



September 20, 2004

NICHOLAS L. RINALDI
MANAGER, GREATER SOUTH CAROLINA DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Greater South Carolina District (Report Number DR-AR-04-007)

This is one of a series of audit reports on the Self-Service Vending Program in the Eastern Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Greater South Carolina District (Project Number 04YG014DR003). The information in this district report will be included in a report to the Eastern 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 Eastern Area had 4,242 pieces of vending equipment that generated over \$103 million in revenue, of which the Greater South Carolina District maintained 10 percent (419) of the total area machines that generated over 10 percent (\$10.7 million) of the total area vending revenue. During the first quarter of FY 2004, the Eastern Area had 4,443 pieces of vending equipment that generated over \$27.9 million in revenue, of which the Greater South Carolina District maintained 10 percent (430) of the total area machines that generated 10 percent (\$2.7 million) of the total area vending revenue.¹

¹ During the first quarter of FY 2004, the Eastern Area had 201 additional vending machines and the Greater South Carolina District had 11 additional vending machines during the first quarter of FY 2004.

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 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 419 vending machines operating in the Greater South Carolina District during FY 2003, 81² were classified as obsolete based on Postal Service guidance, while the remaining 338 were classified as current equipment. For the first quarter of FY 2004, 430 vending machines were operating in the Greater South Carolina District, of which 85³ were classified as obsolete, and the remaining 345 were classified as current equipment.

During our audit, we visited Postal Service facilities and 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.⁴ 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 Greater South Carolina District was conducted from March through September 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

² This number includes three currency changer machines, which do not generate revenue.

³ This number includes five currency changer machines, which do not generate revenue.

⁴ Obsolete equipment was not included in the minimum revenue analysis.

revenue requirements and the districts may have missed revenue opportunities of 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 actions taken and planned were responsive to the recommendations.

Audit Results

Opportunities exist for Greater South Carolina 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, Greater South Carolina District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Greater South Carolina District officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. Additionally, while our physical observation of vending machines in the Greater South Carolina District indicated that overall the machines were easily accessible; the machines were not always operable.

Redeployment of Vending Equipment

Greater South Carolina District officials could improve their process for redeploying vending equipment that does not meet Postal Service minimum revenue requirements. Specifically, during FY 2003, our review of the vending equipment revenue reports indicated that 50 percent (169 of 338) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$2.37 million, which was significantly less than the minimum revenue requirement of \$4.23 million. As a result, the Greater South Carolina District may have missed revenue opportunities of approximately \$530,000 to \$1.86 million by not redeploying this equipment.⁵

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 48 percent (164 of 345) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$444,000, which was significantly less than the minimum revenue requirement of \$901,000. As a result, the Greater South Carolina District may have missed revenue opportunities of approximately \$457,000 by not redeploying this equipment.

⁵ 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 \$530,000 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 \$1.86 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.

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, 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; and complete Postal Service (PS) Form 4805, Maintenance Work Order, and move the equipment to a better location.

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 that the Self-Service Vending Program was not considered the highest priority and limited resources were allocated to the program. Work efforts were directed to higher priorities such as excessive wait times for window sales. By not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remainder of FY 2004.

District officials also expressed concern regarding the Postal Service's methodology to establish minimum revenue requirements, and that the current requirements are too high in relation to the machines geographic locations. We plan to forward the district's concern to Postal Service Headquarters.

We discussed the results with Greater South Carolina District officials and they agreed 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 locations based on an analysis of vending operations and receipt of 30 automated postal centers.⁶

Recommendation

We recommend the Manager, Greater South Carolina District, direct the Retail Manager to:

⁶ 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.

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 that opportunities exist to improve the effectiveness and efficiency of the Self-Service Vending Program and has evaluated district vending equipment performance and developed a plan of action to remove or relocate nonperforming vending equipment. The Retail Manager and Vending Coordinator will continue to identify equipment not meeting minimum requirements, notify postmasters of nonperformance, and redeploy the nonperforming equipment, where possible. Management stated that decisions regarding removal or relocation include consideration of customer service, wait times in lines, and revenue generated. 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

In FY 2003, Greater South Carolina District officials continued to use 78⁷ 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 2000.⁸ Our review of vending equipment revenue reports indicated that 88 percent (69 of 78) of the machines did not meet minimum revenue requirements. Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 89 percent (71 of 80⁹) of the obsolete machines did not meet minimum revenue requirements.

District officials stated that they continued to use and maintain the obsolete equipment because of the potential adverse impact on customer service, to include increased wait time in line for window sales, since replacement equipment is 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

⁷ This number excludes three currency changer machines, which do not generate revenue.

⁸ 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.

⁹ This number excludes five currency changer machines, which do not generate revenue.

determine the amount of repair and maintenance expenses associated with the machines because the Postal Service does not capture the data for each machine.¹⁰

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 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 possibly 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, 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 locations.

Recommendation

We recommend the Manager, Greater South Carolina 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 to consider all feasible alternatives and complete all necessary actions to reduce repair and maintenance cost for obsolete equipment. District officials have begun the process of removing the poorest performing obsolete equipment and stated that impact on customer service will be considered in making decisions regarding removal of equipment, particularly for those machines located in rural areas.

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.

¹⁰ We plan to address this issue in a capping report to Postal Service Headquarters officials.

Physical Observation of Vending Machines

Our physical observation of vending machines in the Greater South Carolina District indicated that overall the machines were easily accessible, but not always operable. Specifically, 40 percent (8 of the 20 machines) of the machines judgmentally selected for review were not operating properly. Four of the eight machines had notices posted as being out of service in April 2004; however, the inoperable machines were not listed in VESS in May 2004. The remaining four machines would not take currency in April 2004, and the inoperable machines were not listed in VESS in May 2004. District officials indicated that the information for the machines was not listed in VESS because employees inaccurately completed PS Forms 8130, Vending Equipment Sales and Service Daily Activity Log.¹¹ 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.

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 Manager, Greater South Carolina District, direct the Retail Manager to:

3. Require employees to accurately complete Postal Service Forms 8130, Vending Equipment Sales and Service Daily Activity Log, for the eight machines, detailing the inoperable status for each machine, and consider retraining employees to accurately complete the forms.

Management's Comments

Management stated that an action plan has been established requiring postmasters and managers to report the status of vending operations on a daily basis, and out of order equipment be reported to the Retail Manager. Additionally, the Vending Coordinator will provide updated guidelines to all offices and service technicians by September 30, 2004.

¹¹ We plan to conduct an audit on the accuracy of data in VESS.

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.

The OIG considers recommendations 1, 2, and 3 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.

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 Operations and Human Capital

Attachment

cc: Stephen Niedziela
Sherrie P. Kyanko
Gloria Richardson
Carole Kirkland
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APPENDIX. MANAGEMENT'S COMMENTS



June 25, 2004

Mary Demory
Deputy Assistant Inspector General for
Operations and Human Capital

SUBJECT: Draft Audit Report – Review of Self-Service Vending Program – Greater
South Carolina District (Report Number DR-AR-04-DRAFT)

This letter is in response to your June 9, 2004 audit of the vending program for the Greater South Carolina District.

Audit Results

I agree that opportunities exist for improvement of the effectiveness and efficiency of our Self-Service Vending Program. We are actively working to remove or redeploy equipment not meeting revenue requirements and to remove obsolete equipment that adversely effects maintenance work hour and repair costs. Eight of the 20 sites audited were located in Columbia City. We had a number of machines that were not operable in the City of Columbia at that time. We were aware of the situation and we were in the process of reviewing district vending operations and reporting procedures.

Redeployment of Vending Equipment

I agree that we need to place more focus on our process of redeploying vending equipment that does not meet Postal Service minimum revenue requirements.

Action Plan:

The Retail department has evaluated district vending equipment performance and developed a plan of action to remove or relocate non-performing vendors. Retail will continue developing the plan to remove or relocate non-performing vendors as much possible at sites of opportunity. Retail will assess opportunities to meet our requirements and timelines during scheduled meetings with Field Maintenance.

The following outline shows our relocations and equipment removal history (Vess Removed Machines by Model Report) indicates the following:

FY00 – moved or relocated 35 vendors

FY01 – moved or relocated 81 vendors

FY02 – moved or relocated 3 vendors

FY03 – moved or relocated 7 vendors

FY04 – moved or relocated 32 vendors

- 26 vendors have been relocated from April 2004 through June 2004.
- We have identified additional non-performing vendors and/or currency changers that we plan to remove or relocate by the end of August 2004.

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The Retail Vending Coordinator provides monthly VESS summary reports to district managers, managers at vending locations, service technicians and field maintenance for their assessment.

- The Retail Manager and the Vending Coordinator will review monthly VESS reports and provide and monitor vending performance.
- Retail will work with Post Office Operations Managers and Field Maintenance to meet redeployment efforts.
- The Retail Manager will send letters to all vending locations and service technicians reminding managers of targets and VESS reporting procedures. Retail will follow up on performance quarterly.
- We will stress the importance of reviewing performance reports and meeting minimum revenue targets. The Quarterly follow-up will provide feedback regarding their revenue targets.
- Retail has contacted the Eastern Area concerning advertisements of vending locations to increase customer awareness.

The Retail Manager presented a vending plan of action to key managers at the leadership meeting on 6/18/04. A new Standard Operating Procedure was implemented for reporting non-operating equipment.

The Retail Manager will provide a quarterly report showing the top 10 and bottom 10 locations to district managers, managers at vending locations, Managers of Post Office Operations, service technicians, and field maintenance.

We will remove or relocate equipment while considering customer service, waiting time in line and revenue as our primary indicators for redeployment. We will work our redeployment around some of the local concerns to ensure we have an effective and customer responsive plan.

- Many of our rural communities depend on vending for service during lunch closings and after hours. Some of the vendors cannot meet revenue performance minimums. Removing equipment in some of these locations may create customer dissatisfaction and entice customers to seek other competitive markets.
- We are concerned that the minimum revenue requirements may be too high for some of the stamp vendors, specifically the booklet machines and the multicommodity machines. In our District, as well as the entire Eastern Area, only 21% of booklet machines and 41% of the 1625B multicommodity machines meet the minimum revenue target.
- The Retail Manager and Vending Coordinator will continue to identify equipment not meeting minimum requirements, notify postmasters of non-performance, and redeploy the non-performing equipment where possible when required.
- Retail (Vending Coordinator) will maintain records of replacement or removal efforts and document actions taken.

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- Maintenance budget and work hours will factor into the successful implementation of the redeployment plan.
- Field Maintenance will be required to supply Retail copies of work orders and expenses for relocation efforts.

We have requested assistance from headquarters to exchange equipment that cannot be redeployed due to the high minimum requirements.

Use of Obsolete Equipment

I agree that the majority of our 53C single stamp vendors did not meet the minimum revenue requirements. We will consider all feasible alternatives and complete all necessary actions to reduce repair and maintenance cost for this equipment. We were notified today that Headquarters has now rescinded the classification on this equipment, and the 53C single stamp vendors will no longer be considered obsolete equipment.

Action Plan:

We will continue to review the performance of the 53C single stamp vendors as well as all vending equipment not meeting minimum requirements.

We have begun the process of removing our poorest performing 53C single stamp vendors. We plan to remove or relocate 25 of these vendors with the August deployment of the new Automated Postal Centers.

- In FY03, our 53C single stamp vendors generated \$277,000. Only 10 of the 53Cs generate over \$450 per month.
- We have no vendors that can replace 90% of the 53C single stamp equipment due to minimum revenue goal requirements.
- The 53C single stamp vendors are located in rural communities where we offer limited retail access. Customers use the equipment during lunch closings and on weekends. We do not want customers to go to competitive services or become disenchanted with limited availability of services. Additionally, we will avoid creating a waiting time in line problems that could be affected by adding these single stamp transactions to the window service.

Physical Observation of Vending Machines

During the time frame of the audit, we had operations problems in the Columbia area, which accounted for 8 out of the 20 machines audited.

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Plan of Action:

- Effective immediately, Level 22 and above postmasters and Managers of Post Office Operations who represent Level 21 and below offices are required to report the status of vending operations on a daily telecom.
- Out of order equipment must be reported via e-mail to the Retail District Office.
- Retail issues instructions at the beginning of the fiscal year and provides updated forms PS8130 to postmasters and service technicians.
 - The Vending Coordinator will provide updated guidelines to all offices and service technicians requiring proper VESS reporting. This will be completed by September 30, 2004.
- The managers and Post Office Operations Managers will be notified when inaccurate or late reporting occurs.



Larry Jones
District Manager
Greater SC District

CC: Retail Manager
Marketing Manager
Sr. POOM