February 1, 2005

JON M. STEELE
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Self-Service Vending Program – Northeast Area (Report Number DR-AR-05-011)

This is one of a series of audit reports on the Postal Service's Self-Service Vending Program. The report summarizes the results of our self-initiated audits on the Self-Service Vending Program in the Northeast Area (Project Number 04YG017DR000). The information in this area report will be included in a nationwide capping report that will provide the Vice President, Delivery and Retail, an assessment of the Self-Service Vending Program.

Background

The Self-Service Vending Program, implemented in October 1964, is one of the Postal Service's major programs. It provides Postal Service customers with a convenient alternative for purchasing stamps and other basic Postal Service products after business hours and without the need to stand in line during business hours.

Nationwide, the Postal Service maintains approximately 30,000 vending machines (27,000 self-service postal centers and 3,000 other types of vending equipment) that generated over $1.9 billion in revenue during fiscal years (FY) 2001 through 2003. The Northeast Area had 7 percent (2,113) of the nationwide total vending equipment that generated 2 percent ($29.69 million) of the nationwide revenue total during FY 2003. During the first quarter of FY 2004, the Northeast Area had 2,176 pieces[1] of vending equipment that generated $8.67 million in revenue. (See Appendix A for equipment and revenue details by district.)

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

[1] During the first quarter of FY 2004, the Northeast Area had 63 additional vending machines.

and reducing operating costs. Specifically, in this review, we determined whether Self-Service Vending Program Managers effectively redeployed vending equipment that did 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 60 vending machines to determine whether the machines were operational and easily accessible. For the 2,113 vending machines operating in the Northeast Area during FY 2003, 269 were classified as obsolete based on Postal Service guidance, while the remaining 1,844 were classified as current equipment. For the first quarter of FY 2004, 2,176 vending machines were operating in the Northeast Area, of which 278 were classified as obsolete, and the remaining 1,898 were classified as current equipment.

During our audit, we visited Postal Service facilities in the Albany, Boston, and Massachusetts Districts. We interviewed managers and employees; reviewed documentation and applicable policies and procedures; and analyzed data for all Northeast Area Districts in the Postal Service's Vending Equipment Sales and Service System (VESS) for FY 2003 through first quarter of 2004 to identify obsolete equipment and equipment that did not meet the minimum revenue requirements. Although we relied on data obtained from the VESS, we did not establish the reliability of this data due to time constraints. However, we are planning a separate audit to determine the accuracy of the VESS data. The missed revenue opportunities dollars in the report will not be affected by reliability of the data because the calculations were based on estimated dollar ranges for a period when the underperforming equipment was not redeployed.

Audit work associated with the Northeast Area was conducted from March 2004 through February 2005 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. These issues are also discussed in this report.

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 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 revenue requirements and the districts may have missed revenue opportunities totaling 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 Northeast Area 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. Officials could increase revenue opportunities by redeploying equipment that does not meet minimum revenue requirements. Our review indicated 80 percent (1,478 of 1,844) of the vending machines operating in the Northeast Area did not meet the minimum revenue requirements during FY 2003 and the Northeast Area may have missed revenue opportunities totaling approximately $6.35 million to $19.62 million by not redeploying this equipment. Further, Northeast Area officials could possibly reduce maintenance and repair costs by discontinuing the use of obsolete equipment. Additionally, our physical observation of vending machines in the Northeast Area indicated that overall the machines were operational and easily accessible, with few exceptions. These exceptions were presented in reports to the Albany,[2] Boston,[3] and Massachusetts[4] District Managers and are not addressed in this report.

Redeployment of Vending Equipment

Northeast Area officials could improve their process for redeploying vending equipment that does not meet minimum revenue requirements. Specifically, our review of the vending equipment revenue reports for FY 2003 indicated 82 percent (578 of 709) of the vending machines for the Albany, Boston, and Massachusetts Districts did not meet the minimum revenue requirements. Vending equipment sales for these districts were approximately $5.70 million, which was significantly less than the minimum revenue requirement of $14.10 million. As a result, these districts may have missed revenue opportunities of approximately $2.69 to $8.40 million by not redeploying this equipment.[5] (See Appendix B, Table 1 for details.)

[2] Self-Service Vending Program – Albany District (Report Number DR-AR-04-006, dated September 13, 2004).
[3] Self-Service Vending Program – Massachusetts District (Report Number DR-AR-04-008, dated September 24, 2004).
[4] Self-Service Vending Program – Boston District (Report Number DR-AR-05-002, dated October 14, 2004).
[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 $2.69 million represents the minimum total possible missed revenue opportunities after giving consideration to Postal Service guidance, which requires district officials to review revenue reports and take appropriate actions if a vending machine’s revenue does not reach plan in three to six accounting periods. The $8.40 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.

Additionally, during the same period, our review of the vending equipment revenue reports indicated that 79 percent (900 of 1,135) of the vending machines in the Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts did not meet minimum revenue requirements during FY 2003. Vending equipment sales for these districts were $7.69 million, which was significantly less than the minimum revenue requirement of $19.10 million. As a result, these districts may have missed revenue opportunities of $3.66 to $11.41 million by not redeploying this equipment.[6] (See Appendix B Table 2 for details.)

During the first quarter of FY 2004, our review of the vending equipment revenue reports for the Albany, Boston, and Massachusetts Districts indicated 75 percent (543 of 726) of the vending machines did not meet the minimum revenue requirements. Vending equipment sales were $1.30 million, which was significantly less than the average minimum revenue requirement of $2.99 million. As a result, these districts may have missed revenue opportunities of $1.69 million by not redeploying vending equipment. (See Appendix B, Table 3 for details.)

During the same period, our review of the vending equipment revenue reports indicated that 73 percent (860 of 1,172) of the vending machines in the Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts did not meet minimum revenue requirements. Vending equipment sales for these districts were approximately $1.67 million, which was significantly less than the minimum revenue requirement of $4.03 million. As a result, these district locations may have missed revenue opportunities of approximately $2.36 million by not redeploying this equipment. (See Appendix B Table 4 for details.)

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 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

[6] The $3.66 million and $11.41 million represent the minimum and maximum total possible missed revenue opportunities respectively, for FY 2003 using the same computation methodology as discussed in footnote 2.

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

Albany, Boston, and Massachusetts District officials did not complete 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. In the Albany District, work efforts were directed to higher priorities such as implementing Point of Sale throughout the district. Boston District officials took action to redeploy 5 of the 142 vending machines that did not meet minimum revenue requirements in FY 2003. By not taking action to redeploy underperforming equipment, the districts could miss revenue opportunities during the remaining quarters of FY 2004.

District officials expressed concern regarding the Postal Service's methodology to establish minimum revenue requirements, and the machine's lack of capability to accept debit and credit cards. District officials also expressed concern regarding the limited availability of high demand vending machines, to include model PBSM 624 machines, and the lack of standardized equipment throughout the districts. We plan to forward these concerns to Postal Service Headquarters.

We discussed the results with Northeast Area and district officials and they agreed they could improve their redeployment process for equipment that does not meet the Postal Service's minimum revenue requirements. Northeast Area officials stated threshold revenue targets were established long before first-class stamp revenue started to decrease. In addition, management stated that now stamps are available by phone, fax, and online. These options were not available when the obsolete vending machines were first deployed. Management stated that they have an active vending redeployment program and that in light of aggressive revenue goals, underperforming equipment is not necessarily removed. Management further stated that if the machines are in need of repeated maintenance, the Northeast Area removes such equipment. District officials indicated that the Self-Service Vending Program was not considered a high-priority and work efforts were directed to higher priorities such as the automated postal centers.[7]

[7] 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 Vice President, Northeast Area, direct the District and Retail Managers 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 in part with the finding and recommendation in subsequent correspondence to the OIG. Management stated that while the vending machines are not meeting the minimum revenue requirements established by Postal Service Headquarters, if they removed the machines for underperformance, there are no replacements. However, management supplied all districts in the Northeast Area with the current information in VESS and FY 04 performance by machine. District Marketing and the Retail Managers are responsible for working with Operations to correct all information in VESS and update the database by January 15, 2005. Each district will identify a minimum of three pieces of vending equipment with low revenue and low potential. Postal Service Headquarters has discontinued off-site deployment of vending equipment; therefore, these locations will be examined first. Post offices with predominately cash transactions will be reviewed as possible locations to relocate underperforming equipment. Management will be redeploying a minimum of ten vending machines within the Northeast Area by March 1, 2005. Management will monitor revenue and revenue growth potential for these units for a 90-day period prior to any further redeployment. Management's formal comments are included in Appendix D of this report.

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.

Use of Obsolete Equipment

In FY 2003, Albany, Boston, and Massachusetts District officials continued to use 131[8] obsolete machines and possibly incurred maintenance and repair expenses, although Postal Service policy discontinued the maintenance and repair support for

[8] This number does not include 15 currency changer machines that do not generate revenue. They are located in the Albany (four machines) and Massachusetts (eleven machines) Districts.

the machines in June 2000.[9] Our review of vending equipment revenue reports for the three district locations indicated 98 percent (129 of 131) of these vending machines did not meet minimum revenue requirements during FY 2003. During the first quarter of FY 2004, district officials continued to use 135 obsolete machines and 96 percent (130 of 135[10]) of the vending machines did not meet minimum revenue requirements. District officials stated they continued to use and maintain this equipment because of the potential adverse impact on customer service since replacement equipment was not available. As a result, the Northeast Area possibly incurred maintenance and repair expenses in FY 2003 and the first quarter of FY 2004, by allowing the operation and maintenance of these machines in the three district locations. We were unable to determine the amount of repair and maintenance expenses associated with these machines because the Postal Service does not capture the data for each machine.[11] (See Appendix C, Tables 1 and 3 for details.)

Additionally, during the same period, Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York District officials continued to use 100[12] obsolete machines and possibly incurred maintenance and repair expenses. Our review of the vending equipment revenue reports indicated 95 percent (95 of 100) of these machines did not meet minimum revenue requirements during FY 2003. During the first quarter of FY 2004, these districts continued to use 103[13] obsolete machines and 96 percent (99 of 103) did not meet minimum revenue requirements. As a result, the Northeast Area possibly incurred maintenance and repair expenses that may have exceeded the revenue generated by allowing the operation and maintenance of these machines in the six district locations. We were unable to determine the amount of repair and maintenance expenses associated with these machines because the Postal Service does not capture the data for each machine. (See Appendix C, Tables 2 and 4 for details.)

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

[9] This policy supplements Maintenance Management Order (MMO), 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.
[10] This number excludes 15 currency changer machines, which do not generate revenue. They are located in Albany (four machines) and Massachusetts (eleven machines) Districts.
[11] We plan to address this issue in a capping report to Postal Service Headquarters officials.
[12] This number does not include 23 currency changers that do not generate revenue. They are located in the Connecticut (1 machine), Southeast New England (21 machines), and Western New York (1 machine) Districts.
[13] This number excludes 25 currency changer machines, which do not generate revenue. They are located in the Connecticut (1 machine), New Hampshire/Vermont (2 machines), Southeast New England (21 machines), and Western New York (1 machine) Districts.

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 Northeast Area 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 expense, management has no means of assessing whether the benefits of operating the obsolete equipment outweigh the cost to operate it. District officials indicated plans will be made to replace the obsolete machines with current equipment when the new automated postal centers are deployed to the district locations.

Recommendation

We recommend the Vice President, Northeast Area, direct the District and Retail Managers 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 in part with our finding and recommendation in subsequent correspondence to the OIG. Management stated the Postal Service does not have a system in place to attribute maintenance and repair costs to specific vending units, therefore, OIG's conclusion the district could possibly incur maintenance cost on some equipment may be valid. At the conclusion of each postal quarter, District Marketing and Retail Managers will contact Field Maintenance to identify machines incurring repetitive repairs. Management further stated this information will be validated and forwarded to maintenance for response, as to whether to withdraw the vending unit from service and add the usable components to inventory.

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.

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 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 Rita F. Oliver, Acting Director, Delivery and Retail, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

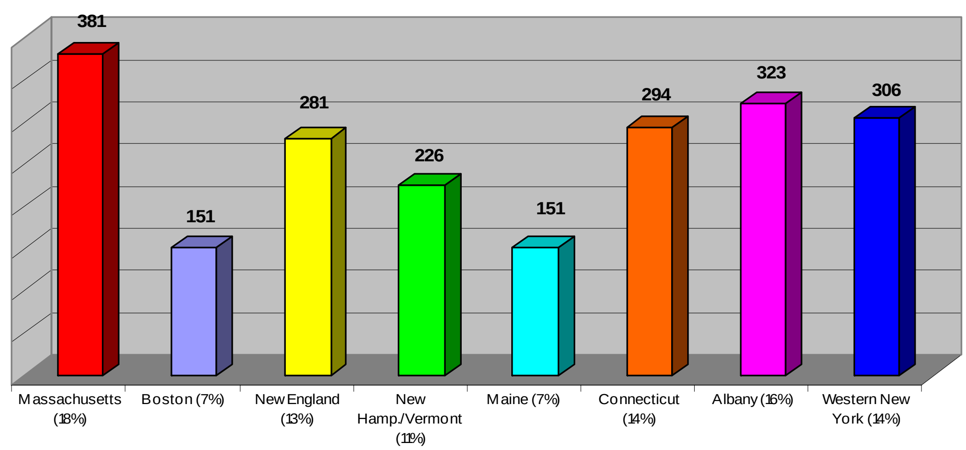
Attachments

cc: William P. Galligan
Steven R. Phelps

APPENDIX A
VENDING MACHINES

Table 1

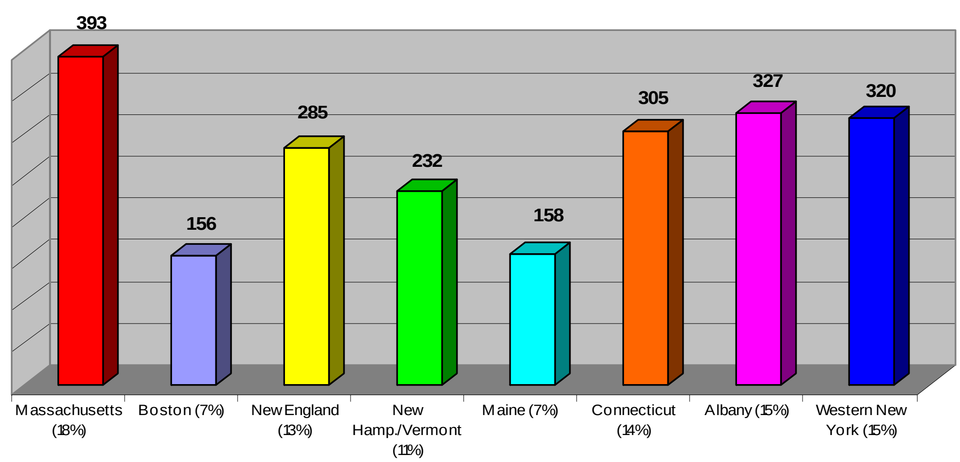
**FY 2003
Northeast Area Vending Machines**



Percent of Total Machines (2,113 Total)

Table 2

**First Quarter FY 2004
Northeast Area Vending Machines**



Percent of Total Machines (2,176 Total)

APPENDIX A
VENDING MACHINE REVENUE (CONTINUED)

Table 3

FY 2003
Northeast Area Revenue
($29.69 Million)

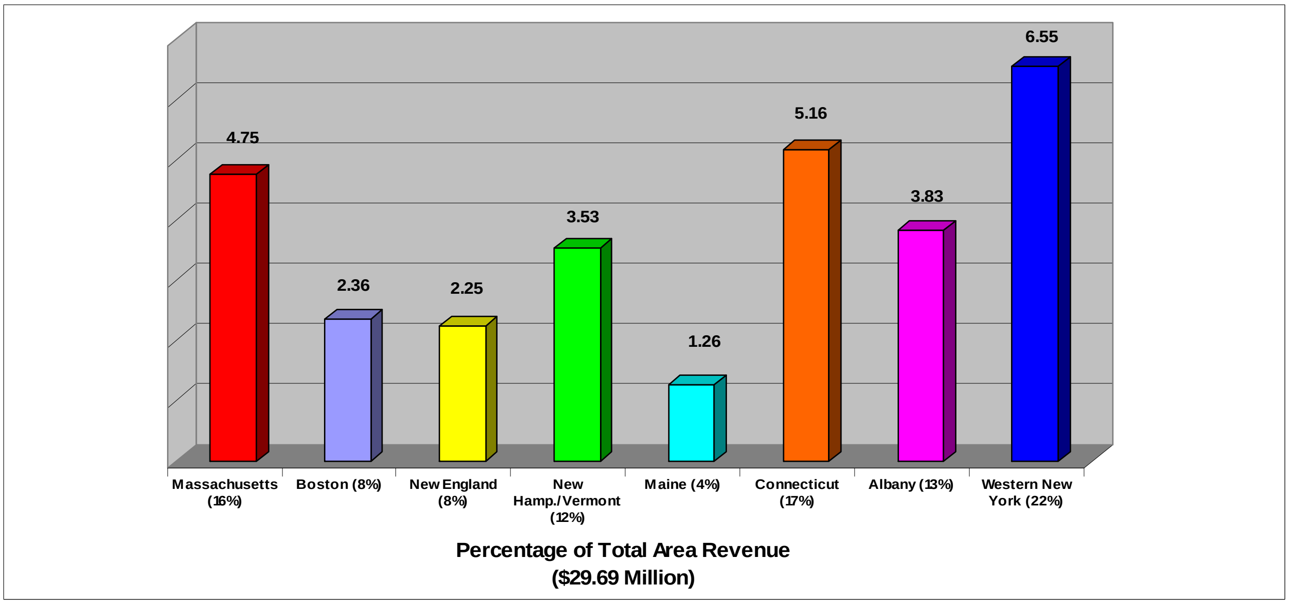
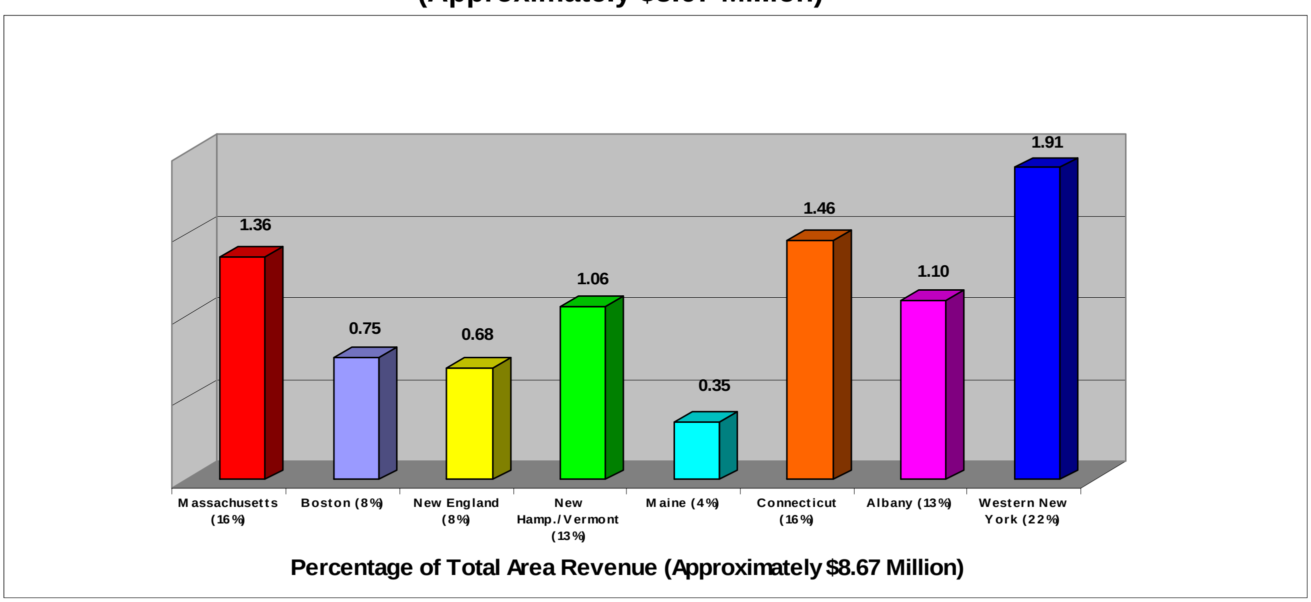


Table 4

First Quarter FY 2004
Northeast Area Revenue
(Approximately $8.67 Million)



APPENDIX B
REVENUE ANALYSIS

Table 1

FY 2003
Vending Equipment
Albany, Boston, and Massachusetts Districts

District Locations	Total Current Vending Machines	Machines Meeting Revenue Requirement	Machines Not Meeting Minimum Revenue Requirement	Total Machine Sales (millions)	Machines Minimum Revenue Requirement (millions)	Minimum Missed Revenue Opportunities (millions)	Maximum Missed Revenue Opportunities (millions)
Albany	260	57	203	1.60	4.00	0.80	2.40
Boston	137	19	118	1.50	3.50	0.59	2.00
Massachusetts	312	55	257	2.60	6.60	1.30	4.00
Total	**709**	**131**	**578**	**5.70**	**14.10**	**2.69**	**8.40**

Note: Based on the information in Table 1 above, in FY 2003, 18 percent (131 of 709) of the machines in the Albany, Boston, and Massachusetts Districts met the minimum revenue requirements and 82 percent (578 of 709) did not meet the requirements.

Table 2

FY 2003
Vending Equipment
Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts

District Locations	Total Current Vending Machines	Machines Meeting Revenue Requirement	Machines Not Meeting Revenue Requirement	Total Machine Sales (millions)	Machines Minimum Revenue Requirement (millions)	Minimum Missed Revenue Opportunities (millions)	Maximum Missed Revenue Opportunities (millions)
Connecticut	283	57	226	2.73	6.35	1.08	3.62
Maine	141	17	124	0.68	1.85	0.37	1.17
New Hampshire/ Vermont	218	55	163	1.29	3.56	0.80	2.27
SE New England	211	23	188	1.18	3.62	0.84	2.44
Western New York	282	83	199	1.81	3.72	0.57	1.91
Total	**1,135**	**235**	**900**	**7.69**	**19.10**	**3.66**	**11.41**

Note: Based on the information in Table 2 above, in FY 2003, 21 percent (235 of 1,135) of the machines in the Connecticut, Maine, New Hampshire, Southeast New England, and Western New York Districts met the minimum revenue requirements and 79 percent (900 of 1,135) did not meet the requirements.

APPENDIX B
REVENUE ANALYSIS (CONTINUED)

Table 3

FY 2004 – First Quarter
Vending Equipment
Albany, Boston, and Massachusetts Districts

District Locations	Total Current Vending Machines	Machines Meeting Revenue Requirement	Machines Not Meeting Minimum Revenue Requirement	Total Machine Sales (millions)	Machines Minimum Revenue Requirement (millions)	Maximum Missed Revenue Opportunities (millions)
Albany	264	79	185	0.34	0.84	0.50
Boston	142	27	115	0.37	0.75	0.38
Massachusetts	320	77	243	0.59	1.40	0.81
Total	**726**	**183**	**543**	**1.30**	**2.99**	**1.69**

Note: Based on the information in Table 3 above, in the first quarter of FY 2004, 25 (183 of 726) of the machines in the Albany, Boston, and Massachusetts Districts met the minimum revenue requirements and 75 percent (543 of 726) did not meet the requirements.

Table 4

FY 2004 – First Quarter
Vending Equipment
Connecticut, Maine, New Hampshire/Vermont, Southeast New England,
and Western New York Districts

District Locations	Total Current Vending Machines	Machines Meeting Revenue Requirement	Machines Not Meeting Minimum Revenue Requirement	Total Machine Sales (millions)	Machines Minimum Revenue Requirement (millions)	Maximum Missed Revenue Opportunities (millions)
Connecticut	293	72	221	0.67	1.40	0.73
Maine	148	23	125	0.18	0.42	0.24
New Hampshire/ Vermont	222	65	157	0.27	0.77	0.50
SE New England	215	42	173	0.25	0.73	0.48
Western New York	294	114	180	0.30	0.71	0.41
Total	**1,172**	**316**	**856**	**1.67**	**4.03**	**2.36**

Note: Based on the information in Table 4 above, in the first quarter of FY 2004, 27 percent (316 of 1,172) of the machines in the Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts met the minimum revenue requirements and 73 percent (856 of 1,172) did not meet the requirements.

APPENDIX C
OBSOLETE EQUIPMENT

Table 1

FY 2003
Obsolete Vending Equipment
Albany, Boston, and Massachusetts Districts

District Locations	Total Obsolete Vending Machines	Machines Meeting Revenue Requirement	Machines Not Meeting Revenue Requirement
Albany	59	0	59
Boston	14	0	14
Massachusetts	58	2	56
Total	**131**	**2**	**129**

Note: Based on the information in Table 1 above, in FY 2003, 2 percent (2 of 131) of the machines in the Albany, Boston, and Massachusetts Districts met the minimum revenue requirements and 98 percent (129 of 131) did not meet the requirements.

Table 2

FY 2003
Obsolete Vending Equipment
Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts

District Locations	Total Obsolete Vending Machines[14]	Machines Meeting Revenue Requirement	Machines Not Meeting Revenue Requirement
Connecticut	10	1	9
Maine	10	1	9
New Hampshire/Vermont	8	0	8
Southeast New England	49	2	47
Western New York	23	1	22
Totals	**100**	**5**	**95**

Note: Based on the information in Table 2 above, in FY 2003, 5 percent (5 of 100) of the machines in the Connecticut, Maine, New Hampshire/Vermont, SE New England, and Western New York Districts met the minimum revenue requirements and 95 percent (95 of 100) did not meet the requirements.

[14] Total obsolete vending machines do not include coin changers.

APPENDIX C
OBSOLETE EQUIPMENT (CONTINUED)

Table 3

FY 2004
Obsolete Vending Equipment
Albany, Boston, and Massachusetts Districts

District Locations	Total Obsolete Vending Machines[15]	Machines Meeting Revenue Requirement	Machines Not Meeting Revenue Requirement
Albany	59	1	58
Boston	14	1	13
Massachusetts	62	3	59
Total	**135**	**5**	**130**

Note: Based on the information in Table 3 above, in the first quarter of FY 2004, 4 percent (5 of 135) of the machines in the Albany, Boston and Massachusetts Districts met the minimum revenue requirements and 96 percent (130 of 135) did not meet the requirements.

Table 4

FY 2004
Obsolete Vending Equipment
Connecticut, Maine, New Hampshire/Vermont, Southeast New England, and Western New York Districts

District Locations	Total Obsolete Vending Machines[16]	Machines Meeting Revenue Requirement	Machines Not Meeting Revenue Requirement
Connecticut	11	1	10
Maine	10	1	9
New Hampshire/Vermont	8	1	7
Southeast New England	49	1	48
Western New York	25	0	25
Totals	**103**	**4**	**99**

Note: Based on the information in Table 4 above, in the first quarter of FY 2004, 4 percent (4 of 103) of the machines in the Connecticut, Maine, new Hampshire/Vermont, Southeast New England and Western New York Districts met the minimum revenue requirements and 96 percent (99 of 103) did not meet the requirements.

[15] Total Obsolete Vending Machines does not include coin changers.
[16] Total Obsolete Vending Machines does not include coin changers.

APPENDIX D. MANAGEMENT'S COMMENTS

JON M. STEELE
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

UNITED STATES
POSTAL SERVICE™

January 13, 2005

Kim H. Stroud
Director, Audit Operations
Office of Inspector General
1735 N Lynn St.
Arlington VA 22209-2020

Subject: Draft Audit Report – Self Service Vending Program
Northeast Area (Report DR-AR-04-DRAFT)

We have completed our review of the vending audit which was recently conducted by your office throughout the Northeast Area. We do appreciate the inclusion of the concerns which we raised during our initial review of the report.

Recommendation 1
Review revenue reports to identify underperforming equipment, notify Postmasters of vending equipment that generates low revenue; and give consideration to all feasible alternatives, complete all necessary actions to redeploy underperforming equipment as often as possible.

The NE Area currently has 2081 vending units. Approximately 197 are considered obsolete. The total obsolete units include 170 models 53C, which are in-wall units. To remove these units, we will incur costs to repair wall holes. HQ has recently provided new guidance on this vending model suggesting that the units be removed only if they cannot be repaired.

The obsolete equipment did generate $379,000 in revenue last year. HQ does not have a current plan to replace these units. While we are not meeting minimum requirements set by HQ on many machines, if we remove these for underperformance, there are no available replacements. As a point of reference, it is our understanding that Headquarters will soon reduce the minimum revenue requirements for all vending equipment.

Alternate Access to postage products, a broad category of which Vending is a part, is a compensable indicator under the National Performance Assessment program in 2005. As you can imagine, we are, therefore, not anxious to remove any vending equipment that is not problematic from maintenance or repair cost vantage point. The Northeast Area has recently deployed 120 Automated Postal Centers. We have removed one piece of vending equipment for each APC installed in offices having more than one piece of vending equipment. Redeployment of additional vending equipment will likely not have significant financial benefits for the Northeast Area. We do not have a problem with long customer wait times in our lobbies, and vending equipment that does not accept credit/debit cards and provides Susan B. Anthony dollar coins as change is not a real convenient alternative access for postal products.

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Please also be mindful that the Northeast Area ranks far above the norm for Post Office buildings per square mile. Postal customers in the Northeast are almost always in close proximity to a Post Office building and unless we can offer a more customer friendly vending option (like the APC), customers are not easily convinced of the convenience of antiquated technology.

Despite the rationale described for the current state of vending operations, the Northeast Area will respond to recommendation # 1. All Districts in the NE Area have been supplied with the current information in VESS and FY 04 performance by machine. The Marketing Manager and the Retail Manager in each District are responsible for working with Operations to correct all information in VESS and to update the data base by January 15, 2005. Each District will then identify a minimum of three pieces of vending equipment with low revenue and low potential. Since Headquarters has discontinued all off-site deployment of vending equipment, these locations will be examined first. In seeking locations to relocate underperforming equipment, we will target Post Offices in areas where cash transactions predominate. A minimum of ten vending equipment units will be redeployed within the Northeast Area by March 1, 2005. We will monitor revenue and revenue growth potential for these units for a 90-day period prior to any further redeployment.

Recommendation 2
Consider all feasible alternatives and complete all necessary actions to eliminate repair and maintenance cost for the obsolete equipment.

During the course of your audit, you relied upon VESS data but determining the validity of the data was not in the scope of this audit. We do not presently have a consistent system in place to attribute maintenance and repair costs to specific vending units. Your conclusion that we "possibly" incur excessive maintenance/repair costs on some equipment may be valid.

To respond to recommendation # 2, at the conclusion of each postal quarter, District Marketing and Retail Managers will contact Field Maintenance to identify machines incurring repetitive repairs. This information will be validated through maintenance work orders completed by Post Offices and submitted to Maintenance for response. Up until this point, we have left judgment with District Field Maintenance to withdraw a vending unit from service and add the usable components to our inventory.

We do appreciate the independent assessment provided by the OIG. Our ongoing business objectives are similar to the objectives of your audit: increase revenue and reduce operating costs.

Jon Steele

Jon M. Steele

cc: VP Delivery and Retail Operations, HQ
Marketing Manager, NE Area