



October 14, 2004

CHARLES K. LYNCH
MANAGER, BOSTON DISTRICT

SUBJECT: Audit Report – Self-Service Vending Program – Boston District
(Report Number DR-AR-05-002)

This is one of a series of audit reports on the Self-Service Vending Program in the Northeast Area. The report presents the results of our self-initiated audit on the Self-Service Vending Program in the Boston District (Project Number 04YG017DR003). The information in this district report will be included in a report to the Northeast 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 Northeast Area had 2,113 pieces of vending equipment that generated approximately \$30 million in revenue, of which the Boston District maintained 7 percent (151) of the total area machines that generated over 8 percent (\$2.4 million) of the total area vending revenue. During the first quarter of FY 2004, the Northeast Area had 2,176 pieces¹ of vending equipment that generated over \$8.6 million in revenue, of which the Boston District maintained 7 percent (156²) of the total area machines that generated over 9 percent (\$757,313) of the total area vending revenue.

¹The Northeast Area had 63 additional vending machines during the first quarter of FY 2004.

²The Boston District had five 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 151 vending machines operating in the Boston District during FY 2003, 14 were classified as obsolete based on Postal Service guidance, while the remaining 137 were classified as current equipment. For the first quarter of FY 2004, 156 vending machines were operating in the Boston District, of which 14 were classified as obsolete, and the remaining 142 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 FYs 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 Boston District was conducted from March through October 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

³ 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 the actions taken and planned were responsive to the recommendations.

Audit Results

Opportunities exist for Boston 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, Boston District officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Further, Boston 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 Boston District indicated that overall the machines were easily accessible; the machines were not always operable.

Redeployment of Vending Machines

Boston District officials could improve their process for redeploying vending equipment that does not meet Postal Service's minimum revenue requirements. Specifically, during FY 2003, our review of the vending equipment revenue reports indicated that 86 percent (118 of 137) did not meet the minimum revenue requirements. Vending equipment sales were approximately \$1.5 million, which was significantly less than the minimum revenue requirement of \$3.5 million. As a result, the Boston District may have missed revenue opportunities of approximately \$585,000 to \$1.9 million by not redeploying this equipment.⁴

Additionally, in the first quarter of FY 2004, our review of the vending equipment revenue reports determined that 115 (81 percent) of the 142 vending machines did not meet the minimum revenue requirements. Vending equipment sales for the first quarter of FY 2004 were \$367,973, which was slightly less than the minimum revenue requirement of \$751,410. As a result, the Boston District may have missed revenue opportunities of \$383,437 by not redeploying this equipment.

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

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 \$585,000 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 \$1.9 million represents the maximum total possible missed revenue opportunities for FY 2003 and is calculated by subtracting actual revenues generated from the total of all machine minimum revenue requirements.

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 August 7, 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 took action to redeploy five vending machines that did not meet minimum revenue requirements in FY 2003. For the remaining 132 machines, district officials did not initiate any redeployment action. Additionally, in the first quarter of FY 2004, district officials did not initiate any redeployment actions for the 115 underperforming machines. District officials did not take any action to redeploy the underperforming vending machines in FY 2003 and the first quarter of FY 2004 because of limited resources and availability of revenue generating sites. By not taking action to redeploy underperforming equipment, the district could miss revenue opportunities during the remaining quarters of FY 2004.

District officials also expressed concern regarding the limited availability of high demand vending machines, including Model PBSM 624 machines, and the lack of machines capabilities to accept debit and credit cards. We plan to forward the district's concerns to Postal Service Headquarters.

We discussed the results with Boston 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 are being made to reassess vending locations based on an analysis of vending operations and receipt of 20 automated postal centers.⁵ In addition, Boston District officials are in the process of establishing a customer service unit that will oversee the Self-Service Vending Program to enhance the current procedures and identify redeployment locations for underperforming machines.

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 Manager, Boston 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 they will perform monthly evaluations of the revenue generated by each machine and relocate the underperforming machines to new sites offering high traffic and revenue potential. 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 action taken or planned should correct the issues identified in the finding.

Use of Obsolete Equipment

In FY 2003 and the first quarter of FY 2004, Boston District officials continued to use 14 obsolete machines and possibly incurred maintenance and repair expenses, although Postal Service policy discontinued the maintenance and repair support for the machines in 2000.⁶ Our review of vending equipment revenue reports showed that all 14 machines did not meet minimum revenue requirements during FY 2003 and 13 (93 percent) of the 14 machines did not meet minimum revenue requirements during the first quarter of FY 2004.

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. District officials also stated that they maintained the obsolete equipment because removing the equipment would cause damage to Postal Service facilities that might be too costly to repair. As a result, the district possibly incurred maintenance and repair expenses in FY 2003 and the first quarter of FY 2004 by continuing to operate and maintain the obsolete machines. We were unable to determine the amount of repair and maintenance expenses associated with the machines because the Postal Service does not capture the data for each machine.⁷

⁶ This Maintenance Management Order (MMO) supplements 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.

⁷ We plan to address this issue in a capping report to Postal Service Headquarters officials.

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, Boston 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 obsolete equipment identified by Postal Service Headquarters will be removed from service. Management also stated they will utilize equipment removed during the automated postal service center deployment in October to expedite removal of obsolete machines.

Evaluation of Management's Comments

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

Physical Observation of Vending Equipment

Our physical observation of vending machines in the Boston District indicated that overall the machines were easily accessible, but not always operable. Specifically, 15 percent (3 of 20) of the machines judgmentally selected for review were not operating properly. Two of the three machines did not give change in April 2004; however, the inoperable machines were not listed in VESS in April 2004. The remaining machine was not physically located at the site indicated in VESS April 2004

data. District officials indicated that the information for the machines was not listed in VESS because employees inaccurately completed PS Form 8130, Vending Equipment Sales and Service Daily Activity Log.⁸ By not properly completing PS Forms 8130, Postal Service managers have no means of ensuring vending machines are operable 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, Boston District, direct the Retail Manager to:

3. Require employees to accurately complete PS Forms 8130, Vending Equipment Sales and Service Daily Activity Log, for the three machines, detailing the inoperable status or correcting site locations, and consider retraining employees to accurately complete the forms.

Management's Comments

Management stated that the Marketing Manager will continue to monitor compliance with VESS updating. Management further stated that training on the proper use of the VESS system will be conducted in October at each post office maintaining vending machines. Management also stated that the responsibility for managing and maintaining VESS for the majority of the district will continue to rest with the centralized vending unit.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation. Management's action 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 recommendation can be closed.

⁸ We plan to conduct an audit on the accuracy of data in VESS.

We appreciate the cooperation and courtesies provided by your staff during our review. 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 Core Operations

Attachment

cc: John A. Rapp
Patrick J. Ring
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APPENDIX. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
CUSTOMER SERVICE AND SALES



September 29, 2004

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Following are responses to the three Recommendations set forth in Report # DR-AR-04 (Draft) dated August 2004, subject – *Review of Self Service Vending Program*.

RECOMMENDATION 1

The Boston District Retail Office will evaluate, each month, the revenue generation by machine. Underperforming machines will be prioritized for relocation. These machines will be relocated to new sites offering high traffic and revenue potential. Consideration will continue to be given to potential construction rehabilitation costs caused by new deployment.

RECOMMENDATION 2

Obsolete equipment identified by USPS HQ will be removed from service. Installation of new Automated Postal Center Machines in October will allow redeployment of equipment to expedite removal of obsolete machines.

RECOMMENDATION 3

Training for all Post Office maintaining vending machines will be conducted in October for proper use of the VESS System. Centralized Vending Unit will continue to manage and maintain VESS for bulk of District machines. Manager Marketing will monitor monthly compliance with VESS updating.

A handwritten signature in black ink that reads "Charles K. Lynch".

Charles K. Lynch
District Manager

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