the VESS data is accurate.
Results in Brief	Opportunities exist for Atlanta District officials to improve the accuracy of the VESS data. Specifically, Self-Service Vending Program managers did not adequately manage VESS data. Also, managers did not ensure sales and service information was accurate and transferred timely to the Postal Service financial systems during fiscal years (FYs) 2003 and 2004. As a result, the Atlanta District's FYs 2003 and 2004 VESS Sales Data were understated by approximately \$1.31 million when compared to Postal Service (PS) Form 8130, VESS Daily Activity Log. Our review also disclosed vending credit accountability concerns [REDACTED].
Summary of Recommendations	We recommended the manager, Atlanta District, direct vending program managers to ensure technicians enter complete information in all required fields of the PS Form 8130. We also recommended the district manager direct vending program managers to ensure vending sales amounts are accurately and timely transferred into the Postal Service financial systems and additionally, provide training to supervisors with vending oversight on reconciling the VESS and the Postal Service financial system and monitoring vending financial control activities. [REDACTED]
Summary of Management's Comments	Management agreed with our findings and recommendations. Management provided support for actions implemented, such as the development of Web VESS, the first Web-based system developed in the

Southeast Area that allows all vending servicing employees to enter vending sales data electronically. Additionally, management has provided or planned financial training for personnel with vending oversight responsibilities. Management's comments, in their entirety, are included in Appendix B of this report.

**Overall Evaluation of
Management's
Comments**

Management's actions taken or planned are responsive to our findings and recommendations and should correct the issues identified in the findings. The OIG considers the support provided by management detailing corrective actions taken to be sufficient to close the recommendations.

INTRODUCTION


Background

In fiscal year (FY) 2004, the Postal Service's Self-Service Vending Program (SSVP) generated revenue of \$576 million. Of that amount, \$13.9 million was generated by the Atlanta District's SSVP.¹

Vending Equipment Sales and Service (VESS) is an online reporting system database offering real-time tracking of product sales, miscellaneous costs, maintenance, and service of Postal Service vending machines. Data maintained in VESS is derived from the monthly² sales and machine activity data³ recorded on the Postal Service (PS) Form 8130, VESS Daily Activity Log. District retail specialists input this data into VESS and generate summaries to monitor compliance. District, area, and headquarters retail specialists generate summaries to monitor revenue and workhour costs and ensure optimum revenue goals are achieved and workhour costs remain within specified guidelines.

In January 2005, the Web Vending Activity Reporting System (Web VARS) replaced VESS. Web VARS is an online database that tracks vending activities including equipment inventories, product sales, costs, and maintenance. Web VARS stores vending sales information, hours spent supporting vending equipment, equipment type, equipment location and information on servicing employees. During the fieldwork stage of this audit, data from VESS was migrated into Web VARS and in January 2005, the Atlanta District began to enter sales recorded on the PS Form 8130 into Web VARS.

Self-service postal center (SSPC) technicians prepare a PS Form 1412, Daily Financial Report, showing stamp stock received, stamp stock returned and cash deposits for input into the Standard Accounting for Retail system (SAFR).⁴



¹FY 2004 Vending Revenue from Postal Service's Enterprise Data Warehouse (EDW) system.

² Handbook PO-102, Self Service Vending Operational and Marketing Program, Section 712, May 1999 (updated with Postal Bulletin revisions through April 29, 2004).

³All self-service vending-related time, out-of-service codes, and costs must be reported.

⁴Handbook F-1, Post Office Accounting Procedures, Section 212.1, November 1996 (updated with Postal Bulletin revisions through June 9, 2005).

[REDACTED]

Vending revenue activity presented in the financial statements is generated when vending revenue data from the PS Form 1412, Daily Financial Report, is input via SAFR to the Shared Services/Accounting system at the Eagan Accounting Service Center.⁵ Ideally, vending revenue data captured and maintained in VESS (Web VARS) should reconcile with the vending revenue data reported in the financial systems in order to reflect accurate vending revenue in the financial statements.

[REDACTED]

Supervisory personnel must examine the self-service vending credits [REDACTED]. Overages and shortages of \$100 or more are reported to the Postal Inspection Service (IS) and the Office of Inspector General (OIG) through the completion of a PS Form 571, Discrepancy of \$100 or More in Financial Responsibility.⁶

Objectives, Scope, and Methodology

The objective of our audit was to determine whether the VESS data was accurate. Specifically, in this review, we determined whether SSVP managers have: (1) adequately managed the VESS data to ensure the sales and service information is accurately and completely captured, (2) accurately and timely transferred SSVP revenue information into the Postal Service financial systems, and (3) took investigative and corrective action to resolve vending credit shortages/overages.

To accomplish our objectives, we used a total universe of

[REDACTED]

From this universe, we analyzed a sample of 149 technician/AP (month) combinations. To determine if managers adequately managed the VESS data, we reviewed

⁵Handbook F-1, Section 212.1.

⁶Handbook PO-102, Sections 642.32c and 643.31b, May 1999 (updated with Postal Bulletin revisions through May 26, 2005) and Section III, 2A of the Memorandum of Understanding between the OIG and IS, April 29, 2005.

documentation and applicable policies and procedures; visited Postal Service facilities; interviewed district retail managers and staff; traced FYs 2003 and 2004 data for the Atlanta District retrieved from VESS back to the source document, PS Form 8130 to (1) determine if all data is recorded and accurately input; and (2) reconcile the VESS revenue data with SAFR to determine if the vending revenue is accurately reported in the Postal Service financial statements. Using the EDW,⁷ we retrieved vending revenue information from the PS Form 1412, to trace back vending revenue data entered into SAFR.

We conducted this audit from November 2004 to September 2005 in accordance with generally accepted government accounting standards and included such tests of internal controls as considered necessary under the circumstances. We relied on data obtained from the VESS, Web VARS, SAFR and EDW systems. We did not directly audit these systems, but performed a limited data integrity review of the VESS and Web VARS systems to support our data reliance. We reviewed a sample of source documentation for each of the systems⁸ and found the data to be sufficiently reliable to meet the objectives of this review. We did not, however, test the validity of the data and controls over the SAFR and EDW systems.

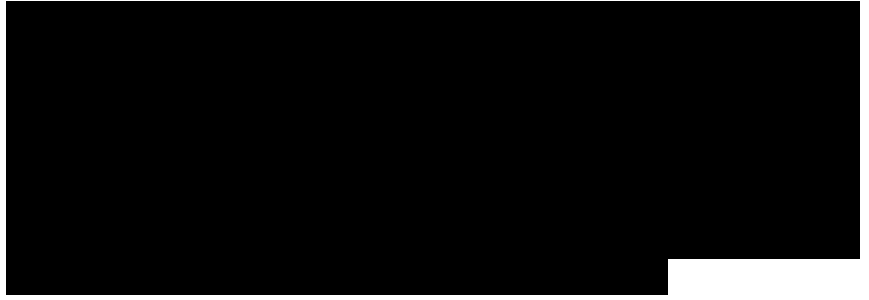
Prior Audit Coverage

The OIG has issued two audits related to our objectives.

Maintenance of Self-Service Postal Centers (Report Number, RQ-MA-99-001, September 9, 1999). The report stated that increasing controls over the SSPCs in the areas of technician supervision, auditing, and accountability may enable Postal Service officials to avoid future revenue losses, which averaged \$900,000 a year for FYs 1996 through 1998. The OIG recommended increasing the supervisor to technician ratio, providing training to non-technician personnel who service vending machines and providing guidance to ensure existing vending machine audits and revenue shortage procedures are consistently and equitably applied by supervisors.

⁷The EDW provides a common source of accurate corporate data across organizations to a wide variety of users. The vision of the EDW is to provide a single repository for managing the Postal Service's corporate data assets.


⁸The source document for VESS/Web VARS is the PS Form 8130.



AUDIT RESULTS

Vending Equipment Sales and Service Data

Opportunities exist for Atlanta District officials to improve the accuracy of the VESS data. Specifically, SSVP managers did not adequately manage VESS data. Also, managers did not ensure sales and service information was accurate and transferred timely to the Postal Service financial systems during FYs 2003 and 2004. As a result, Atlanta District FY 2003 and 2004 VESS sales data was understated by approximately \$1.31 million when compared to the PS Form 8130. Our review also disclosed vending credit accountability concerns



Inaccurate and Incomplete Vending Sales Data

Managers did not adequately manage VESS data. Our review of sales data reported by 18 technicians¹ during FYs 2003 and 2004 showed that vending sales data was inaccurate and/or incomplete in VESS.

This occurred because the district retail office did not:

- Enter correct sales amounts into VESS.
- Review sales data recorded on PS Form 8130 by the technicians.
- Enter all sales data into VESS.
- Enter sales amounts in the correct AP in VESS.

Also, PS Forms 8130 were sometimes illegible. As a result, Atlanta District VESS sales data for the technicians sampled was understated by approximately \$522,000. Based on projection of the sample results, VESS sales data was understated when compared to the PS Form 8130 by approximately \$1.31 million in the Atlanta District during FYs 2003 and 2004.⁹ Therefore, program managers may not have an accurate representation of vending sales to make sound business decisions regarding the SSVP.

Handbook PO-102, Section 712, states, “Each employee associated with self-service vending equipment must complete a PS Form 8130 detailing the equipment serviced and maintained during each month.” Furthermore,

⁹See Appendix A.

Handbook PO-102, Section 713 directs all servicing personnel (SSPC technicians and operators) to record the total sales amount in the total sales box on the PS Form 8130. It also advises these instructions must be followed each time money is removed from a machine [REDACTED] SSPC technicians should forward the PS forms to the District Retail Office for input by the retail specialists.

We discussed our concerns regarding the PS Forms 8130 with Atlanta District Retail officials. During our discussion, district Retail officials agreed with our concerns and discussed the development and implementation of Web VESS in the Atlanta District. Web VESS is a Web-based system that allows the technicians to enter their vending sales data electronically. Retail officials stated the implementation of this application has eliminated issues with calculation and recording errors and illegible entries.

Recommendation	We recommend the manager, Atlanta District, direct vending program managers to: 1. Ensure technicians enter complete information in all required fields of the PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.
Management's Comments	Management agreed with our finding and recommendation. The Atlanta District developed and implemented Web VESS, the first Web-based system developed in the Southeast Area that allows all vending servicing employees to enter vending sales data electronically.
Evaluation of Management's Comments	Management's comments are responsive to our finding and recommendation. Management's actions taken should correct the issues identified in the finding. The OIG considers the support provided by management detailing corrective actions taken to be sufficient to close the recommendation.

Vending Sales and Service Data Not Accurate and Transferred Timely to Financial Systems

Managers did not ensure sales and service information was accurate and transferred timely to the Postal Service financial systems during FYs 2003 and 2004. Our review [REDACTED] showed that sales data was incorrectly posted to the wrong account identifier code. As a result, the vending revenue data was understated in the Postal Service financial systems by approximately \$308,000 [REDACTED]. However, the sample does not allow us to state definitively whether the SAFR is overstated or understated when compared to VESS.¹⁰

Atlanta District Retail and Internal Control Group (ICG) officials indicated they do not reconcile the VESS and SAFR systems. The Postal Service currently does not have criteria in place regarding reconciliation between VESS and SAFR.¹¹ District Retail and ICG officials stated that most technicians and supervisors have not been adequately trained to reconcile sales data in VESS (Web VARS) with sales data in SAFR. Based on our discussions, ICG officials indicated that they plan to provide district supervisors responsible for oversight of vending activities with training.

Recommendations

We recommend the manager, Atlanta District, direct vending program managers to:

2. Ensure vending sales amounts are accurately and timely transferred into the Postal Service financial systems.
3. Provide training to supervisors with vending oversight on reconciling the Vending Equipment Sales and Service and Standard Field Accounting for Retail vending sales data and monitoring vending financial control activities.

Management's Comments

Management agreed with our finding and recommendations 2 and 3. Management will establish a process to ensure vending data reported is reconciled with sales data in SAFR. In addition, management conducted training in FY 2005 on vending financial responsibilities for all managers and supervisors responsible for SSPC technicians.

¹⁰See Appendix A.

¹¹Because this is an issue to be addressed at the Postal Service Headquarters level, we are not making any further comments on this issue at this time.

Management also plans to provide training in FY 2006 for all other non-technician personnel, managers, and supervisors.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our finding and recommendations 2 and 3. Management's actions taken or planned should correct the issues identified in the finding. The OIG considers the support provided by management detailing corrective actions taken to be sufficient to close the recommendations.

**Vending Credit
Shortages/Overages**

Our review disclosed vending credit accountability concerns [REDACTED] We discussed our concerns regarding vending credit accountabilities in general with Atlanta District ICG officials. During our discussion, ICG officials indicated they had concerns involving vending credit accountabilities with [REDACTED]

[REDACTED]

APPENDIX A. TECHNICAL DOCUMENTATION

STATISTICAL SAMPLING AND PROJECTIONS FOR REVIEW OF VENDING EQUIPMENT SALES AND SERVICE DATA

Purpose of the Sampling

One of the objectives of this audit was to assess whether VESS data is accurate. In support of this objective, the audit team employed a stratified random sample of FYs 2003 and 2004 PS Form 8130 for the Atlanta Customer Service District.

Definition of the Audit Universe

The final audit universe, for the SSVP of the Atlanta District, consisted of

[REDACTED]

Sample Design and Modifications

The initial test scope covered 13 APs in FY 2003 and the first 6 APs in FY 2004.

[REDACTED]

We had no information regarding the typical variability of the reported revenue amounts. Therefore, we based the sample size on projection of an attribute, such as the fraction of records in error, assuming a 50 percent expected error rate, a 95 percent confidence interval, and a desired precision of +/-7.5 percent.

The team subsequently determined that FY 2003 data included an extra AP as part of the Postal Service transition to monthly accounting. In addition, data for APs 7 through 12 in FY 2004 were available. Because the team had already initiated the collection of the PS Forms 8130 for the initial sample of 114 combinations, we included the 7 additional periods in a second stratum consisting of 126 combinations

[REDACTED]

Within each stratum, we selected the combinations for testing using simple random sampling without replacement.

	Number of combinations in audit universe	Number of combinations in sample
Stratum I: FY 2003, AP 1 to AP 13 and FY 2004, AP 1 to AP 6	342	114
Stratum II: FY 2003, AP 14, and FY 2004, AP 7 to AP 12	126	35
Total	468	149

Upon review of the raw data collected, we observed that the VESS system reported no revenue for AP 14 of FY 2003; Postal Service management advised us that, in VESS, data for APs 13 and 14 were combined and reported in AP 13. Analyzing this interpretation of the data, we found the VESS AP 13 data were still only (approximately) half of those found on the PS Forms 8130 and in SAFR. We were unable to resolve this discrepancy. Therefore, for our projections, we replaced the APs 13 and 14 data with an imputed amount from the remaining APs.

Statistical Projections of the Sample Data

Using as our input the revenue amount reported for all vending equipment in a sampled technician-AP combination, we projected several variables:

- The revenue amount reported on PS Forms 8130 for FY 2004.
- The difference between the amounts reported on the PS Forms 8130 and in VESS for FYs 2003 through 2004.

For comparison of PS Form 8130 data to the financial system (SAFR), we were limited to SAFR data for FY 2004. However, the audit team was able to provide that data in total, for all technician and AP combinations, for FY 2004. Therefore, we were able to eliminate uncertainty in the SAFR total, which we then compared to the projected amount from the PS Forms 8130.

For projection of the above variables and attribute to the audit universe for the Atlanta District of the Southeast Area during FYs 2003 and 2004, we applied the estimation formulas of a population total or proportion for a stratified sampling with simple random sampling in each stratum, as described in Model Assisted Survey Sampling, Särndal, Swensson, and Wretman, 1991.

PS Form 8130 versus VESS

To determine whether the revenue amount reported in VESS for each technician in each AP is accurately and completely entered from the PS Form 8130, we compared the revenue data from VESS to the revenue data from the PS Form 8130. Based on projection of the sample results, we are 95 percent confident that VESS is between \$0.74 million and \$1.89 million understated compared to the PS Forms 8130; the point estimate is that VESS is understated by \$1.31 million. This understatement amount represents 3 percent to 9 percent of the projected total revenue reported on PS Forms 8130 for FYs 2003 and 2004. As VESS is a management information tool, decision-makers may not have an accurate representation of vending revenue if they rely on VESS.

PS Form 8130 versus SAFR system

To determine the accurate recording of PS Form 8130 data in the Postal Service financial systems (SAFR), we compared the projected PS Form 8130 total amount for PS FY 2004 to the cash remitted from the SAFR system in FY 2004. Based on projection of the sample PS Form 8130 results, we are 95 percent confident that the FY 2004 revenue amount reported on the Form 8130 is between \$9.19 million and \$11.30 million. Because this confidence interval includes the cash remitted amount reported in SAFR, \$9.49 million, we cannot say that SAFR is either overstated or understated compared to the PS Forms 8130. We accept that SAFR accurately represents the revenue from the PS Forms 8130 for FY 2004.

APPENDIX B. MANAGEMENT'S COMMENTS

ATLANTA DISTRICT
CUSTOMER SERVICE & SALES



August 30, 2005

KIM H. STROUD
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SUBJECT: Vending Equipment Sales and Service Data (Report Number DR-AR-05-DRAFT)

This letter is in response to the audit observations and recommendations of the Atlanta District Vending Equipment Sales and Service (VESS) Data, please find our response to Project Number 04YG028DR002.

Recommendation 1:

Ensure technicians enter complete information in all required fields of the PS Form 8130, Vending Equipment Sales and Services Daily Activity Log.

Response

All deficiencies regarding inaccurate and incomplete vending reporting have been corrected. Since October 2004, significant efforts have been made to ensure technicians enter complete information as required on the PS Form 8130. The Atlanta District developed and implemented Web VESS, the first web-based system developed in the Southeast Area that allows all vending servicing employees to enter vending sales data electronically, which has eliminated all issues with recording errors, calculation and illegible entries. With the development of Web VESS, all required fields must be completed in order to save and submit the data as required.

Recommendation 2:

Ensure vending sales amounts are timely and accurately transferred into the Postal Service financial systems.

Response

The vending program manager ensures that all vending sales information is timely transferred to WebVARS, the HQ web-based database, for each vending site as required to maintain a 100% compliance ratio. Working collectively with the Internal Control Group (ICG), an audit process has been established to monitor and ensure timely vending audits, resolve deficiencies, and avoid revenue losses. The Atlanta District has been 100% compliant since the implementation of Web VESS.

Recommendation 3:

Provide training to supervisors with vending oversight on reconciling the VESS and Standard Field Accounting for Retail (SAFR) vending sales data and monitoring vending financial control activities.

Response

Financial training was provided to all Managers and Supervisors responsible for SSPC Technicians on vending financial responsibilities and financial control activities, to include audit and revenue shortage procedures in FY'05. Working collectively with the ICG, training is planned for all other non-technician personnel, managers, and supervisors in FY 2006.

The Postal Service currently does not have criteria in place to reconcile VESS and SAFR; however, it is our understanding that HQ Retail is working to establish links between VESS and other financial databases. Until such time, we will work with ICG to establish a process to ensure that vending data reported

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is reconciled as recommended. This process will remain in place until/unless HQ Retail provides procedures and criteria to be followed.

The Atlanta District Retail Manager will continue to monitor the vending program and vending activity, to include timely and accurate VESS reporting, transferring of data and reconciling VESS to SAFR, all of which will improve the integrity of the vending program in the Atlanta District.



William J. Mitchell
District Manager