Internal Controls Over the Annual Capital Property Review

AUDIT REPORT

Report Number 22-185-R23 | September 29, 2023

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Highlights

Background

The U.S. Postal Service plans to invest roughly $40 billion over the next 10 years to modernize its retail and processing networks and upgrade facilities. Thus, it is crucial for the Postal Service to establish and maintain internal controls over its capital assets to safeguard against theft, support operations, and uphold accurate financial reporting. As part of its inventory controls, the Postal Service conducts the annual capital property review, as required by the Sarbanes-Oxley Act. The review occurs annually in March, with a sampling of Postal Service capital assets to allow for every capital asset to be physically located and inventoried over a four-year cycle.

What We Did

Our objective was to evaluate the effectiveness of internal controls over the Postal Service's annual capital property review at network distribution centers and processing and distribution centers. We judgmentally selected four network distribution centers and processing and distribution centers to conduct site visits.

What We Found

While the Postal Service has some internal controls in place governing the annual capital property review, we found they were not always effective to ensure capital assets were accurately identified and certified. In addition, although there are documented policies and procedures to address risks associated with the management of capital assets, we found that some practices were not being followed.

These issues occurred because existing controls are not designed to detect reporting inaccuracies, the Postal Service measures the success of the annual capital property review based on timely completion rather than accuracy, and management did not provide sufficient oversight as it relates to material accountability officers (MAO). Ineffective internal controls over the annual capital property review leaves the Postal Service vulnerable to operational and financial risks. Specifically, this can result in theft, not having assets like key processing equipment available to support operations, or inaccurately reporting the value of assets in the Postal Service's financial statements.

Recommendations

We recommended management (1) evaluate the internal controls for the annual capital property review to identify process improvements, add controls, and create a goal to enhance accuracy; and (2) reinforce the importance for facility management to issue timely, written MAO delegation letters, and for newly assigned MAOs to conduct a physical inventory of capital assets.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 29, 2023

MEMORANDUM FOR: MARK A. GUILFOIL
VICE PRESIDENT, SUPPLY MANAGEMENT

MIKE L. BARBER
VICE PRESIDENT, PROCESSING AND MAINTENANCE OPERATIONS

CARA M. GREENE
VICE PRESIDENT, CONTROLLER

Amanda H. Stafford

FROM: Amanda Stafford
Deputy Assistant Inspector General
for Retail, Marketing and Supply Management

SUBJECT: Audit Report - Internal Controls Over the Annual Capital Property Review (Report Number 22-185-R23)

This report presents the results of our audit of the Internal Controls Over the Annual Capital Property Review.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Shirian Holland, Director, Infrastructure and Supply Management, or me 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 Internal Controls Over the Annual Capital Property Review (Project Number 22-185). Our objective was to evaluate the effectiveness of internal controls over the U.S. Postal Service's annual capital property review at network distribution centers (NDCs) and processing and distribution centers (P&DCs). We judgmentally selected four NDCs and P&DCs to conduct site visits during May and June 2023: the Washington NDC, in Capital Heights, Maryland; Jacksonville NDC, in Jacksonville, Florida; Chicago NDC, in Forest Park, Illinois; and Sacramento P&DC, in Sacramento, California. See Appendix A for additional information about this audit.

Background

The U.S. Postal Service plans to invest roughly $40 billion over the next 10 years to modernize its retail and processing networks and upgrade facilities. Thus, it is crucial for the Postal Service to establish and maintain internal controls over its capital assets[1] to safeguard against theft, loss, and improper use. In January 2023, the Postal Service owned over 60,000 capital assets with a net book value[2] of approximately $1.09 billion in its 349 mail processing facilities. While Supply Management at the Postal Service headquarters is responsible for establishing and maintaining national asset management policies, programs, and procedures, facility heads and, when designated, material accountability officers (MAO)[3] are responsible for asset accountability within a facility. This includes performing internal control activities such as conducting recurring physical inventories of capital assets and recording asset transfers and disposals.

In January 2023, the Postal Service owned over 60,000 capital assets with a net book value of approximately $1.09 billion in its 349 mail processing facilities.

The Postal Service fulfills this responsibility primarily through the annual capital property review, as required by the Sarbanes-Oxley Act (SOX).[4] The review occurs in March of each year, with a sampling of Postal Service capital assets. This sampling method allows for every capital asset to be physically located and inventoried over a four-year cycle. In calendar year 2020, Supply Management automated the annual capital property review to improve the quality and reliability of operations surrounding capitalized equipment.

To complete the inventory control process, Technology Applications, within the Chief Information Office, initiates the process to select assets for the annual capital property review and the information is uploaded into the *Solution for Enterprise Asset Management* (SEAM) system.[5] Supply Management then sends an electronic notification to the MAO at each selected facility with a link to access the annual capital property certification, which is an electronic checklist used to facilitate the annual capital property review. The MAO reviews the certification checklist in SEAM to view which assets have been selected to be reviewed and inventoried for that year's cycle.

The MAO is responsible for physically locating each asset listed on the checklist and certifying it in the system as:

1 A capital asset is acquired through purchase, transfer, or donation, has a service life of more than one year, is a stand-alone item of property, costs $10,000 or more, and depreciates in value.
2 Net book value is the undepreciated balance as recorded in the Postal Service capital property listing – a list of capital property assigned to a finance number.
3 A facility head is one who plans, organizes, directs, guides, controls, and evaluates the efforts of subordinate managers, employees, or both to achieve organizational goals. At larger facilities, facility heads may delegate asset accountability to an employee designated as the MAO.
4 The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to comply with certain sections of the SOX (Public Law 107-204, 07/30/2002). Section 404 of SOX, which was enacted to strengthen public confidence in the accuracy and reliability of financial reporting, requires management to establish and maintain an adequate internal control structure and procedures for financial reporting, and assess the effectiveness of such internal controls and procedures.
5 A web-based application designed to improve inventory tracking and visibility and standardize asset tracking and maintenance/repair functions.

- ***Found:*** MAO verified that the asset is still located at the facility.
- ***Transferred:*** MAO verified that the asset was transferred out of the facility to another Postal Service facility or finance number.
- ***Not Found/Disposed:*** MAO was unable to verify that the asset was still located at the facility or determined that the asset had been disposed. If MAOs cannot locate an asset, they are expected to conduct research, such as checking other Postal Service systems and reaching out to the inventory control specialists at the Asset Accountability Service Centers (AASC)[6] to obtain information (e.g., contract information) about that asset prior to the certification. If the whereabouts of that asset are still unknown, then they are to certify that asset as *Not Found* in SEAM. If the asset was disposed, the MAO should select and initiate the applicable disposal method in SEAM, which includes *Trade-In*,[7] *Recycled*,[8] *Shrinkage*,[9] and *Transferred to a U.S. Agency*.

After each asset is certified by the MAO, all assets marked as *Found* require no further action and there is no additional review. However, all assets marked as *Not Found/Disposed* are reviewed by the district finance manager, followed by the AASC, who either approves or rejects the status.[10] If the AASC or the district finance manager rejects the status and requests that additional research be conducted (because they believe the asset is still located at the facility), it is returned to the MAO and reverts to a "pending" status for their review again. After conducting additional research on the asset, the MAO can reselect the applicable status depending on whether the asset was located or not.

> "While the Postal Service has some internal controls in place governing the annual capital property review, we found they were not always effective to ensure MAOs accurately identified and certified the status of capital assets."

After each asset is approved, it is listed in SEAM as completed and the information is transferred into the *Property Equipment Accounting System* (PEAS). PEAS records the purchase and disposal of capital assets, maintains updated asset records, computes and records depreciation, and records adjustments resulting from physical inventories and audits performed.[11] Capital assets that have been certified as *Not Found/Disposed* and received the appropriate approvals, are ultimately removed from SEAM and PEAS, and then reflected accordingly in the financial statements. See Appendix B for a detailed flowchart of the annual capital property review process.

Finding #1: Ineffective Internal Controls Over the Annual Capital Property Review

While the Postal Service has some internal controls in place governing the annual capital property review, we found they were not always effective to ensure MAOs accurately identified and certified the status of capital assets. Specifically, we selected a statistical sample of 143 capital assets, with a net book value of approximately $15.4 million, and compared its annual capital property results with physical observations at the facility for completeness and accuracy. Based on our analysis, we verified that the Postal Service was able to accurately locate and certify 35 of 143 (24 percent) assets throughout the four facilities. In addition, ten of 143 (7 percent) assets were not located by the MAOs and were certified as *Not Found*, which is permitted by Postal Service policy. However, we identified 98 deficiencies related to the remaining 69 percent of our sample (see Table 1):

6 Within the office of Asset Management, AASCs are staffed with inventory control specialists who provide direct asset accountability guidance and support to the field and headquarters activities within their service areas.
7 The return of a capital asset back to the vendor. It is considered the most practical and efficient means of disposal and therefore, should be the first method considered for disposing of equipment.
8 Materials that otherwise would have been destined for disposal but instead have been collected, reprocessed, or remanufactured into new products.
9 The loss, theft, and accidental damage of a capital asset.
10 For any assets certified as *Not Found/Disposed* with an undepreciated balance of at least $100,000, there is another level of review conducted by the manager of Internal Reporting.
11 Handbook F-20A, *Accounting Services Systems and Processes*, Section 2-1.1.26.

Table 1. Deficiencies in the 2023 Annual Capital Property Review

Facility	2023 Annual Capital Property Review Sample	OIG Sample Tested	Total Deficiencies
Sacramento P&DC	130	40	15
Chicago NDC	127	39	34
Jacksonville NDC	126	39	35
Washington NDC	80	25	14
Total	**463**	**143**	**98**

Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on a sample of assets tested and reviewed from SEAM.

Specific to the 98 deficiencies, we found that:

- 62 of 98 (63 percent) assets were certified as *Found* but were either not physically located by the MAO at the facility or could not be correctly associated with an identifiable corresponding capital ID label[12] during our site visit. For several of the assets in our sample, they could not clearly determine if the asset was in the facility as there were multiples of the same type of assets with no identifiable information, such as required capital ID labels. For example, in one facility there were several vacuums throughout the facility, however, there was no capital ID labels on any of the vacuums to distinguish which was the one in our sample.[13] At another facility, the partial induction enhancement system – designed to mechanically sort packages within a facility – was certified as *Found*. This machine was capitalized[14] in February 2022 for approximately [redacted] However, we were unable to identify the asset during our site visit because a Postal Service contractor stated that the asset was removed prior to our site visit. As of August 7, 2023, the asset was still active for the facility, with a net book value of [redacted], in SEAM. In other instances, MAOs stated that based on their responsibilities at the Postal Service, long-term tenure at the facilities, and background knowledge of the assets, they assumed that some assets were still in the facility although they were unable to certify their physical locations. The net book value of these assets totaled to approximately $5.25 million.[15]
- 33 of 98 (34 percent) assets were certified as *Transferred to a U.S. Agency*, *Recycled*, or *Traded-in* during the review, but there was no evidence or documentation to support these transactions. For example, one MAO stated she certified the assets as *Recycled* because she could not locate them in the facility; therefore, she assumed that the items had been recycled as opposed to appropriately recording the assets as *Not Found*. Another MAO stated that due to the type and age of the assets, she assumed the assets had either been recycled or traded-in

"62 of 98 (63 percent) assets were certified as *Found* but were either not physically located by the MAO at the facility or could not be correctly associated with an identifiable corresponding capital ID label."

12 ID labels are laminated, self-adhesive tags that contain a unique number. The Accounting Service Center designates each capital asset with its own capital ID label.
13 We reviewed some assets which did not have a corresponding capital ID label; however, if the MAO was able to identify the asset by reconciling unique identifiers or numbers listed on the asset against inventory system records, we accepted the asset as found.
14 Date the machine was officially put into operation at the facility.
15 Subsequent to our review, Headquarters Supply Management conducted their own onsite review of the samples beginning August 28, 2023. They provided the OIG with additional supporting documentation. The OIG determined that management provided sufficient documentation or took corrective action (i.e., adding new capital ID labels) to account for 8 assets that the MAOs were unable to locate at the time of our review.

but was not certain. The net book value of these assets totaled to approximately $270,229.

- Two of 98 (2 percent) assets were certified as *Traded-in* during the annual capital property review; however, both assets were still located in the facility. Specifically, at one facility we were able to locate both container loader/unloaders[16] on the workroom floor. Accordingly, these assets were incorrectly removed from SEAM and had been taken off the books in error.
- One of 98 (1 percent) assets were certified as *Shrinkage* during the annual capital property review; however, the MAO stated that this was done in error, and it should have been certified as *Recycled or Traded-in*.

> "Additional controls would support enhanced accuracy and completeness of the annual capital property review."

Postal Service policy states that each asset listed on the annual capital property certification is to be physically located.[17] In addition, policy states that MAOs are to ensure all capital property arrives with or is assigned a capital ID label that can be clearly seen. The label is to be affixed to each capital asset and remain with the property throughout its life to identify it as postal property and to tie it to its corresponding record in SEAM and PEAS. If a replacement ID label is needed due to damage or loss, a replacement can be requested through the Accounting Service Center.[18] If an item cannot be labeled, the ID label should be retained with the hard-copy property changes for the month report,[19] provided by the Accounting Service Center, or the capital property listing. These labels are essential to easily identify and manage every piece of capital property owned by the Postal Service.[20] Further, policy states that capital property documentation is critical and should be performed on a regular basis by the MAO, and documentation should be maintained through record keeping of the receipts, transfers, and disposal of assets. Lastly, policy states that providing accurate and timely information ensures that accounting estimates reflected in the general ledger are supportable and reasonable.[21]

These issues occurred because existing controls are not designed to detect many reporting inaccuracies and because the Postal Service measures the success of the annual capital property review based on timely completion rather than accuracy. Specifically, we found that:

- For all assets, MAOs are not required to upload supporting documentation into SEAM to verify the correct status of the asset.
- There are no ongoing monitoring activities or independent checks on performance conducted by local management, Supply Management, or Finance to ensure that reviewed assets have been reported accurately in SEAM. The asset certification is performed by staff in that facility only.
- Management measures the success of the annual capital property review based on completion but not accuracy. Headquarters SOX Compliance historically conducted a sampling of the facilities to determine if they complete the annual capital property review; however, they did not conduct any analysis to determine the accuracy of the review.[22]

Additional controls would support enhanced accuracy and completeness of the annual capital property review. This can include requiring supporting documentation for assets that have been found as well as removed from the facility, consistent practices for applying and retaining capital ID labels/tags, and independent verification of a sampling of assets

16 A machine that automatically unloads mail from a container onto a mechanized conveyor system.
17 Handbook AS-701, *Asset Management*, Section 5-8.2.
18 Accounting office in San Mateo, California, responsible for assigning capital identification (ID) numbers, maintaining property code numbers, and overseeing PEAS.
19 A report containing the capital property additions, deletions, retirements, and adjustments that occurred to a finance number during the previous month(s).
20 Handbook AS-701, *Asset Management*, Sections 5-1.4.2, 5-6.3.1, 5-6.3.3, and 5-6.3.4.
21 Handbook AS-701, *Asset Management*, Section 5-1.4.2 and Handbook F1, *Accounting and Reporting Policy*, Section 2-1.3.
22 During our review, Headquarters SOX Compliance began requesting for supporting documents to validate the status of their sampled assets. For their fiscal year 2023 testing, they found an operational deficiency in the controls over the annual capital property review due to a lack of supporting document retention.

selected for review and certification. Furthermore, such controls and practices would help the Postal Service efficiently conduct the annual capital property review, avoiding the added cost in time and money needed to correct errors.

Ineffective internal controls over the annual capital property review leaves the Postal Service vulnerable to operational and financial risks. Specifically, since the annual capital property review process is completed in full every four years, unsupported reporting of capital assets in SEAM may go undetected for years[23] and it could potentially impact the accuracy of Postal Service financial statements. This can further result in the theft of assets or not having key processing equipment available to support operations.

Recommendation #1

We recommend the **Vice President, Supply Management**, in coordination with **Vice President, Controller**, evaluate the internal controls for the annual capital property review to identify process improvements, add controls, and create a goal to enhance accuracy. In addition, update Handbook AS-701, *Asset Management*, to reflect any additional controls or goals implemented in the annual capital property review process.

Finding #2: Upholding Material Accountability Officer Policies and Procedures

Although there are documented policies and procedures to address risks associated with the management of capital assets, we found that some practices were not being followed. Specifically, we found that:

- Management did not properly delegate MAOs through a written MAO delegation letter in all four facilities. In addition, one MAO was not aware she had been delegated this role until approximately two months after being assigned. Since our site visit, one of the facilities took corrective action and created a formal written delegation letter for its MAO as well as identified an official backup MAO.
- Upon their assignments, MAOs at three of the four facilities did not conduct a physical inventory of randomly selected assets. This requirement allows newly assigned MAOs to familiarize themselves with the whereabouts of capital assets in their facilities.

Postal Service policy states that facility management, department heads, and vice presidents are responsible and accountable for all material in their respective organizations; however, they may delegate an employee as an MAO, in writing, who will act as their representative for asset accountability.[24] Additionally, policy states that a newly assigned MAO should conduct a physical inventory of randomly selected assets and review capital files to determine their accuracy. A written report of the results and recommendations for improvements is to be provided to facility management.[25]

Collectively, these issues occurred because management did not provide sufficient oversight as it relates to MAOs and their asset management responsibilities. Specifically:

- Facility management was not always aware of the policy requiring the issuance of a written delegation letter to their newly assigned MAO.
- Some MAOs were unaware of the process or policy requiring them to conduct a physical inventory of assets upon delegation. For example, an MAO stated that the annual capital property

> "Ineffective internal controls over the annual capital property review leaves the Postal Service vulnerable to operational and financial risks."

23 Similar observations were reported in the recent OIG audit report, *Postal Service's Use of Automated Guided Vehicles* (Report Number 23-057-R23, August 17, 2023). The OIG found that the Postal Service does not have accurate accountability of all Automated Guided Vehicles (AGV), which are considered capital assets. Specifically, the OIG found discrepancies in the AGV quantities and assigned facility locations between SEAM capital asset records and a list provided by headquarters management.

24 Handbook AS-701, *Asset Management*, Sections 5-3.1.1 and 5-3.1.2.1.

25 Handbook AS-701, *Asset Management*, Sections 5-3.1.2.4.

review used to be completed twice a year;[26] therefore, she did not believe it was necessary to conduct a separate physical inventory.

Following established policies and procedures is critical to mitigate risks associated with capital assets. Otherwise, there is no clear delineation or set expectations for who is responsible for asset accountability within a facility, and it may further increase the risk of maintaining inaccurate capital asset information or physical inventories.

> **Recommendation #2**
> We recommend the **Vice President, Processing and Maintenance Operations**, in coordination with **Vice President, Supply Management**, reinforce the importance for facility management to issue timely, written material accountability officer delegation letters, and for newly assigned material accountability officers to conduct a physical inventory of capital assets, in accordance with Handbook AS-701, *Asset Management*.

Looking Forward

The Postal Service established *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, which outlines strategies for transforming the Postal Service's financial performance and customer service through significant investments in people, technology, and infrastructure. This includes investing roughly $40 billion over the next 10 years to modernize the Postal Service's retail and processing networks and upgrade facilities. In addition, the Postal Service plans to adopt new innovations to streamline and automate processes, leverage best practices to manage assets and inventory, and utilize initiatives to drive visibility and tracking of Postal Service assets. By fostering capital asset accountability, enhancing related management processes, and establishing adequate internal controls, the Postal Service can mitigate financial and operational risks as the Ten-Year Plan unfolds.

Management's Comments

Management partially agreed with finding 1 and agreed with finding 2 and both recommendations in the report.

Regarding finding 1, management disagreed with the tracking method the OIG used in its analysis to identify assets as "*Not Found*." Specifically, management stated the OIG did not distinguish between assets that were not present from assets that were present but lacked a capital ID label, thereby improperly classifying assets that were found without an ID label as "*Not Found*."

In addition, management stated it conducted site visits to verify asset disposition of deficiencies identified by the OIG. As a result, management accounted for 87 of the 98 assets the OIG claimed as deficiencies but agreed with 11 assets classified as deficiencies. Management stated that the discrepancies were attributed to assets that did not include ID tags, assets that were removed from NDCs during the repurposing of these facilities, and their asset management team being better trained to locate assets.

Furthermore, management disagreed with OIG's assertion that existing controls are not designed to detect reporting inaccuracies but instead management focuses on timely completion of their annual capital property review. Management stated that their annual review measures completeness, detects and measures the number of disposals and transfers that were not recorded, and updates the system of record to accurately reflect the capital property inventory.

Regarding recommendation 1, management stated they will evaluate the internal controls for the annual capital property review to identify process improvements, add controls, and create a goal to enhance accuracy. In addition, they will reflect any additional controls or goals implemented in AS-701, *Asset Management*. The target implementation date is June 28, 2024.

26 *The Accounting Policy Reference Handbook* from 2015 still states that the annual capital property review is conducted twice a year, which is no longer accurate.

Regarding recommendation 2, management stated they will reinforce the importance for facility management to issue timely, written MAO delegation letters, and for newly assigned MAOs to conduct a physical inventory of capital assets. The target implementation date is February 29, 2024.

See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report, and the corrective actions should resolve the issues identified.

Regarding management's partial agreement with finding 1, as noted in our report, we could not clearly determine if the asset was in the facility, as there were multiples of the same type of assets with no identifiable information, such as capital ID labels, which are required by policy. As a result, we were unable to distinguish between assets that were not present in the facility from assets that were present but lacked identifying information. Additionally, the MAO or facility staff was unable to identify specific assets during our site visits, only that there were multiples of the same asset.

As far as the Postal Service's verification of the 98 deficiencies we identified, we reviewed their analysis and results and disagree with their methodology and conclusions. Postal Service management stated that if they were highly confident that an asset's description matched the physical asset they located, they gave the facility credit for the asset being found. However, they did not provide the OIG sufficient evidence as to how they were able to distinguish between identical types of assets without ID tags. In addition, Asset Management reviewed the 33 assets that OIG classified as Transferred to a U.S. Agency, Recycled, or Traded-in, and stated they found nine assets, observed evidence for 23 assets disposed, and agreed with the OIG that one asset was not found. However, they did not provide the OIG sufficient evidence to support the disposition of the assets, nor did they consider the nine assets that they physically located in the facilities, which were recorded in the inventory records as disposed, as deficiencies.

Lastly, regarding management's disagreement with our statement that existing controls are not designed to detect reporting inaccuracies, as noted in our report, the Headquarters Sox Compliance team historically reviewed for completion and not accuracy. In addition, while we agree that the annual capital property review can detect and measure transactions that occurred but were not updated in asset inventory records, the review is only effective if adequate controls and sufficient evidence exist to support the final disposition of these assets. Otherwise, instances of inaccurate information may be captured in inventory management systems.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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

Appendix A: Additional Information

Scope and Methodology

The audit team conducted a review of the Postal Service's March 2023 annual capital property review at four NDCs and P&DCs.

To meet the audit objectives, we:

- Obtained and reviewed the March 2023 annual capital property review conducted by the Postal Service.
- Judgmentally selected site visits for review and testing based on the facilities (in each of the four areas) with the highest net book value of assets (selected for evaluation in the March 2023 annual capital property review).
- Reconciled a statistical sample of 143 capital assets, with a net book value of approximately $15.4 million, with physical observations at the facility for completeness and accuracy.
- Determined the internal controls in place to mitigate employee theft, loss, or misuse of Postal Service capital assets, as well as any control weaknesses.
- Interviewed local MAOs to understand their oversight of the identification and processing of capital assets selected in the annual capital property reviews.
- Interviewed inventory control specialists and finance managers to determine their oversight, responsibilities, and involvement with the annual capital property review.
- Interviewed the Postal Service SOX team to determine if any internal control deficiencies of the annual capital property review impacts SOX compliance.

We conducted this performance audit from November 2022 through September 2023 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 September 6, 2023, and included their comments where appropriate.

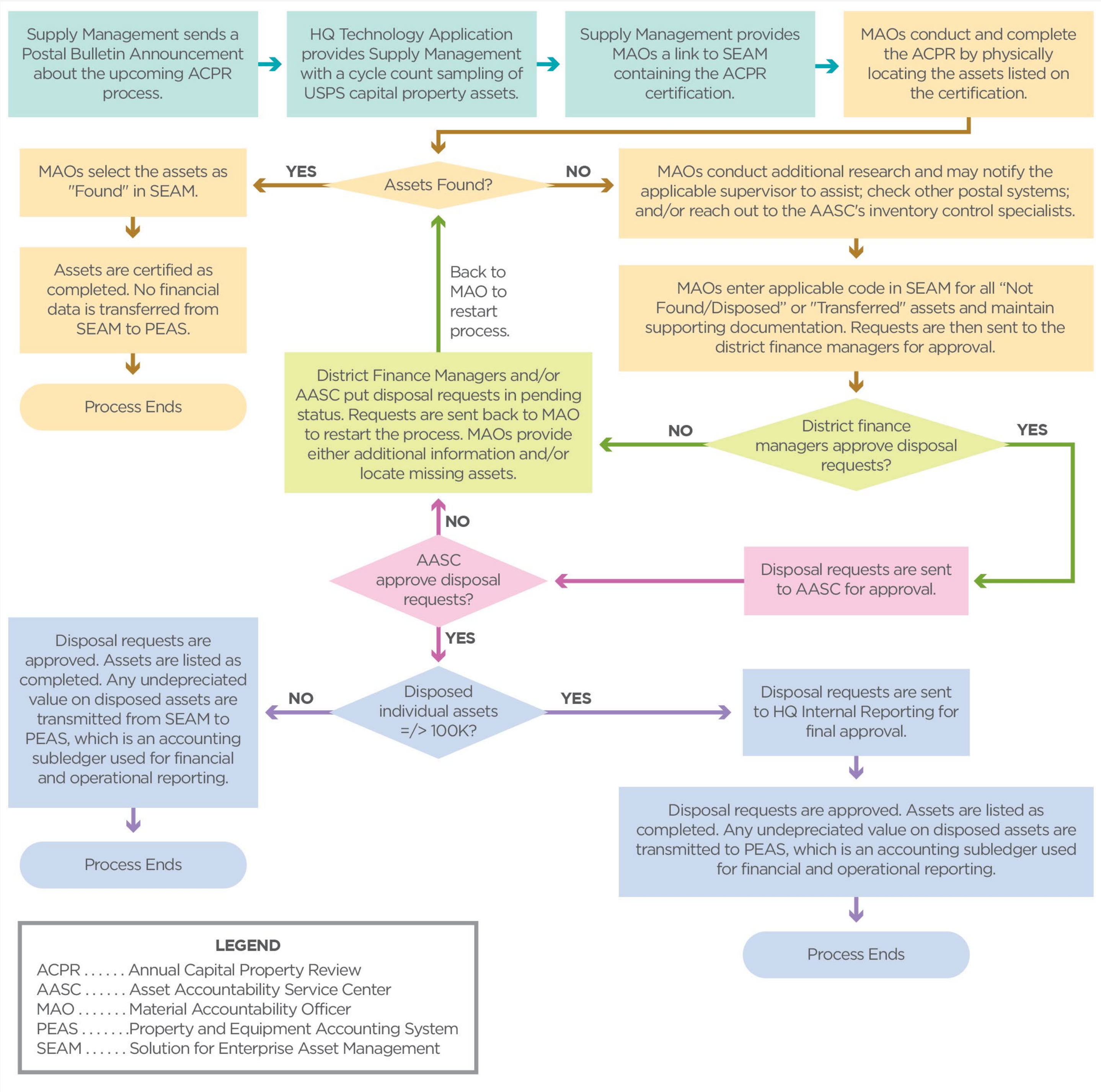
In planning and conducting the audit, we obtained an understanding of Supply Management's internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective: Control environment, risk assessment, control activities, information and communication, and monitoring. We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to the annual capital property review that were significant within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of capital asset data captured during the March 2023 annual capital property review by conducting interviews and performing physical observations of a sample of the capital assets at each facility and comparing them to the data in SEAM. Our findings are based on current controls that are not designed to detect reporting inaccuracies, and our identification of a significant percentage of assets for which statuses could not be validated or were validated incorrectly during the review period. We also based our conclusions on the lack of physical and electronic supporting documentation to verify the correct status of the assets. For the purposes of this report, we determined that the data was not sufficiently reliable in terms of accuracy. Thus, we have included this finding in our report and recommend that postal officials take appropriate corrective action.

Prior Audit Coverage

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

Appendix B: Annual Capital Property Review Process Flowchart



Source: OIG analysis based on information from Handbook AS-701, *Asset Management*, and Supply Management personnel.

Appendix C: Management's Comments

UNITED STATES
POSTAL SERVICE

September 27, 2023

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response to Draft Audit Report – Internal Controls Over the Annual Capital Property Review (Project Number 22-185-DRAFT)

Thank you for the opportunity to review and provide comments to the Office of Inspector General's (OIG's) draft audit report entitled, "*Internal Controls Over the Annual Capital Property Review* (Project Number 22-185-DRAFT)," dated September 12, 2023. Management has reviewed the report along with its findings and recommendations. Management agrees with the recommendations, however, agrees in part with respect to Finding 1 for the reasons discussed below. Management is appreciative of the opportunity to review the OIG's status determination of each asset within the sample.

The OIG issued its initial Discussion Draft (DD) audit report on August 15, 2023. The OIG's Exit Conference was held September 6, 2023. After initial review of the August 15 draft, the Postal Service requested that the OIG provide the Excel workbook containing the details/specifics of its analysis of sample assets/deficiencies. The OIG provided the information, and the Postal Service provided for a comprehensive independent verification of each asset's categorization within the reviewed sample. Those results are discussed below and included in Tables 1 of the attachment.

Finding #1: Ineffective Internal Controls Over the Annual Capital Property Review (ACPR):

Management disagrees with the tracking method the OIG used in its analysis to identify assets as "*Not Found,*" related to Finding #1. Specifically, the OIG did not distinguish between assets that were not present from assets that were present but lacked a capital ID label, thereby improperly classifying assets that were found without an ID label as "*Not Found*." The following table demonstrates the significant difference attributable in part to this improper classification. The OIG classifies a total of 98 deficiencies from the sample of 143 capital assets, while management views that the correct number is only 11. We do not fully understand the reasons for the excessive number of deficiencies reported in the OIG report, however there are multiple reasons that we believe explain why some of these occurred. First, the OIG did not give any credit for assets that were located and physically observed during your review if you could not locate an asset ID tag on the assets. We found that some (the minority of these assets) did have ID tags, and for the others we gave credit (despite the missing ID tag) if we were highly confident that the asset description matched the physical asset we located. Second, some of the "deficiencies" found were caused by the fact that after our annual physical counts were completed in May 2023, we were removing assets from the NDCs as we are repurposing these facilities as part of the network re-alignment. When the OIG began your tests, in July many assets had been removed before or perhaps as you were in the facilities. The most glaring of these assets was a large part of a Parcel Sorting Machine that was removed before the OIG commenced

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your procedures which accounted for 75% of the net book value that the OIG could not find. Third, our asset management team is experienced with reading asset descriptions from our records and physically scrubbing facilities to find them in the plants where they are most likely to found --as this is a core part of their job description.

The OIG report indicates 33 assets were certified as Transferred to a US Agency, Recycled, or Trade-In, but there was no evidence or documentation to support these transactions". During Asset Management onsite review of these 33 assets, we found 9 assets, evidence for 23 assets disposed, and 1 not found with no evidence that agreed with the OIG deficiency. Additionally, there are 11 assets management agrees are deficiencies (NBV - $0.1M).

	TOTAL	NOT FOUND	NO EVIDENCE OF DISPOSAL	TRADED-IN	SHRINKAGE
OIG	98	62	33	2	1
USPS	11	7	1	2	1

Management further disagrees with the OIG's statement, "*These issues occurred because existing controls are not designed to detect reporting inaccuracies, the Postal Service measures the success of the annual capital property review based on timely completion rather than accuracy…*" Management views that the annual capital property review, not only measures completeness but detects and measures the number of disposals and transfers that have not been deleted on our asset inventory records through required and established processes and updates the system of records to accurately reflect the capital property inventory.

Further, in FY2023, prior to the issuance of the OIG's report, the Postal Service tested the annual capital property review control. Only a small non-material operating control deficiency was identified. Management reviewed its current financial statement risk assessment related to capital property internal controls and found them to provide appropriate risk coverage. In addition, there are currently no additional SOX control deficiencies identified for the suite of controls related to capital property. For these reasons, (and on the combined strength of required processes to remove assets from our asset inventory and the annual physical counts that supplement this control), management has determined there is no risk of material misstatement to the reported financial balances of capital property assets.

The OIG conducted site visits at four USPS Network Distribution Centers (NDC) as a part of this audit. Supply Management's Asset Accountability organization conducted site visits on August 28th and 29th in conjunction with extensive research to verify asset disposition of deficiencies identified by the OIG. This research involved walking the floor and reviewing contracts to get extended descriptions of assets. This information was helpful in matching asset descriptions to OIG-reported deficiencies. This resulted in management's validated findings which can be found in the "Results Summary" attachment hereto. As a result, management can account for 87 of the assets the OIG claimed as deficiencies with photos and documentation (NBV = $5.4M).

OIG Recommendations

Recommendation 1:
We recommend the Vice President, Supply Management, in coordination with Vice President, Controller, evaluate the internal controls for the annual capital property review to identify process improvements, add controls, and create a goal to enhance accuracy. In addition, update Handbook AS-701, Asset Management, to reflect any additional controls or goals implemented in the annual capital property review process.

Management Response #1:
Management agrees with this recommendation. We will remind facility heads of the required process to remove assets from the inventory listing when assets are removed from our facilities, or otherwise scrapped. In addition, Management will evaluate the internal controls for the annual capital property review to identify process improvements, add controls, and create a goal to enhance accuracy. Additionally, management will update Handbook AS-701, *Asset Management*, to reflect any additional controls or goals implemented in the annual capital property review process.

Target Implementation Date: 06/28/2024

Responsible Official: Executive Manager, Asset Performance & Accountability, Supply Management, in coordination with Director, SOX Compliance

Recommendation 2:
We recommend the Vice President, Processing and Maintenance Operations, in coordination with Vice President, Supply Management, reinforce the importance for facility management to issue timely, written material accountability officer delegation letters, and for newly assigned material accountability officers to conduct a physical inventory of capital assets, in accordance with Handbook AS-701, *Asset Management*.

Management Response #2:
Management agrees with this recommendation. Management will reinforce the importance for facility management to issue timely, written material accountability officer (MAO) delegation letters, and for newly assigned material accountability officers to conduct a physical inventory of capital assets, in accordance with Handbook AS-701, Asset Management.

Target Implementation Date: 02/29/2024

Responsible Official: Vice President, Processing and Maintenance Operations in coordination with Executive Manager, Asset Performance & Accountability, Supply Management

E-SIGNED by MARK GUILFOIL
on 2023-09-27 14:39:48 CDT

Mark A. Guilfoil
Vice President, Supply Management

E-SIGNED by Michael.L Barber
on 2023-09-27 14:24:34 CDT

Mike L. Barber
Vice President, Processing & Maintenance Operations

E-SIGNED by Cara.M Greene
on 2023-09-27 14:29:55 CDT

Cara M. Greene
Vice President, Controller

Attachment: Results Summary

cc: Manager, Corporate Audit Response Management

Attachment

Results Summary

The OIG conducted site visits at four USPS Network Distribution Centers (NDC) as a part of this audit. The Postal Service's Asset Accountability organization conducted site visits and performed extensive research to verify asset disposition of classified deficiencies identified by the OIG. This research involved walking the floor and reviewing contracts to get extended descriptions of assets. This information matched asset descriptions to OIG-reported deficiencies. This resulted in the USPS-validated findings which can be found in the "Results Summary" Attachment. As a result, management can account for 87 of the 98 assets the OIG claimed as deficiencies (NBV = $5.4M). Additionally, there are 11 assets management agrees are deficiencies (NBV - $0.1M), total of only 8 not found.

Table 1, "*OIG Findings Compared to Summarized Validation Visit Results*" compares the OIG Findings to USPS on-site review validation results. The OIG characterized its findings, for 98 deficiencies, with corresponding Net Book Value (NBV) as follows:

- "Not Found" (62 assets with NBV $5.2M)
- "No Evidence of Disposal" (33 assets with NBV $0.3M)
- "Trade-In" (two assets with NBV $0)
- "Shrinkage" (1 asset with NBV $0)

With this breakdown, the Postal Service confirmed 11 of 98 deficiencies that only accounted for $0.1M NBV. The total between OIG not found and no evidence of disposal that were confirmed found with evidence were 55 assets that the "OIG claimed as an OIG not found deficiency". The NBV of these validations were $5.1M for 55 assets and the not found confirmed was 7 assets totaling NBV of $0.1M. Additionally, 9 of 33 assets were confirmed found that OIG claimed as an OIG no evidence of disposal deficiency. The remaining were 23 assets confirmed with evidence of disposal and 1 not found for the combined total NBV of $0.3M. Furthermore, for the confirmed 38 assets found, 7 assets were found with capital property identification labels and 31 with no capital property identification label. Based on the validation visits, the USPS can account for 87 of the assets the OIG claimed as deficiencies (NBV = $5.4M), thereby refuting the finding of 98 deficiencies. However, the USPS agrees that 11 (NBV - $0.1M) of the OIG-identified deficiencies are valid.

Table 1
OIG Findings Compared to Summarized Validation Visit Results

	OIG Findings		USPS Findings (August On-site visits)	
Asset Dispositions	OIG-Identified 98 Deficiencies	NBV of OIG-Identified Deficiencies	Confirmed Deficiencies	NBV of Confirmed Deficiencies
OIG - Not found	62	$5.2M	7	$0.1M
OIG - No evidence of disposal	33	$0.3M	1	$0.0M
OIG - Trade-In*	2	$0.0M	2	$0.0M
OIG – Shrinkage*	1	$0.0M	1	$0.0M
Total	**98**	**$5.5M**	**11**	**$0.1M**

**Trade-In and Shrinkage represent two of eleven disposition codes found in ACPR guidelines*

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