



July 1, 2004

ANDERSON HODGES, JR.
MANAGER, ATLANTA DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Atlanta District
(Report Number DR-AR-04-002)

This is one of a series of audit reports on the Self-Service Vending Program in the Southeast Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Atlanta District (Project Number 04WG003DR001). The information in this district report will be included in a report to the Southeast 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. The Southeast Area had 4,298 pieces of vending equipment that generated over \$109 million in revenue during FY 2003, of which the Atlanta District maintained 511 (12 percent of the total area) machines that generated over \$16.3 million (15 percent of the total area) in revenue in the same year.

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. Of the 511 vending machines operating in the Atlanta District, 64 were classified as obsolete based on Postal Service

guidance, while the remaining 447 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 Vending Equipment Sales and Service System for FYs 2002 through 2003 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements.¹ Although we relied on data obtained from the Vending Equipment Sales and Service System, we did not test the validity of the data and controls over the system. Audit work associated with the Atlanta District was conducted from December 2003 through June 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

We did not identify any prior audits or reviews related to the objective of this review.

Audit Results

Opportunities exist for Atlanta 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, officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Atlanta District officials could reduce maintenance and repair costs by discontinuing the use of obsolete equipment.

Redeployment of Vending Equipment

Atlanta District officials could improve their process for redeploying vending equipment that does not meet the Postal Service's minimum revenue requirements. Specifically, in FY 2003, the Atlanta District may have missed revenue opportunities totaling approximately \$1.1 to \$3.4 million by not redeploying vending equipment that did not meet the Postal Service's minimum revenue requirements.² The vending equipment revenue reports showed that 229 (51 percent) of the 447 machines did not meet minimum revenue requirements during FY 2003, and district officials did not initiate any redeployment actions. Average vending equipment sales totaled approximately

¹ Obsolete equipment was not included in the minimum revenue analysis.

² 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 \$1.1 million 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 \$3.4 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.

\$3.7 million, which was significantly less than the average minimum revenue requirement goal of \$7.2 million.

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, Handbook PO-102, Self Service Vending Operational and Marketing Program, May 1999 (updated with Postal Bulletin revisions through December 25, 2003), establishes the minimum revenue requirements for the 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 Form 4805, Maintenance Work Order, and move the equipment to a better location.

District officials did not initiate any redeployment action for the 229 under performing machines because they did not review vending equipment revenue reports to identify machines not meeting minimum revenue requirements, nor did they issue low-revenue letters to notify postmasters. District officials indicated that the Self-Service Vending Program was not considered high-priority, and limited resources were allocated to the program. Work efforts were directed to higher priorities such as window sales. However, during the audit, district officials reviewed the revenue reports and drafted revenue letters to notify postmasters regarding the revenue performance of 154 machines. Although officials drafted letters to notify the postmasters, the district could miss revenue opportunities during FY 2004 if management does not take action to redeploy under performing equipment.

We discussed the results with Atlanta 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.

Recommendation

We recommend the Manager, Atlanta District, direct the Retail Manager to:

1. Review revenue reports to identify under performing equipment; notify postmasters of equipment that generates low revenue; give consideration to all feasible alternatives; and complete all necessary actions to redeploy under performing equipment as often as possible.

Management's Comments

Management agreed with the finding and recommendation. The Atlanta District Retail Manager is actively reviewing vending reports, and has identified Post Offices with low vending revenue. Low revenue generation notices were sent to select Post Offices on May 13, 2004, and decisions have been made specific to the local office situation. Final redeployment based on the review will be completed by the end of July 2004. The process will continue on a quarterly basis to ensure the district remains in compliance with the finding and recommendation. 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. Management's actions taken or planned should correct the issues identified in the finding.

Use of Obsolete Equipment

During FY 2003, Atlanta District officials continued to use and incur maintenance and repair expenses for 64 obsolete machines, although Postal Service policy discontinued maintenance and repair support for the machines in June 2000.³ Our review of vending equipment revenue reports showed that 48 (75 percent) of the 64 machines did not meet minimum revenue requirements during FY 2003. District officials stated that they continued to use and maintain obsolete equipment because of the potential adverse impact on customer service since replacement equipment was not available. As a result, the Atlanta District incurred maintenance and repair expenses in FY 2003, by continuing to operate and maintain the 64 obsolete machines. We were unable to determine the amount of repair and maintenance expense associated with the 64 machines because the Postal Service does not capture the data for each machine.⁴

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 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 and 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.

³ This Maintenance Management Order (MMO) supplements MMO-018-96, dated June 21, 1996, titled - 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.

⁴ We plan to conduct a future audit on vending equipment maintenance and repair costs.

By continuing to use and maintain obsolete machines, the district may incur repair and maintenance costs that exceed the revenues generated. We recognize management's desire to provide customer service; however, because repair and maintenance costs are not captured, management has no means of assessing whether the benefits of operating the obsolete equipment outweigh the costs to operate it. We are making no recommendations to the district regarding this finding. However, we plan to make a recommendation to Postal Service Headquarters, to address the policy of discontinuing maintenance and repair support for the obsolete equipment.

We appreciate the cooperation and courtesies provided by your staff. If you wish to schedule an exit conference, have any questions, or need additional information, please contact Debra D. Pettitt, Director, Delivery and Retail, at (404) 507-8329 or me at (703) 248-2300.

/s/ Mary Demory

Mary Demory
Deputy Assistant Inspector General
for Operations and Human Capital

cc: William J. Brown
Randy Ford
Kim J. Amis
Daryl Pichoff
Joseph K. Moore

APPENDIX. MANAGEMENT'S COMMENTS

ATLANTA DISTRICT MANAGER



JUNE 26, 2004

KIM H. STROUD
DIRECTOR, AUDIT OPERATIONS
USPS – OIG
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SUBJECT: Response to Draft Audit Report – Self-Service Vending
Program – Atlanta District
(Report Number DR-AR-04-DRAFT)

Attached is the response from the Manager, Marketing to the audit findings and recommendations made for the Atlanta District Self-Service Vending Program (Project Number 04WG003DR001). The discrepancies identified during the audit have been corrected, as stated on the attached.

Please advise me if you have questions or concerns. Your assistance is appreciated.


for Anderson Hodges, Jr.

Attachment

cc: William J. Brown
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MARKETING
ATLANTA DISTRICT



May 28, 2004

MARY DEMORY
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR OPERATIONS AND HUMAN CAPITAL

SUBJECT: Draft Audit Report – Self Service Vending Program – Atlanta District
(Report Number DR-AR-04-DRAFT)

This is in response to your audit on the Self-Service Vending Program in the Atlanta District (Project Number 04WG003DR001).

Recommendation

We recommend the Manager, Atlanta District, direct the Retail Manager to:

1. Review revenue reports to identify under performing equipment; notify postmasters of equipment that generates low revenue; give consideration to all feasible alternatives; and complete all necessary actions to redeploy under performing equipment as often as possible.

Response

The Atlanta District Retail Manager is actively reviewing vending revenue reports, and has identified Post Offices with low vending revenue. Low revenue generation notices were sent to select Post Offices on May 13, 2003, and decisions have been made specific to the local office situation. At those locations where the obsolete vending machine is the only postal alternate access in the community after Post Office business hours, we have elected to leave the machine in place as long as it is in working order. Any repairs will be evaluated, taking into consideration the revenue the obsolete machine has generated, and a determination will be made by location as to whether we will remove the machine or make the repair.

Currently, the obsolete vending machines in the Atlanta District have been reduced from 64 to 60. The removal of the 4 machines was coordinated with the District Material Management Specialist.

The Atlanta District Retail Manager will continue to monitor the vending equipment and the revenue generated by location on an ongoing basis to ensure the performance of the machines is profitable to the Postal Service.


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