



September 30, 2004

DON PETERSON  
MANAGER, KENTUCKIANA DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Kentuckiana District  
(Report Number DR-AR-04-012)

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 Kentuckiana District (Project Number 04YG014DR004). 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 Kentuckiana District maintained 10 percent (437) of the total area machines that generated 10 percent (\$10.1 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 Kentuckiana District maintained 10 percent (441) of the total area machines that generated over 10 percent (\$2.6 million) of the total area vending revenue.<sup>1</sup>

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<sup>1</sup> During the first quarter of FY 2004, the Eastern Area had 201 additional vending machines and the Kentuckiana District had 4 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 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 437 vending machines operating in the Kentuckiana District during FY 2003, 64<sup>2</sup> were classified as obsolete based on Postal Service guidance, while the remaining 373 were classified as current equipment. For the first quarter of FY 2004, 441 vending machines were operating in the Kentuckiana District, of which 68<sup>3</sup> were classified as obsolete, and the remaining 373 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 FYs 2002 through 2003 and the first quarter of FY 2004 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements.<sup>4</sup> 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 Kentuckiana 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

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<sup>2</sup> This number includes one currency changer machine, which does not generate revenue.

<sup>3</sup> This number includes one currency changer machine, which does not generate revenue.

<sup>4</sup> 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 Kentuckiana 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, Kentuckiana District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Kentuckiana 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 Kentuckiana District indicated that overall the machines were operational and easily accessible, with one exception.

### **Redeployment of Vending Equipment**

Kentuckiana 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 55 percent (207 of 373) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$2.2 million, which was significantly less than the minimum revenue requirement of \$3.9 million. As a result, the Kentuckiana District may have missed revenue opportunities of approximately \$500,000 to \$1.7 million by not redeploying this equipment.<sup>5</sup>

Additionally, during the first quarter of FY 2004, our review of vending equipment revenue reports indicated that 53 percent (196 of 373) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were approximately \$466,000, which was significantly less than the minimum revenue requirement of \$834,000. As a result, the Kentuckiana District may have missed revenue opportunities of approximately \$368,000 by not redeploying this equipment.

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<sup>5</sup> 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 \$500,000 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 \$1.7 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 took action to redeploy one vending machine that did not meet minimum revenue requirements during FY 2003.<sup>6</sup> For the remaining 206 vending machines, district officials did not initiate any redeployment action. Additionally, during the first quarter of FY 2004, district officials did not initiate any redeployment action for the 196 underperforming machines. District officials did not initiate redeployment action for the underperforming vending machines during FY 2003 and the first quarter of FY 2004 because 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 automated postal centers and other retail products. By not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remainder of FY 2004.

We discussed the results with Kentuckiana 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. District officials indicated that plans were being made to reassess vending locations based on an analysis of vending operations and receipt of 32 automated postal centers.<sup>7</sup>

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<sup>6</sup> Our review of the revenue reports for the first quarter of FY 2004 indicated that this machine did not meet minimum revenue requirements.

<sup>7</sup> 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 Manager, Kentuckiana 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 stated that the Kentuckiana District will follow the Eastern Area's new guidance and will comply with Postal Handbook 102 to review within three to six accounting periods the vending machine performances. Management will initiate action following the evaluation. The Eastern Area expects to finalize its action plan by December 2004 with implementation beginning in January 2005. The Kentuckiana District removed eight underperforming vending machines in 2003. In 2004, the district, has removed/reallocated and reassessed vending locations based on an analysis of vending performance, receipt of 32 automated postal centers, and removal operating procedures for APC sites. Management 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 actions taken or planned should correct the issues identified in the finding.

## **Use of Obsolete Equipment**

In FY 2003, Kentuckiana District officials continued to use 63 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.<sup>8</sup> Our review of vending equipment revenue reports indicated that 77 percent (49 of 63) of the machines during FY 2003 and 72 percent (51 of 67) 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

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<sup>8</sup> 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.

expenses associated with the machines because the Postal Service does not capture the data for each machine.<sup>9</sup>

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 costs to operate it. District officials indicated that plans will be made to replace the obsolete machines when the new automated postal centers are deployed to the district locations.

### **Recommendation**

We recommend the Manager, Kentuckiana 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 stated that beginning in January 2005, the Eastern Area will identify obsolete machines by performance cluster. Each cluster will consider alternatives and complete necessary actions to eliminate repair and maintenance costs for the obsolete equipment. After identification of obsolete vending equipment, all equipment performing at 50 percent or more below the minimum revenue requirement will be targeted for destruction. Vending equipment performing between 50-100 percent of the requirement will need a written justification to remain in place. Kentuckiana District officials have submitted disposition requests for specific pieces of obsolete equipment and are waiting on final instructions for the salvage and storage of parts to be used for the repair and maintenance of other compatible equipment.

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<sup>9</sup> We plan to address this issue in a capping report to Postal Service headquarters officials.

### **Evaluation of Management's Comments**

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

### **Physical Observation of Vending Machines**

Our physical observation of vending machines in the Kentuckiana District indicated that overall the machines were operational and easily accessible, with one exception. Specifically, 95 percent (19 of 20) of the machines judgmentally selected for review were operating properly and easily accessible. The remaining one machine had a notice posted as being out of service in April 2004; however, the inoperable machine was not listed in VESS as of May 2004. District officials indicated that the information for the one machine was not listed in VESS due to an employee inaccurately completing PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.<sup>10</sup> 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.

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, Kentuckiana District, direct the Retail Manager to:

3. Require the employee to accurately complete a PS Form 8130, Vending Equipment Sales and Service Daily Activity Log, for the machine, detailing the inoperable status for the machine, and consider retraining employees to accurately complete the forms.

### **Management's Comments**

Management stated that guidance was provided to servicing personnel reminding personnel to ensure that machines are reported on the VESS PS Form 8130 when out of service. Additionally, the Kentuckiana District publishes a monthly newsletter which publicizes and updates retail information including vending.

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<sup>10</sup> 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 actions taken or planned 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 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 wish to schedule an exit conference, 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

cc: John A. Rapp  
Cheryl Alfred  
Ron Miller  
Steven R. Phelps

## APPENDIX. MANAGEMENT'S COMMENTS



September 22, 2004

MEMORANDUM FOR: Kim H Stroud  
Director Audit Operations  
1735 N Lynn St  
Arlington VA 22209-2020

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

Of the 437 vending machines operating in the Kentuckiana District during FY 2003, 57 were classified as obsolete based on Postal Service guidelines. For the first quarter of FY 2004, 374 vending machines were operating in the Kentuckiana District, 65 were classified as obsolete including one currency changer that does not generate revenue.

### **Redeployment of Vending Equipment – Underperforming**

Audit recommendations stated, "Kentuckiana District officials could improve their process for redeploying vending equipment that does not meet Postal Service minimum revenue requirements and that 55 percent of the vending machines did not meet the minimum revenue requirements. "

Eastern Area has advised that after FY 2004 closes (January 2005) they will identify all underperforming machines in all Clusters of the Eastern Area by isolating:

1. Equipment not achieving 50% of minimum will be targeted for immediate removal;
2. Equipment making between 80% and minimum requirement (minimum revenue requirement is greater than Kentuckiana District Minimum revenue);

There are two Performance Analysis Reports through VESS – one is Nationwide and the other is District. This equipment will also be targeted for moving to places that will approach minimums or deviation requests will have to be submitted requesting the equipment to remain in the same location, e.g. PBM2A/6 minimum revenue requirement \$550; making \$400, one justification may be that it is located xxx miles from any alternate access.

Kentuckiana District will adhere with the guidelines of Eastern Area and PO 102, Self Service Vending Operational and Marketing Program to review within three to six accounting periods (180 days) the vending machine performances. After evaluation, any vending equipment recognized as not meeting the minimum requirements will generate the following:

1. Notification to the office where changes will be made and redeployment is necessary,
2. A typewritten notice displayed in the lobby to inform customers 30 days before removal of the equipment.
3. Completion of Postal Service (PS) Form 4805 Maintenance Work Order to remove the equipment to a better location. (These latter procedures are already being completed in this District.)

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The Kentuckiana District did remove approximately 8 pieces of vending equipment during FY 2003 which did not meet minimum revenue requirements. The procedures for redeployment may not have followed all the guidelines as recommended by PO 102 and Audit Team, such as letters to post offices, 180 day re-evaluation and removal due to the following:

1. Limited resources in both Retail and Maintenance. It is a long lead time between work order (PS 4805), actual completion of removal, and the redeployment of the machine.
2. No redeployment locations available. We would not remove just to satisfy the lack of minimum revenue requirements without a location to redeploy that would generate an increase to the revenue.

During FY 2004, Kentuckiana District has removed/reallocated and reassessed vending locations based on an analysis of vending performance, receipt of 32 automated postal centers, and removal SOP for APC sites.

1. Fourteen (14) obsoletes have been removed and replaced with current equipment or work orders have been prepared and are in progress.
2. Fourteen (14) current vend equipment pieces have been reallocated from APC sites to other locations.
3. Non APC affected sites. Three (3) additional obsoletes have been removed and current equipment reallocated.
4. Eight (8) new Wal-Mart locations have had vending equipment installed as a result of identifying underperforming equipment and identifying Wal-Mart as an alternative.

#### **Use of Obsolete Equipment**

Eastern Area has advised after FY 2004 closes, (January, 2005) they will identify obsoletes per Cluster. Each Cluster will consider alternatives and complete necessary actions to eliminate repair and maintenance costs for the obsolete equipment. Those performing 50 percent or less will be targeted for destruction, 969 Disposition Certificates completed and actions taken to remove, as indicated by Management Instructions. Those performing between 50-100 percent will need a written justification to retain the equipment. The justification is required because there is no support for the obsolete vending equipment and in some instances it may cost more to keep than the revenue generated.

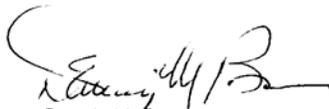
The Kentuckiana District has submitted a request for disposition through Rick Urmson for (27) twenty-seven pieces of obsolete equipment (approval has been received for 17 pieces). We are waiting on advice to be given by the end of September on the additional ten (10) 1625A's to see if parts from the obsolete machines need to be salvaged and stored for maintenance or repair of other compatible equipment.

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**Physical Observation of Vending Machines**

The SSPC's were each sent a reminder to ensure the reporting of machines that are out of service on the VESS PS Form 8130 Vending Equipment Sales and Service Daily Activity Log. The Kentuckiana District publishes a monthly newsletter, "Retail Details", which is utilized to publicize and update retail information and does include vending.

If you have any questions or need additional information, please contact Cheryl W Alfred, Manager Retail at (502) 454-1991 or Ruth Spencer, Retail Specialist at (502) 454-1790.



Dennis M. Baca  
Acting, District Manager  
Kentuckiana District

Cc: Ron Miller  
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