

Office of Inspector General | United States Postal Service

Audit Report

Capital Equipment at the Eagan Information Technology Center

Report Number 21-059-R21 | August 10, 2021



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Highlights

Objective

Our objective was to determine whether the U.S. Postal Service is effectively managing capital equipment at the Information Technology Center (ITC) in Eagan, MN.

In January 2021, the Eagan ITC had over 4,300 capital equipment items — such as computer servers — for operations, system enhancements, equipment replacement, or research and development. During calendar years 2019 and 2020, 628 items with an estimated value of \$77 million were entered as capital equipment records.

Facility installation heads are responsible and accountable for all material at their facilities, including reporting and transferring inactive assets. At larger installations, the facility head may delegate an employee as a material accountability officer. These officers are responsible for ensuring that all capital property verification and physical inventory procedures are followed, including the prompt and proper redistribution of assets for organizational needs. Postal Service policy defines excess inventory as assets stored over the 6-month retention limit.

Findings

The Postal Service did not effectively manage capital equipment at the Eagan ITC. Specifically, management:

- Held 175 of 230 inactive capital equipment items (76 percent) in storage for between seven and 36 months. The items were not redistributed within the organization or disposed of after six months per the definition of excess. Management did not consider this equipment as excess inventory, stating they stored the equipment for current and future projects. As a result, the Postal Service experienced a reduction in value of about \$1.5 million for purchased but stored equipment and incurred nearly \$240,000 in costs related to warranties and support services for items in storage.
- Did not maintain a reliable system for identifying and tracking capital equipment. We determined that 43 of 238 inactive capital equipment items

(18 percent) at the facility (including eight items identified by management) did not have corresponding records in one or both of their inventory management tools (Solution for Enterprise Asset Management and Asset Inventory Management System). We also determined that management recorded 99 percent of the stored items we observed as active in the Asset Inventory Management System.

Further, we randomly selected 207 of 628 capital equipment records and determined that for 114 of those items (55 percent), required capital property labels were kept in folders and not placed on the items because employees were piloting an alternate labeling system.

Compliance with existing policies would provide the information needed to better manage equipment, reduce warranty and support costs, and avoid spending additional funds for capital equipment already available at the facility. Improved inventory management records would reduce the risk of loss or theft of existing items and better enable management to respond to the changing needs of the organization.

Recommendations

We recommended management:

- Establish procedures to ensure managers comply with Handbook AS-701, *Asset Management*, definitions for excess equipment and redistribute or dispose of excess capital equipment.
- Conduct a physical inventory of all stored inactive capital equipment at the Eagan Information Technology Center, affix the required capital property labels, and correct Solution for Enterprise Asset Management System and Asset Inventory Management System records as appropriate.
- Implement a process to ensure that records for capital assets at the Eagan Information Technology Center are accurately entered and maintained in the Solution for Enterprise Asset Management System and the Asset Inventory Management System with clear designations of the status of equipment items.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 10, 2021

MEMORANDUM FOR: WILLIAM E. KOETZ
VICE PRESIDENT, NETWORK & COMPUTE TECHNOLOGY

A handwritten signature in black ink, reading "M S Schoenberg", is positioned above the "FROM:" field.

FROM: Mitchell S. Schoenberg
Deputy Assistant Inspector General for Finance and Pricing

SUBJECT: Audit Report – Capital Equipment at the Eagan Information
Technology Center (Report Number Number 21-059-R21)

This report presents the results of our audit of the U.S. Postal Service's Capital Equipment at the Eagan Information Technology Center. Our objective was to determine whether the U.S. Postal Service is effectively managing capital equipment at the Eagan Information Technology Center.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Finance, at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

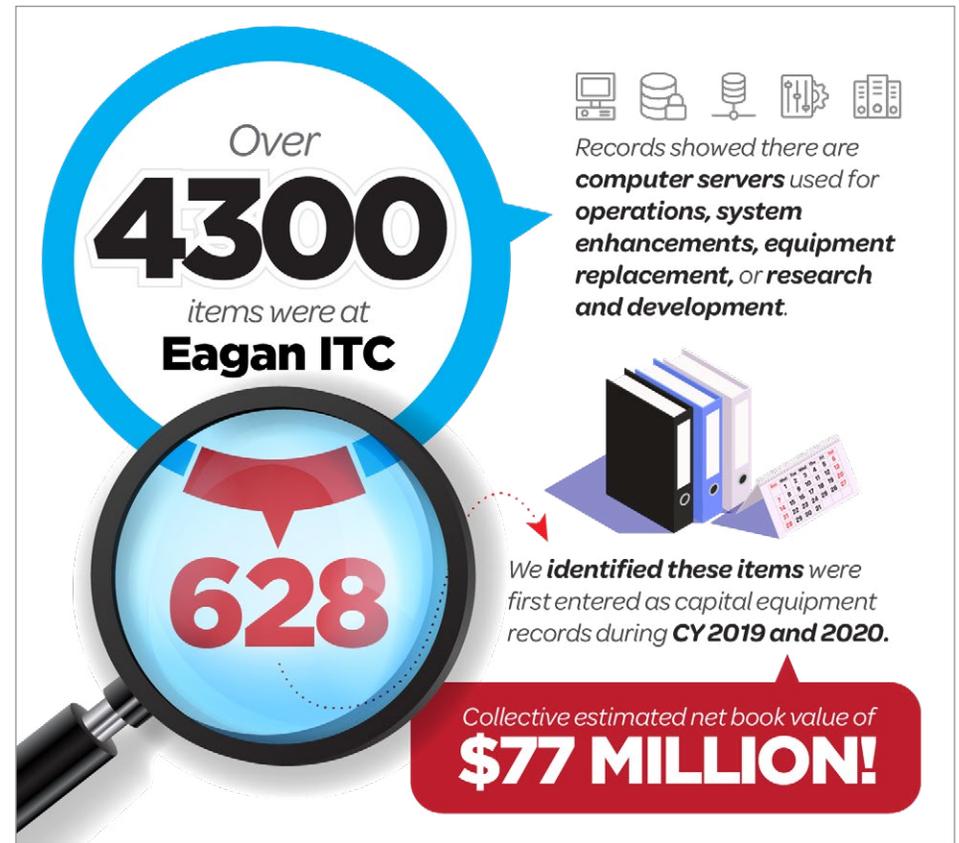
This report presents the results of our self-initiated audit of the U.S. Postal Service's capital equipment at the Information Technology Center (ITC) in Eagan, MN (Project Number 21-059). Our objective was to determine whether the Postal Service is effectively managing capital equipment at the Eagan ITC. See [Appendix A](#) for additional information about this audit.

Background

In January 2021, Postal Service capital equipment¹ records showed the Eagan ITC had over 4,300 items — such as computer servers — for operations, system enhancements, equipment replacement, or research and development. For the purposes of our audit, we identified 628 of these items which were first entered as capital equipment records during calendar years (CY) 2019 and 2020.² With a collective estimated net book value³ of \$77 million, these items support the organization's efforts to maintain its information technology (IT) infrastructure, which is vital to business performance.

Postal Service policy states that facility installation heads are responsible and accountable for all material in their respective organizations. Critical responsibilities relating to material identification, reporting, and transferring inactive assets include accurately identifying inactive assets and ensuring all assets identified as excess serviceable are promptly and accurately reported through channels.⁴

At larger installations, the facility head may delegate an employee as a Material Accountability Officer (MAO).⁵ MAOs are responsible for overseeing compliance with all asset accountability policies and procedures within their unit. MAO responsibilities include, but are not limited to, tracking and documenting capital equipment from the point of notification that an item is pending receipt to its final disposition or transfer to another organization. Other responsibilities include



ensuring that employees follow all capital property verification, physical inventory, and reconciliation procedures; and ensuring they add extended descriptions into inventory systems to assist in the accurate identification of capital assets.⁶

1 Handbook AS-701, *Asset Management*, Section 5-1.5, September 2020, defines capital equipment as stand-alone items costing \$10,000 or more per unit that depreciate in value and have a service life over one year.

2 We used the month first capitalized during CYs 2019 and 2020 as an indicator of when the items were first entered as capital equipment records.

3 Net book value is the sum of the undepreciated balance as recorded in the Postal Service capital property listing.

4 Handbook AS-701, Section 6-1.4.2.

5 Handbook AS-701, Section 5-3.1.1.

6 Handbook AS-701, Section 5-1.4.2.

Summary

The Postal Service did not effectively manage capital equipment at the Eagan ITC. Specifically, management:

- Stored inactive capital equipment for longer than the six-month retention limit.
- Did not maintain a reliable system for identifying and tracking capital equipment at the facility. Inventory records in the two existing systems were not reliable and property staff did not assign the correct status for devices or attach required inventory labels.

We identified opportunities for management to retain more reliable information for managing capital equipment at the Eagan ITC facility.

Finding #1: Stored Equipment

Based on direct observations at the Eagan ITC in February 2021, management was storing 230 inactive capital equipment items. According to property control records, 175 items (76 percent) were stored for between seven and 36 months. The items were not redistributed within the organization or disposed of after six months per the definition of excess. Management did not consider this equipment as excess inventory and stated they stored the equipment for current and future projects. As a result, the Postal Service incurred costs related to the excess equipment, including warranties and support services.

Current policy defines excess assets as those that are not being used⁷ and excess inventory as assets not appropriate for retention or stored for over the six month retention limit and available for redistribution or disposal.⁸ In addition, policy requires facility installation heads, functional managers, MAOs, and other employees responsible for material management take all necessary steps to ensure the prompt and proper redistribution of assets.⁹ Specifically for IT equipment, the supporting IT organization¹⁰ controls the redistribution. The IT organization uses the Asset Inventory Management System (AIMS) to record information about IT hardware assets and as a resource in supporting IT property management activities. However, the IT organization policy does not provide guidance for recording excess equipment. While AIMS does not have a specific status designation for excess equipment, the status “Stored” could indicate availability for redistribution.

Table 1 summarizes the unused capital equipment we observed during our walkthroughs. For items stored for more than six months, the table provides the reduction in value for equipment that went directly to storage with estimated costs related to warranties and support services.

7 Handbook AS-701, Section 6-1.5e.

8 Handbook AS-701, Section 4-2.3.3.

9 Handbook AS-701, Section 6-1.4.

10 Handbook AS-701, Section 6-3.3.3.2.

Table 1. Unused Capital Equipment Observed at the Eagan ITC

Location	Number of Items Observed	Estimated Months in Storage	Reduction in Book Value While in Storage*	Estimated Warranty/Support Services Expense While in Storage**
Room 138	145	7	\$ 1,155,160	\$ 174,040
Room 138	4	15	92,898	8,764
Room 2121	6	8	15,528	9,667
Room 2121	7	14	122,262	14,532
Room 2121	8	16	39,175	12,777
Room 2121	5	36	67,748	19,622
Subtotal for storage over six months	175		\$ 1,492,771	\$ 239,402
Room 138	1	4	<i>Less than six months</i>	
Other Rooms	54	<i>Time in storage could not be determined.</i>		
Total	230		\$ 1,492,771	\$ 239,402

Source: U.S. Postal Service Office of Inspector General (OIG) observations on February 25, 2021 and analysis of Postal Service data.

* Based on Postal Service data as of February 2021.

** We calculated this expense for each item as follows: (warranty and support service cost per item) x (months in storage/expected life in months).

Five of the items in Room [REDACTED] were [REDACTED] devices (for a total cost of \$120,000) that went directly to storage in February 2018 when they were received at the facility. Twenty months later, another eight [REDACTED] devices (for a total cost of \$181,000) were received and added to storage. In another example, in Room [REDACTED], we identified multiple orders of 145 [REDACTED] devices totaling \$11 million that went directly to storage after they were received in August 2020. After more than six months in storage, these items were not used or identified as stored or excess. Had management had a reliable inventory system and accurately identified these items as stored or excess, they would have had better

information and possibly avoided spending additional funds for capital equipment already available in the facility, reduced warranty and support costs, and better managed their equipment.

Recommendation #1

We recommend the **Vice President, Network and Compute Technology**, establish procedures to ensure managers comply with Handbook AS-701, *Asset Management*, definitions for excess equipment and redistribute or dispose of excess capital equipment.

Finding #2: Inventory Management System Data

Management did not maintain a reliable system for identifying and tracking capital equipment at the Eagan ITC. Specifically, inventory records in the Solution for Enterprise Asset Management (SEAM) and AIMS tools were not reliable. In addition, property staff did not assign the correct status for devices or attach required inventory labels.

Eagan ITC employees use several tools to manage and track equipment including SEAM and AIMS. SEAM is the Postal Service's system to manage inventory operations and track capital equipment, including computing infrastructure equipment. Employees use AIMS to store information about IT hardware assets, including non-inventoried assets and sensitive property. However, AIMS was not designed to be an official repository for IT asset records. In addition to these systems, some managers maintain individual spreadsheets on the status and configurations of the items for which they are responsible.

We attempted to trace the 230 items we physically observed in February 2021, plus eight inactive¹¹ stored items identified by management,¹² to their associated records within SEAM and AIMS and found:

- SEAM and AIMS records contained conflicting and inaccurate information for 43 of 238 (18 percent) inactive stored items. In addition, for those items without SEAM records, we could not determine the value of the items. Specifically, we found:
 - Ten items had no corresponding records in SEAM. Two of the items were retired in January 2020 but were not returned to the vendor for trade-in¹³ as intended. A third item was powered off and waiting to fully depreciate before trade-in. We confirmed through our own observations and AIMS records that the remaining seven items were servers but we could not further determine their circumstances.

- Six items had no corresponding records in AIMS. Five of these items were desktop, laptop, or server equipment for the Postal Service's distributed advanced computing environment with a remaining value of \$3,621. The other item was a storage device with a remaining value of \$416,607.
- Twenty-seven items had no corresponding records in SEAM or AIMS. The MAO said nine of these items were retired as early as 2018. However, while no longer in the inventory records, these items remained at the Eagan ITC. A project manager indicated that three of these items were trade-ins and we could not determine the circumstances of the remaining 15 items.
- For the 205 inactive, stored items recorded in AIMS, 203 items (99 percent) were assigned "Active" status. AIMS defines "Active" as equipment connected to the postal environment and turned on. As a matter of practice, the Eagan ITC property control specialist recorded IT equipment in AIMS as "Active" status when it was received in the facility. The facility installation head relied on the specialist's work and did not confirm compliance with inventory policy.

We also randomly selected 207 of 628 capital equipment items assigned to the Eagan ITC in Enterprise Data Warehouse (EDW)¹⁴ records and traced each item to its receiving documentation maintained by the MAO. We found that:

- One hundred fourteen of the 207 items (55 percent) did not have SEAM property labels affixed as required. Instead, those labels were kept in folders. These 114 items were valued at over \$7.7 million at the time of our sampling. Although Postal Service policy requires SEAM property labels to be affixed to capital equipment items,¹⁵ the MAO used an alternate labeling system as part of an ongoing pilot program testing radio frequency technology. However, that labeling system pilot did not replace the requirement to affix SEAM property labels to capital equipment items.

¹¹ AIMS defines active equipment as equipment connected to the postal environment. In contrast, inactive equipment is not connected to the postal environment.

¹² Management provided a list of eight additional stored items in areas with restricted access.

¹³ Preferred method of disposal in which equipment is given to a vendor as whole or partial payment toward the purchase of new equipment.

¹⁴ The single repository for managing all of the Postal Service's data assets.

¹⁵ Handbook AS-701, Section 5-6.3.1, describes the label as identifying the item as Postal Service property and tying it to the corporate accounting system.

- Eight items valued at \$450,084 were assigned to the Eagan ITC in EDW but the MAO thought they were physically located at the San Mateo, CA facility.¹⁶ After discussing the items with the MAO, the property records were corrected to show they were assigned to the San Mateo facility.

Current policy requires the IT organization to maintain a comprehensive, accurate, and up-to-date hardware asset inventory that includes all technology assets known to the organization, with the potential to store or process information whether or not currently connected to the network.¹⁷ Industry best practices promote that, at a minimum, inventory management systems accurately reflect the status and condition of capital assets in order to effectively manage them. Both property staff and management were aware of the Postal Service's asset management policy but did not explain why it was not implemented at the facility. As a result, management could not provide an accurate physical inventory of all stored inactive capital equipment or the actual location of several items at the Eagan ITC.

By not properly inventorying and managing capital equipment, the Postal Service is at an increased risk of purchasing equipment that is already available at the facility and loss or theft of existing items. In addition, access to reliable information on the active or inactive status of capital IT equipment is critical to enabling management to respond to changing needs in the organization, such as when significant numbers of employees began working remotely in 2020 and facilities had to meet increased capacity demands as a result.

Recommendation #2

We recommend the **Vice President, Network and Compute Technology**, instruct the **Director, Network and Compute Operations**, at the Eagan Information Technology Center to conduct a physical inventory of all stored inactive capital equipment, affix required capital property labels, and correct Solution for Enterprise Asset Management system and the Asset Inventory Management System records as appropriate.

Recommendation #3

We recommend the **Vice President, Network and Compute Technology**, instruct the **Executive Manager, Compute Engineering**, to implement a process to ensure that records for capital assets at the Eagan Information Technology Center are accurately entered and maintained in the Solution for Enterprise Asset Management system and the Asset Inventory Management System including clear designations of the status of equipment items.

Management's Comments

Management agreed with the findings and recommendations in the report. Management also noted corrections to the responsible officials for recommendations 2 and 3 and we have updated that in the body of the report.

Regarding recommendation 1, management will create and distribute standard operating procedures (SOP) to specifically address proper tagging assets, tracking asset movements, and managing excess capital equipment for redistribution according to Handbook AS-701; and periodic reporting to Vendor Performance. The target implementation date is September 30, 2021.

Regarding recommendation 2, management will conduct a physical inventory of all stored inactive capital equipment at the Eagan ITC, affix required capital labels, and correct SEAM system and AIMS records as appropriate. The target implementation date is September 30, 2021.

Regarding recommendation 3, management will demonstrate adherence to the SOP and proper tracking of capital equipment using radio frequency identification and ensure that records are accurately entered and maintained in the SEAM system or other agreed upon system if they can't use SEAM. The target implementation date is March 31, 2023. See [Appendix B](#) for management's comments in their entirety.

¹⁶ The MAO thought an additional item valued at \$56,261 was also physically located in San Mateo but it was subsequently found at the Eagan ITC.

¹⁷ Handbook AS-805, *Information Security*, Section 10-2.7, March 2021.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and corrective actions should resolve the issues identified. Regarding recommendation 3, management's target implementation date is more than one year from the date of their comments. We will work with them to obtain an implementation plan with milestones to ensure timely completion.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of our audit was capital equipment at the Eagan ITC. The Postal Service defines capital equipment as stand-alone items of property costing \$10,000 or more per unit that depreciate and have a service life of more than one year.¹⁸ We identified 238 inactive capital equipment items through physical tours of the facility in February 2021 and records provided by local managers.

We also identified 628 capital equipment items the Eagan ITC obtained during calendar years 2019 and 2020. We randomly sampled 207 of 628 active and inactive capital equipment items assigned to Eagan according to EDW property records.

To accomplish our objective, we:

- Interviewed Postal Service employees to document their processes and procedures for managing, recording, and tracking capital equipment.
- Evaluated current operations against postal policies and industry best practices to identify control weaknesses and noncompliance issues.
- Analyzed property records to determine how long equipment was stored.
- Conducted physical tours of areas with inactive equipment and traced the items to determine whether they were properly recorded in inventory management systems.
- Calculated warranty and support services expenses for unused capital equipment in storage.

We conducted this performance audit from February through August 2021 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 12, 2021, and included their comments where appropriate.

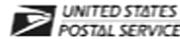
We assessed the reliability of EDW for reporting capital equipment records in SEAM. We traced items sampled from EDW to contracts and delivery documents and determined the data was sufficiently reliable for identifying capital equipment in the Eagan ITC. We also assessed the reliability of SEAM records for identifying whether capital equipment was properly recorded by tracing our observations to SEAM records and determined they were not reliable for that purpose. Further, we assessed the reliability of AIMS by tracing our observations to AIMS records and determined the data was not sufficiently reliable for that purpose. We also assessed the reliability of AIMS records for identifying the active or inactive status of capital equipment and determined they were not sufficiently reliable for that purpose. Overall, our adjusted methodology incorporated data that were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit within the last five years.

¹⁸ Handbook AS-701, Section 5-1.5.

Appendix B: Management's Comments



August 2, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Capital Equipment at the Eagan Information Technology Center (Project Number 21-059-DRAFT)

Management has reviewed the Capital Equipment at the Eagan Information Technology Center report. This letter provides the Management Response. Management agrees with the findings provided by the OIG team.

Recommendation #1:

We recommend the Vice President, Network and Compute Technology, establish procedures to ensure managers comply with Handbook AS-701, *Asset Management*, definitions for excess equipment and redistribute or dispose of excess capital equipment.

Management Response/Action Plan:

Management agrees with this recommendation. Responsible Official will create and distribute standard operating procedures (SOP) to ensure compliance with the AS-701 handbook. The SOP will specifically address proper tagging assets, tracking asset movements, managing excess capital equipment for redistribution or disposal according to the AS-701 handbook, and periodic reporting to Vendor Performance.

Target Implementation Date:

September 30, 2021

Responsible Official:

Executive Manager, Compute Engineering

Recommendation #2:

We recommend the Vice President, Network and Compute Technology, instruct the Director, Network and Compute Vendor Performance, at the Eagan Information Technology Center to conduct a physical inventory of all stored inactive capital equipment, affix required capital property labels, and correct Solution for Enterprise Asset Management system and the Asset Inventory Management System records as appropriate.

Management Response/Action Plan:

Management agrees with this recommendation except the correct person being directed is the Director, Network and Compute Operations. Responsible Official will conduct a physical inventory of all stored inactive capital equipment located at Eagan IT Center,

affix required capital property labels, correct Solution for Enterprise Asset Management system, and the Asset Inventory Management System records as appropriate.

Target Implementation Date:

September 30, 2021

Responsible Official:

Director, Network and Compute Operations

Recommendation #3:

We recommend the Vice President, Network and Compute Technology, instruct the Director, Network and Compute Vendor Performance, to implement a process to ensure that records for capital assets at the Eagan Information Technology Center are accurately entered and maintained in the Solution for Enterprise Asset Management system and the Asset Inventory Management System including clear designations of the status of equipment items.

Management Response/Action Plan:

Management agrees with this recommendation except the correct person being directed is the Executive Manager, Compute Engineering. The responsible official will demonstrate adherence to the SOP's, proper tracking of capital equipment using RFID, and to ensure that records are accurately entered and maintained in the Solution for Enterprise Asset Management system (SEAM) or other agreed upon system if SEAM cannot be used.

Target Implementation Date:

March 31, 2023

Responsible Official:

Executive Manager, Compute Engineering

**William
Koetz**

Digitally signed by
William Koetz
Date: 2021.08.03
15:22:25 -04'00'

WILLIAM E. KOETZ
VICE PRESIDENT, NETWORK & COMPUTE TECHNOLOGY

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