FEDERAL TRADE COMMISSION

Office of Inspector General

MANAGEMENT ADVISORY

Lack of Controls Over Federal Express Shipping Account

MA-11-16

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Office of Inspector General

July 27, 2011

To: Eileen Harrington, Executive Director

From: John M. Seeba, Inspector General

Subject: Management Advisory on Lack of Controls over Federal Express Shipping Account

As part of an investigation related to abuse of a Government purchase card, the Office of Inspector General (OIG) has identified contractor and FTC employees abusing the FTC's Federal Express (FedEx) Shipping Account. The OIG first notified agency management of FedEx Shipping Account abuses in 2005 following criminal prosecution of an FTC attorney who misused the agency's shipping account for years and incurred several thousand dollars in shipping costs for personal use. As noted in our 2005 investigative alert issued to management (see "Weak Internal Controls Over Use of Federal Express Mail Services"), the FTC had not established sufficient controls to prevent abuse of the FedEx Shipping Account. Since that report, the FTC has not implemented any additional controls to prevent or minimize abuse of the FedEx Shipping Account. While the cost of individual shipments using FedEx is generally low, the FTC has spent $335,000 for over 31,000 shipments during the past two calendar years (2009 - 2010). Because FedEx is a low cost service (per transaction) and the cost to implement controls was thought to be significant, the FTC has essentially relied on the honesty and integrity of contractors and employees to refrain from misuse of the FedEx shipping account. Since nearly anyone in the agency can send a letter or package by FedEx at their discretion, a system of controls needs to be implemented to deter and prevent further abuse of the service.

Analysis of the evidence in the recent purchase card abuse case confirms the longstanding need for immediate and effective internal controls over the agency's FedEx shipping account. Had the agency implemented the recommended controls following our 2005 management alert, the recent abuse of the Government purchase card may have been deterred or at the very least would have been detected much earlier, potentially saving the agency from significant financial losses (more than $217,000 in unauthorized purchases using the purchase card) in addition to intangible losses (e.g. disruption to agency operations, public goodwill, etc.) The former employee abused the purchase card for 18 months before two vendor errors drew management's attention to his misconduct on December 7, 2010. The former employee also informed the IG that he used the FedEx account to avoid detection by the FTC security guards. (The use of FedEx allowed him to ship goods out of the building without detection.) Therefore, the lack of internal controls in this area at the very least fostered an environment that allowed the illegal activity to continue. Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal controls should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of an agency's assets.

Background

FedEx shipping services are available to FTC staff to ship letters and packages in an expedited manner. Agency staff uses the FedEx shipping account to send legal and other official documents to FTC regional offices, law firms, businesses, litigants and consumers. In addition, staff uses FedEx for administrative purposes in support of the agency's overall mission (e.g., transmittal of materials in on-going investigations and enforcement actions, to candidates selected for hire, returning merchandise to vendors, etc.). FedEx is under contract with the U.S. Government as an alternative to the U.S. Postal Service for expedited shipping (at a discounted rate). FedEx offers tracking services (showing status of shipment while in transit) and evidence of shipment delivery at no additional cost.

The procedure for use of the FTC's FedEx Shipping Account number has remained unchanged since our 2005 management alert. When a FTC staff member needs to ship an item, he or she can go to the mailroom and obtain a FedEx preprinted airbill (mailing label) or fill out a blank airbill from any FedEx drop box or printed from the FedEx website, www.fedex.com. The preprinted information on the airbill available from the mailroom includes the FTC address and the FedEx account number. The account number is important as it determines who will pay for delivery. There are a total of ten FTC FedEx account numbers: one for Headquarters, one for the New Jersey building and one for each of the eight regional offices.

Before each FedEx package is sent out, the sender generally provides his or her name and recipient information on the airbill, the type of service requested (i.e., priority, standard, "2 Day," etc.) and any handling instructions. The only required information is for the recipient address; the sender information may be generic ("FTC") or specific (name of individual and FTC affiliation) depending on what the preparer enters on the airbill. The sender may include an additional completed airbill and a FedEx envelope inside the FedEx package so that the recipient can return any documents to the sender without incurring charges. This ensures that the FTC, rather than the sender, will be billed for the return shipment.

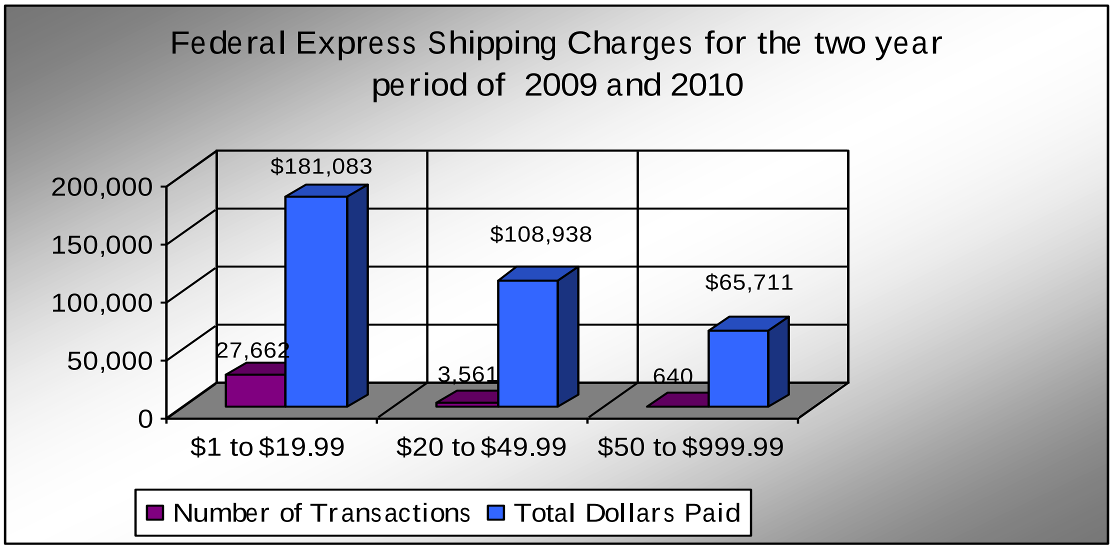
Once the airbill is completed and attached to the package, it can be dropped at any FedEx mailbox. FedEx drop boxes are located near the mail room in the New Jersey Avenue satellite building, in the headquarters building garage and on several other floors of each building, including the regional offices. Parcel pickup occurs at preset times each business day.

FedEx bills the agency weekly for mail services used by FTC staff. Amounts invoiced for individual transactions depend on the weight of the item mailed and the type of service requested. As shown in Graph 1, for FY 2009 and 2010:

- In the $19.99 or less range, 87% of the transactions (27,662) amounted to 51% of the total cost ($181,000).
- In the $20 to $49.99 range, 11% of the transaction (3,561) amounted to 32% of the total cost ($108,938).

- In the $50 or greater range, 2% of the transactions (640) accounted for over 18% of the cost ($65,711).

Because transactions in the $50 or greater range are generally for high cost, overnight delivery, the FTC should ensure that high priced delivery options are used judiciously and only when necessary. Because there are no controls in place to limit selection of this option, we do not know if these options were necessary and selected in the best interest of the government. However, a recent memo by the Executive Director has informed staff to be cost conscious in selecting the most cost effective shipping option.



Fed Ex sends invoices weekly to the FTC's Contracting Officer's Technical Representative (COTR) in the Administrative Services Office (ASO) and to the FTC's payment servicer, the National Business Center (NBC). They are not seen by the sender or his/her bureau/office supervisor. The COTR completes a receiving report (which authorizes NBC to pay the outstanding invoice) and sends it to NBC where the invoice is scheduled for payment.

Prior Coverage

As noted earlier, the OIG issued an investigative alert in 2005, "Weak Internal Controls Over Use of Federal Express Mail Services." This report found weaknesses in the following areas:

Finding 1. FTC account numbers for FedEx usage are not controlled. The FTC did not control the account number that FedEx uses to bill for mail services. Further, the account number, which has not been changed for several years, is preprinted on airbills supplied to staff by FTC mailroom personnel. Mailroom personnel told the OIG that these preprinted labels are given out upon request with no justification or approval required.

As an alternative, staff can simply go online and download airbills and write in the FTC account number (which is readily available from the widely-distributed FedEx pre-printed airbills). In either scenario, knowing the account number provides the sender with the equivalent of a credit card for FedEx mailing purposes. Anyone with knowledge of this account number could use it to send FedEx packages at any time from any location (including shipments that do not originate in FTC facilities).

Finding 2. Supervisory Approval is not Required to use FedEx. The FTC does not require supervisory approval before FedEx can be used by agency staff. As a result, staff alone can make determinations on the best method for delivery of the correspondence or parcel.

Finding 3. FedEx is Centrally Billed Within the FTC and there is no Supervisory Review of FedEx Invoices. The FTC receives an average of 60 FedEx invoices per month. Each invoice contains hundreds of individual transactions. Invoices reviewed by the OIG included the following information:

- Sender Name & Address
- Recipient Name & Address
- Tracking ID
- Service Type (e.g., priority service, overnight, etc.)
- Drop-Off Location
- Signature of Person accepting Delivery
- Delivery Date & Time

When the COTR reviews invoices, he identifies egregious transactions based on cost or shipping weight. Transactions that are less than $50 are usually not questioned. Managers in ASO told the OIG that requiring supervisory review would be very cumbersome, due to the number of monthly invoices (60) and the current invoice format. FedEx invoices do not segregate users by division or organization code. Since the FedEx is paid from a central account, bureau and office management are unaware of who is using FedEx, for what purposes and to what extent. Without accountability, there is little incentive to use FedEx efficiently and greater risk that FedEx services will be abused.

Current Situation

As a result of a recent investigation on purchase card abuse, we found several employees and contractor personnel using the FedEx shipping account for personal and illegal activities. Some of the illegal activities were related to the abuse of the purchase card (*i.e.*, theft of Government property), while others were abusing the Fed Ex shipping account for personal purposes. As a side note, we also found another Federal agency that had used the FTC account number for their expedited shipping on a limited basis. We contacted FTC management and the other agency to correct the errors and prevent a reoccurrence of the mistake.

The recent criminal investigation revealed that the FedEx shipping account abuses remain ongoing at the agency. That discovery prompted the OIG to review its 2005 investigative alert to assess whether our recommendations to prevent and deter such abuses were adequate. The OIG learned that the FTC has done very little to change and improve controls over the FedEx shipping account since our 2005 recommendations. As a result, there is little assurance that additional abuse is not occurring and because of the volume of transactions, it is difficult to detect on an individual transaction basis.

As part of our criminal investigation, the OIG contacted Federal Express to obtain access to a database of all of the FTC's FedEx shipping transactions for calendar years 2009 and 2010. We also contacted FedEx's FTC account representative who, in conjunction with their Integrated Solutions consultant provided a presentation and explanation of options that the FTC can implement to establish cost effective controls over the use of FedEx expedited shipping services. Their presentation focused on several existing FedEx internet based systems that could easily be accessed and used by the FTC to establish control over the printing and distribution of shipping labels to FTC staff and enhance the agency's ability to monitor costs. These internet based FedEx controls are already in place on FedEx.com and can be tailored to FTC user needs with minimal effort. The main control feature is to limit access to the printing of FedEx shipping labels to a select group of individuals such as administrative officers or secretaries. This would enhance control over the use of shipping labels for several reasons:

1. An individual needing to ship via FedEx would have to go to a designated individual and ask for a shipping label. The act of having to do this would deter most people from using this account inappropriately. In addition, the FTC could assign as many staff as needed to have the ability to print shipping labels. This would provide easy access to those needing airbills/mailing labels, legible printing on the label and better information for billing purposes. Pre-populated information would also expedite the label printing process for frequently used addresses such as regional and headquarter locations. There is no cost associated with having additional accounts or using the on-line FedEx system. In addition, less paper would be generated because only a single airbill copy would be needed versus the current triplicate paper label used by FedEx.

2. Individuals assigned with the responsibility for distributing FedEx shipping labels would have a unique profile to allow only certain types of shipping services. Services that are lower in cost would be permitted for all account holders while the use of premium services would be assigned to a select few individuals that would be authorized to use this service. This has the potential to lower FedEx costs to the agency and prevent unnecessary and expensive services from being used excessively or inappropriately.

3. Account numbers would not be printed on the shipping labels but would be associated with the preprinted label and would not be easily discernable by the individual user. This would prevent others from creating their own manual labels and misusing the FTC account number. All that would appear for accounting purposes would be the UPC bar code that FedEx would scan as it tracks the package in transit.

4. FedEx account transactions could be monitored on-line by supervisors or a FedEx coordinator on a periodic basis. If costs become a significant concern, they could be more closely monitored in real-time. Pre-printed labels with the names of individual requestors would also provide for better accountability. When setting up the system, the FTC can determine which fields on the online form must be completed, including the name of the FTC staff member who is associated with the shipment. Designated managers assigned to review

FedEx billing would be able to scan a bill or monthly report and more readily determine if a FedEx shipment was appropriate versus the FedEx coordinator who is somewhat detached from the offices using the service.

5. When an authorized FTC FedEx online user logs onto the website to print a label, basic information can be required to be typed onto the online form, including the name of the case matter or other justification/business project information. Such information would enable the supervisors and FedEx COTR who monitor FedEx usage to more easily assess legitimate FedEx shipments as compared to those for personal use.

Summary

The OIG found essentially no controls over the use of FedEx at the front end of FedEx use (i.e., when the agency employee prepares the airbill for shipment) or after the fact (supervisory review of FedEx usage) that would eliminate or minimize the opportunity for fraud, waste and abuse of this program. The 2005 OIG investigative alert and the recent criminal investigation highlight the ongoing need to establish effective controls over the FedEx shipping account. The agency should establish effective, yet efficient program controls to provide assurances that the program is used only for its intended purposes. These vulnerabilities are commonplace in various organizations and FedEx has created a means for its clientele to prevent theft of its shipping services. The company has expressed interest in assisting the FTC in eliminating these abuses by FTC staff and would provide this service at no cost to the agency.

We would also like to commend our Executive Director for issuing a memorandum on March 21, 2011 that discussed suggestions from staff members on ways to select less expensive shipping options. This memorandum also provided a shipping guide with associated costs as well as explained when it is appropriate to use expedited shipping. We believe this is a good start in creating awareness among the staff on shipping guidelines and alternatives. However, the fact that all staff still retain the discretion in selecting any shipping option and using it with little to no oversight leaves the process vulnerable to fraud, waste and abuse. In addition, the agency faces criticism when contractors or employees abuse agency resources.

Recommendations

The OIG recommends that ASO/FedEx COTR work with the FedEx Integrated Solutions Consultant to:

1. establish new account numbers for the FTC to prevent potential abuse through use of hand completed shipping bills

2. establish an internal control process using the FedEx online shipping portal that will centralize the distribution and printing of labels to a limited number of FTC staff.

3. establish an on-line monitoring system to allow both supervisory and COTR review of transactions and costs associated with FedEx transactions on a periodic basis.

Management Comments

Management concurred in principle with all the findings and recommendations in the report. Where management did not specifically agree to implement our recommendations, they offered alternatives that satisfy the intent of the recommendation and result in improved controls over the FedEx program. We appreciate management's working with the OIG to establish an effective internal control process. Management's complete response in shown in the appendix.

cc: Jon Leibowitz, Chairman
Jon Schroeder, FMO

Appendix – Management Comments

United States of America
Federal Trade Commission
Washington, D.C. 20580

Office of the Executive Director

July 25, 2011

MEMORANDUM

To: John M. Seeba
Inspector General

From: Eileen Harrington
Executive Director

Subject: Response to the Draft Management Advisory on Lack of Controls over Federal Express Shipping Account

BACKGROUND

On June 30, 2011, the Office of the Inspector General (OIG) issued a Draft Management Advisory on Lack of Controls over the Federal Express (FedEx) Shipping Account at the Federal Trade Commission (FTC or Commission). The Advisory identified deficiencies in the FTC's internal controls for our FedEx account and recommended the following three courses of action as a remedy:

- establish new FedEx account numbers for the FTC to prevent potential abuse through use of hand completed shipping bills;
- establish an internal control process using the FedEx online shipping portal to centralize the distribution and printing of labels to a limited number of FTC staff; and
- establish an on-line monitoring system to allow both supervisory and COTR review of transactions and costs associated with FedEx transactions on a periodic basis.

I agree with your assessment that we need to implement more comprehensive controls over our FedEx account. This memorandum responds to the points raised in your Advisory and outlines the Office of the Executive Director's (OED) plan to address your concerns. We are currently discussing the timeline for implementation with our FedEx account representative and will provide more specific dates shortly.

FTC PLAN FOR CORRECTIVE ACTION

Action Item 1: Evaluate Changing FTC FedEx Account Numbers
The FTC currently has a total of ten FedEx account numbers: one for Headquarters, one for the New Jersey building, and one for each of the eight Regional Offices. The FTC's Contracting Officer's Technical Representative (COTR) in the Administrative Services Office (ASO) has been in contact with the FTC's FedEx account representative to discuss changing each of our account numbers. According to our account representative, this remedy would not prevent potential abuse. FedEx would still process the transaction and complete the delivery for airbills using the old account. Accordingly, individuals would still be able to ship letters and packages using the old account numbers. However, recent technological advancements available through FedEx's on-line portal, discussed below, would allow the FTC to increase control over our account numbers and to implement a process to identify users of the accounts.

Action Item 2: Eliminate Pre-Printed FedEx Labels and Require Use of FedEx Online
We are eliminating the use of pre-printed hard-copy air bills with visible FTC account numbers. As such, ASO will collect and destroy the existing supplies from each Bureau and Office and direct each Regional Office to do the same. FTC staff needing to ship letters or packages via FedEx will now have to register with, and access the on-line FedEx system, through FedEx.com. Here FTC staff can generate electronic air bills for shipping. Account numbers would not be visible on the shipping labels. All that would appear would be the UPC bar code that FedEx uses to track packages in transit. This control will prevent FTC staff and others outside of the agency from creating their own manual labels and misusing the FTC account numbers.

Action Item 3: Limit the Ability to Use FedEx to Commission FTE
FTC staff must opt-in by proactively creating a FedEx user ID associated with the FTC's account. The agency will not automatically enroll existing or new employees. Further, we are limiting access to Commission full-time equivalents (FTE). Contractors and volunteers will not be able to sign-up for a user ID using any of the FTC's account numbers. The COTR is in the process of reviewing the list of FTC staff currently with on-line user IDs and will monitor the list periodically to ensure that it is limited to FTE.

Action Item 4: Require Certain Fields to Facilitate After-the-Fact Review
The COTR is currently working with our FedEx account representative to customize the FedEx on-line system to facilitate a more comprehensive after-the-fact review of charges. The FTC receives approximately sixty invoices per month on a rolling basis. Each invoice contains hundreds of individual transactions, which include:

- Sender Name & Address
- Recipient Name & Address
- Tracking ID
- Service Type (e.g., priority service, overnight, etc.)
- Drop-Off Location
- Signature of the Person accepting Delivery
- Delivery Date & Time

This information does not allow for a comprehensive review, and thus, accountability for staff. Accordingly, the COTR is working with our FedEx account representative to add additional identifying information such as organization code, matter name, and matter number for each transaction on our invoices. FTC staff would be required to provide this information for all FedEx shipments related to cases, projects, and rulemakings. All other Commission matters requiring the use of FedEx services, including IT related shipments, must provide a description in the matter name field. As an added benefit, this control feature will also increase efficiency and the accuracy of documentation by automatically populating certain fields that should not change with each transaction such as sender name, address, and organization code.

Action Item 5: Implement After-the-Fact Monitoring
The Bureaus and Offices each have an FTE that serves as that organization's Fund Manager. Fund Managers are responsible and accountable for managing their respective organization's budgeted resources. Each month the FedEx COTR will prepare a report to send to the Fund Manager in each Bureau and Office, including the eight Regional Offices, to review all of their organization's transactions. To facilitate a thorough review, the COTR will train the Fund Managers on how to identify red flags that should be questioned (e.g., large transactions, shipments other than paper, etc.). Further, the COTR will examine all transactions costing over $19.99, which as noted in your June 30, 2011 Advisory, accounted for 13% of all transactions and 50% of the total cost in 2009 and 2010. Previously, the COTR has reviewed transactions costing over $49.99.

Action Item 6: Issue Guidance to All FTC Staff re: Acceptable Use of FedEx
As noted in your June 30, 2011 Advisory, I issued guidance to all FTC staff on March 21, 2011, to be cost conscious in selecting the most cost effective shipping option. Included with this guidance was a two page shipping guide with sample costs for both FedEx and the U.S. Postal Service to inform staff of the wide range of lower cost choices available to them. Each year, OED will review and update, as necessary, the sample costs. I will then issue updated guidance to all FTC staff reiterating the call to be cost conscious when shipping letters and packages.

SUMMARY

In response to the OIG Advisory issued on June 30, 2011, regarding the current lack of controls over the FTC's FedEx account, OED has developed a comprehensive plan for corrective action. As detailed above, this plan will: eliminate the use of pre-printed air bills with visible agency account numbers on them; limit use of the FedEx account to Commission FTE; require staff to use the FedEx on-line portal to generate air bills; eliminate the visibility of the FTC's account number on electronically generated air bills; add additional identifying information for each transaction to increase staff accountability; implement an after-the-fact review for all transactions by the respective Fund Manager in each Bureau and Office and by the FedEx COTR in ASO for transactions over $19.99; and inform and advise staff annually on selecting the most cost effective shipping option.