



September 28, 2004

ROSEMARIE FERNANDEZ
ACTING MANAGER, SACRAMENTO DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Sacramento District
(Report Number DR-AR-04-011)

This is one of a series of audit reports on the Self-Service Vending Program in the Pacific Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Sacramento District (Project Number 04YG016DR002). The information in this district report will be included in a report to the Pacific 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 Pacific Area had 3,325 pieces of vending equipment that generated over \$145 million in revenue of which the Sacramento District maintained 13 percent (416) of the total area machines that generated over 6 percent (\$9.1 million) of the total area vending revenue. During the first quarter of FY 2004, the Pacific Area had 3,395 pieces¹ of vending equipment that generated over \$37.3 million in revenue, of which the Sacramento District maintained 12 percent (421) of the total area machines that generated over 5 percent (\$1.8 million) of the total area vending revenue.

¹ During the first quarter of FY 2004 the Pacific Area had 70 additional vending machines and the Sacramento District had 5 additional vending machines.

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.

We also physically observed a judgmental sample of 20 vending machines to determine whether the machines were operational and easily accessible. For the 416 vending machines operating in the Sacramento District during FY 2003, 112² were classified as obsolete based on Postal Service guidance, while the remaining 304 were classified as current equipment. For the first quarter of FY 2004, 421 vending machines were operating in the Sacramento District, of which 112 were classified as obsolete, and the remaining 309 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'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.³ 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 Sacramento 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 machines) of the

² This number includes five currency changers that do not generate revenue. The remaining 107 obsolete machines generate revenue.

³ Obsolete equipment was not included in the minimum revenue analysis.

vending machines in the Tennessee, Alabama, and Atlanta Districts did not meet the minimum 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 the actions taken and planned were responsive to the recommendations.

Audit Results

Opportunities exist for Sacramento 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, Sacramento District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Sacramento District officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. However, our physical observation of vending machines in the Sacramento District indicated that overall the machines were operational and easily accessible.

Redeployment of Vending Equipment

Sacramento District officials could improve their process for redeploying vending equipment that does not meet minimum revenue requirements. Specifically, during FY 2003, our review of vending equipment revenue reports indicated that 68 percent (207 of the 304 machines) of the vending machines did not meet the minimum revenue requirements and district officials did not initiate any redeployment actions. Vending equipment sales were approximately \$2.9 million, which was significantly less than the minimum revenue requirement of \$5.7 million. As a result, the Sacramento District may have missed revenue opportunities of approximately \$600,000 to \$2.8 million by not redeploying vending this equipment.⁴

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 72 percent (223 of the 309 machines) of the vending machines did not meet the minimum revenue requirements and district officials did not initiate any redeployment actions. Vending equipment sales were approximately \$494,000, which was significantly less than the minimum revenue requirement of \$1.4 million. As a result, the Sacramento District may have missed revenue opportunities of approximately \$906,000 by not redeploying this equipment.

⁴ 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 \$600,000 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 \$2.8 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 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 207 underperforming vending machines in FY 2003 and the 223 underperforming machines during the first quarter of FY 2004 because of concern for the potential adverse impact on customer service due to the nonavailability of machines in rural locations. District officials also indicated that the Self-Service Vending Program was not considered a high-priority, and limited resources were allocated to the program. Work efforts were directed to higher priorities such as mystery shopper and contract postal units. By not taking action to redeploy under performing 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 Sacramento 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 machine locations based on trend analysis of historical vending data, and receipt of 40 automated postal centers.⁵

⁵ 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.

Recommendation

We recommend the Acting Manager, Sacramento District, direct the Retail Manager to:

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 with the finding and recommendation and stated the district retail will review the Equipment Relocation Analysis report from the VESS system. The district will notify offices with underperforming equipment by December 15, 2004, and redeployment will be completed by the end of FY 2005. Management's comments, in their entirety, are included in the appendix of this report.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation. Management's planned actions should correct the issues identified in the finding.

Use of Obsolete Equipment

In FY 2003, Sacramento District officials continued to use 107⁶ 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 2000.⁷ Our review of vending equipment revenue reports indicated that 95 percent (102 of 107) of the machines during FY 2003 and 97 percent (104 of 107) of the machines during the first quarter of FY 2004 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 since replacement equipment was 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 determine the amount of repair and maintenance expenses associated with the 107 machines because the Postal Service does not capture the data for each machine.⁸

⁶ This number does not include five change machines that do not generate revenue.

⁷ 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.

⁸ We plan to address this issue in a capping report to Postal Headquarters officials.

Periodically, the Postal Service lists vending equipment as obsolete, meaning 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 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 location.

Recommendation

We recommend the Acting Manager, Sacramento 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 with the finding and recommendation and stated that district retail will evaluate obsolete equipment and work with the area retail to plan the removal process of obsolete equipment by the end of FY 2005. Replacement requests will be analyzed by district retail and approved based on past minimum revenue performance.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation. Management's planned actions should correct the issues identified in the finding.

Physical Observation of Vending Equipment

Our physical observation of vending machines in the Sacramento District indicated that all 20 vending machines were operational and easily accessible. However, in addition to the 20 vending machines we physically observed, we noted an additional vending machine was not recorded in VESS May 2004 data. District officials indicated the information for the additional machine was not listed in VESS due to employees

inaccurately completing PS Forms 8130, Vending Equipment Sales and Service Daily Activity Log.⁹ 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 potentially resulting in a loss of revenue.

The 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, Sacramento District, direct the Retail Manager to:

3. Require employees to accurately complete PS Form 8130, Vending Equipment Sales and Service Daily Activity Log, for the one machine, detailing the current location status of the machine, and consider retraining employees to accurately complete the forms.

Management's Comments

Management agreed with the finding and recommendation and stated vending sites were advised of the correct VESS reporting process August 5, 2004. A process has been implemented to track receipt of monthly VESS reports in which the report is sent to the Manager of Post Office Operations before the VESS closing period. Finally, VESS reports will be reviewed by district retail to ensure proper completion and data accuracy.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation. Management's planned actions should correct the issues identified in the finding.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendation(s) should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

⁹ We plan to conduct an audit on the accuracy of data in VESS.

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: John A. Rapp
Alfred Iniguez
Dean N. Okasaki
Rodney K. Goodman
Joanne L. Cisneros
Steven R. Phelps

APPENDIX. MANAGEMENT'S COMMENTS

SACRAMENTO DISTRICT MANAGER



September 20, 2004

Kim H. Stroud
Director, Audit Operations
USPS Headquarters

Subject: Self Service Vending Audit Response (Report # DR-AR-04-DRAFT)

Attached is our response to the audit of the self service vending program in the Sacramento District. I have also attached a letter from the Pacific Area Vice-President Al Iniquez that provides additional information on the vending actions in the Pacific Area. Although Sacramento is not listed in the Pacific Area letter, we have been assured by Area Retail Manager Nancy Digiacommo that the response also applies to our District.

Thank you.


Rosemarie Fernandez
District Manager (A)

Attachments

cc: Manager, Marketing
Manager, Finance

3775 Industrial Blvd.
West Sacramento CA 95799-0010
916-373-8001
FAX: 916-373-8704

RECOMMENDATION 1

Review revenue reports to identify underperforming equipment, notify postmaster 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 agrees with the recommendation. Our District will follow the Pacific Area's response and complete the task by the end of FY 2005.

- A. District Retail will review the ERA Report (Equipment Relocation Analysis) from the VESS system. The actions noted in Recommendation 3 will provide accurate data to base decisions. We will notify offices with underperforming equipment of our findings by December 15, 2004.
- B. District Retail will complete redeployment by the end of FY2005.

RECOMMENDATION 2

Consider all feasible alternatives and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment.

Management agrees with the recommendation and will follow the Pacific Area's response and complete the task by the end of FY 2005.

- A. District Retail will evaluate obsolete equipment and work with Area Retail to plan the removal process. Obsolete equipment will be removed by the end of FY 2005.
- B. Any replacement requests will be analyzed by District Retail and approved based on past minimum revenue performance.

RECOMMENDATION 3

Require employees to accurately complete PS Form 8130, Vending Equipment Sales and Service Daily Activity Log, for the one machine, detailing the current location status of the machines, and consider retraining employees to accurately complete the forms.

Management agrees with the recommendation and will take the following actions:

1. Advise vending sites of correct VESS reporting process. A blank PS 8130 was attached if needed. This was completed on August 5, 2004. VESS reports are requested by the 5th of each month.
2. A process has been implemented to track receipt of monthly VESS reports. This report is sent to the MPOO's several times before the VESS closing period to aid in the receipt process.
3. The VESS reports will be reviewed by Retail to ensure proper completion and data.