



March 10, 2010

TIMOTHY HEALY
VICE PRESIDENT, RETAIL PRODUCTS AND SERVICES

DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

SUBJECT: Management Advisory – Vending Operations Closure
and Financial Risk (Report Number FF-MA-10-001)

This management advisory presents our results from the Performance and Results Information Systems Vending Risk Model (Project Number 10BO001FF001). The objective of this review was to determine whether field units closed vending operations by September 30, 2009, as prescribed by Postal Service Headquarters. This advisory addresses financial risk. See [Appendix A](#) for additional information about this review.

Conclusion

The Postal Service has closed approximately 2,261 vending accountabilities with stamp stock balances valued at more than \$34 million over the past year.¹ However, our vending risk model shows that not all field units closed out vending stamp stock accountabilities and deposited vending cash by the end of fiscal year (FY) 2009. As of January 8, 2010, the Postal Service had vending operations at 402 units with over \$1.8 million in stamp stock balances and five self-service postal centers (SSPC) with \$16,742 in undeposited cash. In addition, based on previous audit results, we are concerned there could be additional undeposited cash at traditional vending units.² Not closing out vending accountabilities and depositing cash increases the risk of loss to the Postal Service. See [Appendix B](#) for our detailed analysis of this topic. See [Appendix C](#) for monetary and non-monetary impacts.

¹ As of August 2009, the Postal Service had approximately 850 vending units with stamp stock totaling over \$6.4 million.

² We were able to identify SSPCs' undeposited cash since SSPCs have their own 10-digit unit finance number as a separate reporting unit. Traditional vending credits are under a retail unit as part of their Postal Service (PS) Form 1412, Daily Financial Report; therefore, we could not determine undeposited cash for traditional vending units.

We recommend the vice president, Retail Products and Services, in coordination with the vice president, Delivery and Post Office Operations, direct Area Operations management to:

1. Investigate all remaining stamp stock balances and close and zero out the vending accountabilities.
2. Identify and deposit all undeposited cash associated with the vending accountabilities.
3. Provide a periodic status to the vice president, Retail Products and Services, and vice president, Delivery and Post Office Operations, until all remaining vending accountabilities are closed and zeroed out and cash associated with the vending accountabilities is deposited.

Management's Comments

Management agreed with the finding and recommendations. Postal Service headquarters management stated each area will be contacted to investigate, zero out and close all open vending accountabilities by the end of Quarter 2, FY 2010. In addition, area operations management will be directed to identify and deposit cash assigned to vending accountabilities by the end of Quarter 3, FY 2010. Furthermore, beginning in March 2010, a monthly status report will be sent to the vice president, Retail Products and Services, and vice president, Delivery and Post Office Operations, until all remaining vending accountabilities are closed and zeroed out; and cash associated with vending accountabilities is deposited. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations, and corrective actions should resolve the issues identified in the report.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Linda Libician-Welch, director, Field Financial - West, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive script that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachment

cc: Joseph Corbett
Vincent H. DeVito, Jr.
Stephen J. Masse
Drew T. Aliperto
Megan J. Brennan
Sylvester Black
Ellis A. Burgoyne
Jo Ann Feindt
Timothy C. Haney
Jerry D .Lane
Linda J. Welch
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service implemented a program in October 2006 to phase out approximately 23,000 stamp vending machines from post offices and retail locations across the country by the end of FY 2010. In July 2009, the Postal Service accelerated the vending machine phase out to be completed by the end of FY 2009. To meet the new deadline, the Postal Service instructed units to place closure notices on all remaining machines by August 31, 2009, and close out all vending accountabilities by September 30, 2009.

During FY 2009, the OIG developed a vending risk model based on financial data in the Enterprise Data Warehouse, which ranked the Postal Service's districts by financial risks associated with vending operations. We discussed the model with Retail Services and Finance managers to obtain their input and feedback. We used the model to initiate audits in the Rio Grande and Los Angeles Districts.³ In addition, in July 2009, we provided risk model results to area finance and marketing managers to assist them with closing out vending operations. Further, in September 2009, we developed an online web-based forum⁴ to obtain feedback from district finance and marketing managers on their vending closure process and progress.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review is to determine whether field units closed vending operations by September 30, 2009, as directed by Postal Service Headquarters. To accomplish our objective, we analyzed Postal Service financial data in the Enterprise Data Warehouse for the period September 5, 2009, through January 8, 2010.

Using our vending risk model, we identified units that had ending stamp stock balances that exceeded zero. In addition, we retrieved the cash retained⁵ data for SSPCs by extracting the totals listed in Account Identifier Code (AIC) 753, Cash Retained Today, on the SSPCs' last submitted PS Forms 1412, which range from January 15, 2008, through January 8, 2010. Further, we used the retail operations website⁶ and the *Retail Digest*⁷ to identify the vending machine removal policies and procedures.

³ *Rio Grande District – Vending Operations Risk* (Report Number FF-AR-09-205, dated August 6, 2009) and *Fiscal Year 2009 Los Angeles District Financial Risk* (Report Number FF-AR-10-028, dated December 3, 2009).

⁴ Forums provide an opportunity to have a conversation, usually about a specific topic.

⁵ Cash held and amounts received after the last deposit.

⁶ *Accounting Policy, HQ Finance* http://blue.usps.gov/retail/_Equip/_doc/vnd_Closing%20an%20SSPC.doc.

⁷ *Retail Digest*, Weekly Messages from USPS Retail, July 24, 2009.

We conducted this review from December 2009 through March 2010 in accordance with the *Quality Standards for Inspections*.⁸ We discussed our observations and conclusions with management officials on January 27, 2010, and included their comments where appropriate. Although, we did not test the reliability of computer-generated data supporting the management advisory, we tested the vending risk model data while performing the Rio Grande and Los Angeles District audits and determined that the information extracted for our model has been reliable.

PRIOR AUDIT COVERAGE

The OIG issued two reports addressing vending operations based on the Vending Risk Model.

| Report Title | Report Number | Final Report Date | Monetary Impact | Non-monetary Impact | Report Results |
|---|---------------|-------------------|-----------------|---------------------|--|
| <i>Rio Grande District – Vending Operations Risk</i> | FF-AR-09-205 | August 6, 2009 | \$15,369 | \$185,244 | Internal controls over vending were not in place and effective at six of the 10 units audited. At these units, management did not conduct a final credit examination and close vending credits totaling \$185,244. Five units did not return vending stamp stock to the Stamp Distribution Office (SDO) for destruction. In addition, five units did not make final deposits of vending cash totaling \$9,241. Management agreed with the findings and recommendation. |
| <i>Fiscal Year 2009 Los Angeles District Financial Risk</i> | FF-AR-10-028 | December 3, 2009 | \$250,151 | \$2,246,784 | Various internal controls at 10 units were not in place and effective. In addition, related to vending, management at two units did not close accountabilities, deposit cash totaling \$7,005, and return stock totaling \$54,797 to the SDO after deactivating and removing vending machines from service in June 2008. Management agreed with the findings and recommendation. |

⁸ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, [the Inspector General Act of 1978, as amended by the IG Reform Act of 2008](#), created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

APPENDIX B: DETAILED ANALYSIS

Units Have Vending Stamp Stock Balances and Undeposited Cash

Over the past year, the Postal Service has closed approximately 2,261 accountabilities with stamp stock balances valued at more than \$34 million. However, our vending risk model shows field units did not close out all vending accountabilities and deposit cash by the date established by Postal Service Headquarters. Specifically, as of January 8, 2010, 402 units have stamp accountability balances totaling over \$1.8 million. In addition, at least five units have \$16,742 in undeposited vending cash. Further, we are concerned there could be additional undeposited cash at traditional vending units because previous audit results included issues related to undeposited cash at traditional vending units that had ceased operating. Postal Service policy for vending closures requires zeroing out of the accountability and depositing cash.⁹ Not closing out vending accountabilities and depositing cash increases the risk of loss to the Postal Service.

Stamp Stock Balances

While some of the vending stamp stock balances may be immaterial, 239 (or over 59 percent of the 402 units identified), had stamp stock balances greater than \$1,000 as of January 8, 2010, as shown in the following table:

Number of Units With Vending Stamp Stock Balances by Dollar Range

| Vending Stamp Stock Balance Range | Number of units |
|-----------------------------------|-----------------|
| Less than \$1 | 20 |
| \$ 1 - \$ 100 | 72 |
| \$ 101 - \$ 1,000 | 71 |
| \$ 1,001 - \$ 10,000 | 189 |
| \$ 10,001 - \$ 25,000 | 42 |
| \$ 25,001 - \$100,000 | 7 |
| More than \$100,000 | 1 |
| | |
| Total | 402 |

Of the 74 Postal Service districts, 41 have vending stamp accountability balances. As shown in the following table, the district with the largest number of accountabilities has 42 units with vending stock accountability balances totaling \$289,221.

⁹ Accounting Policy, HQ Finance http://blue.usps.gov/retail/_Equip/_doc/vnd_Closing%20an%20SSPC.doc.

Vending Stamp Stock Accountability Balances by District

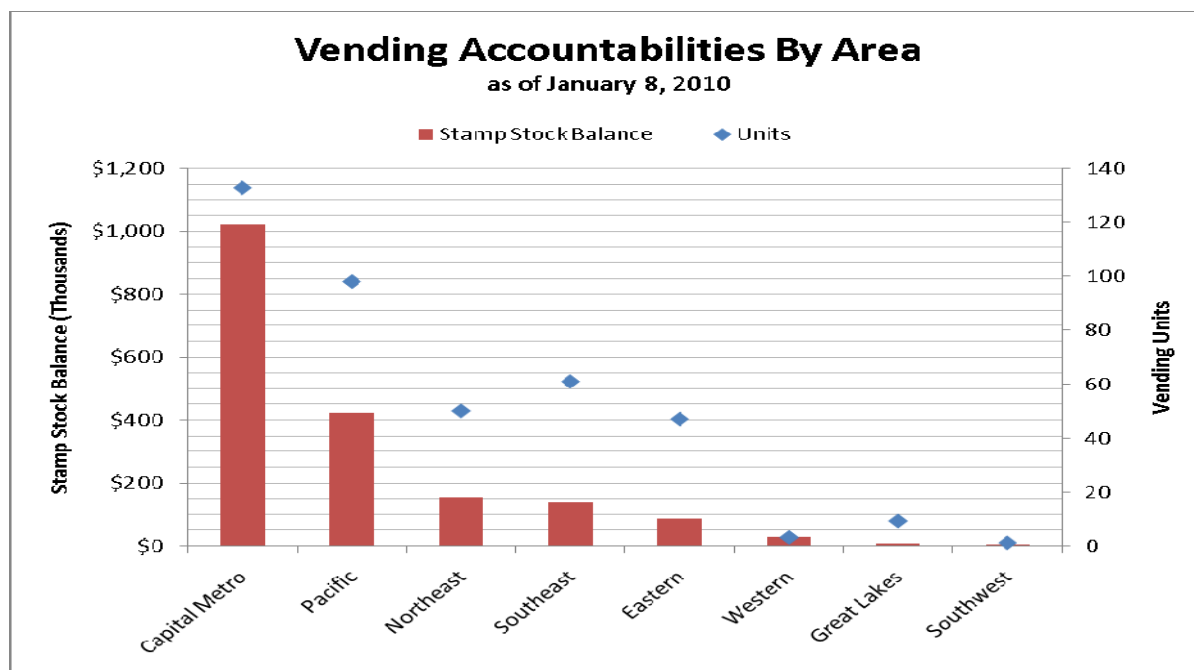
| Count | Area | District ¹⁰ | November 2008 | | January 2010 | |
|-------|---------------|------------------------|-----------------|------------------------------------|------------------|------------------------------------|
| | | | Number of Units | Stamp Stock Accountability Balance | Number of Units | Stamp Stock Accountability Balance |
| 1 | Capital Metro | Baltimore | 66 | \$1,391,680 | 29 ¹¹ | \$324,118 |
| 2 | Capital Metro | Greensboro | 118 | 1,441,557 | 42 ¹⁰ | 289,221 |
| 3 | Capital Metro | Richmond | 72 | 1,874,717 | 22 | 213,176 |
| 4 | Pacific | Sacramento | 91 | 769,208 | 24 ¹⁰ | 165,301 |
| 5 | Pacific | Bay-Valley | 62 | 1,116,307 | 24 | 142,454 |
| 6 | Capital Metro | Capital | 64 | 1,231,480 | 19 | 106,281 |
| 7 | Southeast | Alabama | 100 | \$328,137 | 25 | 56,450 |
| 8 | Eastern | Philadelphia | 86 | 995,234 | 26 | 51,840 |
| 9 | Capital Metro | Northern Virginia | 30 | 851,541 | 6 ¹⁰ | 49,507 |
| 10 | Northeast | Triboro | 48 | 787,061 | 7 ¹⁰ | 41,424 |
| 11 | Capital Metro | Greater South Carolina | 80 | 891,302 | 14 | 35,182 |
| 12 | Pacific | Santa Ana | 82 | 3,385,635 | 10 ¹⁰ | 33,285 |
| 13 | Pacific | Sierra Coastal | 117 | 1,543,830 | 15 ¹⁰ | 32,724 |
| 14 | Northeast | Connecticut Valley | 30 | 114,676 | 8 | 32,407 |
| 15 | Southeast | South Georgia | 56 | 146,544 | 9 | 27,915 |
| 16 | Western | Hawkeye | 2 | 56,683 | 2 ¹⁰ | 27,689 |
| 17 | Northeast | Caribbean | 17 | 256,752 | 9 | 26,573 |
| 18 | Southeast | Suncoast | 29 | 122,898 | 9 | 26,505 |
| 19 | Eastern | Cincinnati | 30 | 1,262,303 | 10 | 23,954 |
| 20 | Pacific | San Francisco | 66 | 1,186,013 | 10 | 21,531 |
| 21 | Pacific | Los Angeles | 30 | 927,155 | 11 ¹⁰ | 16,839 |
| 22 | Northeast | Albany | 21 | 86,677 | 10 | 15,985 |
| 23 | Southeast | Atlanta | 33 | 182,988 | 15 | 13,387 |
| 24 | Northeast | Greater Boston | 8 | 110,456 | 2 | 11,288 |
| 25 | Northeast | Northern New England | 21 | 146,701 | 4 | 10,053 |
| 26 | Pacific | Honolulu | 22 | 329,364 | 4 | 9,342 |
| 27 | Northeast | Westchester | 34 | 282,405 | 6 | 8,813 |
| 28 | Northeast | Northern New Jersey | 99 | 913,751 | 3 ¹⁰ | 8,115 |
| 29 | Southeast | North Florida | 8 | 70,126 | 2 | 8,014 |
| 30 | Southeast | South Florida | 27 | 186,506 | 1 | 6,554 |
| 31 | Eastern | Appalachian | 25 | 47,884 | 7 | 5,670 |

¹⁰ The Postal Service closed the Central Florida, Central Jersey, Erie, Massachusetts, New Hampshire/Vermont, and Spokane Districts, and merged their functions with 10 surrounding districts. The district and unit realignment is reflected in the data above.

¹¹ The number of units includes one or more SSPCs.

| Count | Area | District ¹⁰ | November 2008 | | January 2010 | |
|--|---------------|------------------------|-----------------|------------------------------------|-----------------|------------------------------------|
| | | | Number of Units | Stamp Stock Accountability Balance | Number of Units | Stamp Stock Accountability Balance |
| 32 | Capital Metro | Mid-Carolinas | 151 | 1,183,894 | 1 | 4,160 |
| 33 | Eastern | Northern Ohio | 2 | 49,596 ¹² | 1 | 2,915 |
| 34 | Great Lakes | Greater Michigan | 13 | 25,684 | 2 | 2,752 |
| 35 | Eastern | Western Pennsylvania | 19 | 55,935 | 3 | 2,369 |
| 36 | Great Lakes | Chicago | 6 | 231,395 | 2 | 1,852 |
| 37 | Western | Colorado/Wyoming | 0 | 0 | 1 | 1,595 |
| 38 | Great Lakes | Gateway | 88 | 673,414 | 4 | 1,366 |
| 39 | Great Lakes | Lakeland | 38 | 679,281 | 1 | 54 |
| 40 | Northeast | Southeast New England | 9 | 23,790 | 1 | 8 |
| 41 | Southwest | Louisiana | 20 | 67,199 | 1 | 1 |
| Districts with no vending stamp stock balances | | | 743 | 10,430,248 | 0 | 0 |
| Totals | | | 2,663 | \$36,458,008 | 402 | \$1,858,667 |

The following chart shows the stamp stock balances and the number of units by Postal Service area.



Undeposited Cash

The 402 units with vending stamp stock balances include 19 SSPCs, five of which also had undeposited cash totaling \$16,742.¹² Although we cannot easily determine if there is undeposited cash associated with the remaining units, we are concerned the traditional vending units with stamp stock balances may also have undeposited cash.¹³ During recent work in the Rio Grande and Los Angeles Districts, we identified undeposited cash of \$9,200 and \$7,000, respectively, associated with traditional vending units that had ceased operating but still had stamp stock balances.¹⁴

SSPC Cash Retained By District

| Count | Area | District | Number of Units | Cash Retained |
|---------------|---------------|-----------------|------------------------|----------------------|
| 1 | Capital Metro | Greensboro | 1 | \$4,800 |
| 2 | Pacific | Sacramento | 1 | 4,000 |
| 3 | Pacific | Los Angeles | 1 | 1,328 |
| 4 | Northeast | Triboro | 2 | 6,614 |
| | | | | |
| Totals | | | 5 | \$16,742 |

OIG DISCUSSION FORUM RESULTS

In September 2009, the OIG held a web-based online forum and invited district finance and marketing managers to comment on two questions regarding Postal Service vending closures. In the forum, we explained the Postal Service had accelerated the removal date for all vending machines to the end of FY 2009. We asked the following questions:

- Do you anticipate any problems with removing vending machine and closing accountabilities by the end of FY 2009?
- How is the district monitoring vending machine removals and accountability closures between now and the end of FY 2009?

The forum generated 20 postings and respondents stated that, generally, they had removed vending machines and closed accountabilities or would close out vending operations by the end of FY 2009. Two respondents anticipated or had experienced

¹² The cash retained ranged from \$1,328 to \$5,028.

¹³ The remaining 383 units (402 total units minus the 19 SSPCs) represent traditional vending and their financial activity cannot be isolated from retail operations without physical verification.

¹⁴ *Rio Grande District – Vending Operations Risk* (Report Number FF-AR-09-205, dated August 6, 2009) and *Fiscal Year 2009 Los Angeles District Financial Risk* (Report Number FF-AR-10-028, dated December 3, 2009).

problems related to vending accountabilities not being zeroed out after machines are removed from service or accountabilities being reopened when employees log into the Point-of-Service System and accidentally select the vending role.

Respondents from four districts¹⁵ stated they had already removed the vending machines and closed vending operations. However, as of January 8, 2010, these four districts had 55 units with stamp stock accountability balances totaling \$125,216. The forum information indicates that procedural issues may have contributed to the outstanding stamp stock accountability balances and undeposited cash.

¹⁵ The OIG's online forum was set up for anonymity; however, these respondents self-identified their districts in the forum.

APPENDIX C: MONETARY AND NON-MONETARY IMPACTS**Monetary Impact**

| Finding | Impact Category | Amount |
|------------------|--|---------------|
| Undeposited cash | Recoverable Revenue Loss ¹⁶ | \$16,742 |
| | | |
| | | |

Non-Monetary Impact

| Finding | Impact Category | Amount |
|----------------------|---|---------------|
| Stamp stock balances | Accountable Items at Risk ¹⁷ | \$1,858,667 |
| | | |
| | | |

¹⁶ Revenue that can be collected for goods delivered or services rendered.

¹⁷ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

APPENDIX D: MANAGEMENT'S COMMENTS



March 3, 2010

LUCINE M. WILLIS

SUBJECT: Draft Management Advisory – Vending Operations Closure and Financial Risk
(Report Number FF-MA-10-DRAFT)

This letter is in response to Audit Report – Vending Operations Closure and Financial Risk
(Report Number FF-MA-10-DRAFT), dated February 10, 2010.

Recommendation 1 – Significant

We recommend the vice president, Retail Products and Services, in coordination with the vice president, Delivery and Post Office Operations, direct Area Operations management to: investigate all remaining stamp stock balances and close and zero out the vending accountabilities.

Management Response: Agree

Each area will be contacted to investigate all remaining stamp stock balances and take the corrective action to zero out and close open vending accountabilities by the end of Quarter 2, FY2010.

Recommendation 2 – Significant

We recommend the vice president, Retail Products and Services, in coordination with the vice president, Delivery and Post Office Operations, direct Area Operations management to: identify and deposit all undeposited cash associated with the vending accountabilities.

Management Response: Agree

Area Operations Management will be directed to identify all vending accountabilities with undeposited cash; and take the required action to deposit all cash assigned to vending accountabilities by the end of Quarter 3, FY2010.

Recommendation 3 – Significant

We recommend the vice president, Retail Products and Services, in coordination with the vice president, Delivery and Post Office Operations, direct Area Operations management to: provide a periodic status to the vice president, Retail Products and Services, and vice president, Delivery and Post Office Operations, until all remaining vending accountabilities are closed and zeroed out, and cash associated with the vending accountabilities is deposited.

Management Response: Agree

Starting in March 2010, a monthly periodic status report will be sent to the Vice President, Retail Products and Services, and the Vice President, Delivery and Post Office Operations, until all remaining vending accountabilities are closed and zeroed out; and the cash associated with the vending accountabilities is deposited.

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This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

If you have any questions, please call Karen Mastervich at (202) 268-7705.



Timothy C. Healy
Vice President, Retail Products and Services



Dean J. Granholm
Vice President, Delivery and Post Office Operations

cc: Sally K. Haring, Acting Manager, Corporate Audit and Response Management
Brian Newman, Manager, Audit Reporting and Tracking