

**Office of Inspector General**



**AUDIT OF THE  
FEDERAL TRADE COMMISSION  
WAREHOUSE OPERATIONS**

**September 26, 2011**




Office of Inspector General

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

September 26, 2011

TO: Sherry Greulich  
Director, Administrative Services Office

FROM: John M. Seeba   
Inspector General

SUBJECT: Audit Report AR 11-004 - Audit of the Federal Trade Commission  
Warehouse

This report presents the results of our audit of the Federal Trade Commission warehouse. We conducted this audit in response to concerns over inventory controls as a result of a recent fraud committed against the agency. Our objective was to determine the cost effectiveness of maintaining the current sized warehouse.

Because there was a lack of information concerning the cost and age of items contained in the warehouse, we were unable to determine the cost effectiveness of maintaining the warehouse. However, while we found that there was sufficient justification for having a warehouse, we noted several opportunities for improving operations, reducing costs and the potential for reducing the square footage needed to support current FTC operations. We provided six recommendations for management to consider.

Management agreed with our recommendations and provided estimated completion dates where appropriate. Their response is included in its entirety in appendix B.

We appreciate the cooperation and courtesies extended by your staff to assist us in conducting this audit. If you have any questions, please have your staff contact me or Mary Harmison at 202-326-2800.

cc: Jonathon Leibowitz, Chairman  
Eileen Harrington, Executive Director

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# EXECUTIVE SUMMARY

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## Results in Brief

The FTC has a workforce of over 1,100 employees that work in three Washington, D.C. office locations and eight field office locations. To support the administrative needs of the three Washington D.C. office locations, the FTC leases a 22,000 square foot warehouse in Landover, MD at an annual cost of \$221,860 that is used to store an inventory of office supplies, furniture, equipment, publications and building materials. The warehouse is managed by a contractor who is on-site five days a week. Two contractor employees are responsible for managing the warehouse, receiving, storing and issuing goods, and transporting items to and from the warehouse to FTC office locations. In addition, on delivery days of Tuesday and Thursday, an additional contractor “consultant” is available to assist in the delivery operations. The FTC pays the contractor \$213,000 per year for their services. The overall cost for leasing and operating the warehouse is about \$435,000 per year. The current warehouse lease is set to expire in March of 2012.

The objective of our audit was to determine the cost effectiveness of maintaining the current size warehouse. This audit was self-initiated by the OIG as a result of weaknesses identified during a recent investigation in the supply room.

Because there was a lack of information concerning the cost and age of items contained in the warehouse, we were unable to determine the cost effectiveness of maintaining the warehouse. However, while we found that there was sufficient justification for having a warehouse, we noted several opportunities for improving operations, reducing costs and the potential for reducing the square footage needed to support current FTC operations.

We believe there are opportunities for improvement in the following areas:

- Discard old and obsolete furniture, equipment, publications and supplies
- Reduce handling of paper and office supplies through alternate means of acquisition and distribution
- Improve tracking of all items stored in warehouse including computers and other IT equipment
- Improve accountability by independent verification of inventory located at the warehouse
- Improve utilization of warehouse shelving and space
- Consider leasing a smaller size warehouse based on reduced storage needs from the above actions

## Recommendations

The OIG recommends that the Administrative Services Office:

- Evaluate all items in the warehouse for current need and obsolescence. Discard, excess, or recycle all items no longer needed for utilization in the agency.
- Determine optimum stock levels for each item maintained in the warehouse. Determine reorder points to replenish stock and maintain adequate quantities on-hand.
- Analyze current usage patterns of office supplies to assess the economy of buying and storing large quantities of items. The headquarters stockroom should be included in this analysis to determine whether the warehouse should be used to store spare items or if the headquarters stockroom has sufficient space to store current needs.
- Evaluate alternative methods of purchasing and delivery of paper and the need to store bulk paper at the warehouse. Specifically, paper and office supply vendors will store and deliver paper on a set schedule or as needed, generally within one day of a request, thereby eliminating the need to store and handle paper in our warehouse.
- Deploy and fully utilize inventory software to track all furniture, supplies, equipment and publications. This includes recording all information about an item, such as date of purchase and cost, and utilizing bar-coding technology to track items, establishing minimum stock levels and reorder points.
- FTC personnel should conduct independent, periodic inventory counts at the warehouse to verify contractor records. Any variances should be investigated and adjustments made to the official records to ensure that inventory records are accurate.
- Consolidate items and utilize shelf space more efficiently for all items in the warehouse to reduce space requirements.
- Based on actions taken in the recommendations above, assess the amount of square footage needed for storage and determine whether a smaller warehouse could be leased at a reduced cost.

# AUDIT RESULTS

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Because there was a lack of information concerning cost of items contained in the warehouse, we were unable to determine the cost effectiveness of maintaining the warehouse. However, while we found that there was sufficient justification for having a warehouse, we noted several opportunities for improving operations, reducing costs and the potential for reducing the square footage needed to support current FTC operations.

Specifically, we found:

- Significant amounts of furniture stored at the warehouse was either aging, obsolete, or has remained in original boxes for several years waiting to be utilized
- Office supplies, such as toner print cartridges, binders and shipping envelopes known as “jiffy bags” have exceeded their shelf life, in some cases by 5 to 10 years
- The volume of items on hand may be excessive for current needs. Currently the warehouse has 4,800 packing boxes on hand. At current usage rates this amounts to a seven year supply of boxes. We also have various toner cartridges on-hand for equipment that is no longer in service.
- A pallet of an obsolete legal reference book, the American Bar Association Antitrust Law Developments (4<sup>th</sup> Ed.) published in 1997, are stored in the warehouse. The current version of the ABA Antitrust Law Development update is the 6<sup>th</sup> edition.
- Lack of separation of duties in contractor activities. Contractor personnel receive, record, transport and distribute all goods from the warehouse to FTC locations with minimal FTC oversight. The FTC relies entirely on warehouse contractors to record, protect and issue all goods stored at the warehouse. No independent records other than contractor created and maintained records are currently available for warehouse stored items such as computers, printers, fax machines, toner and other high cost office supplies that are easily lost or stolen.
- Shelf space is utilized at less than 60 percent of capacity.
- Paper is the single most received and distributed item from the warehouse. Handling of bulk paper is inefficient and costly since office supply vendors can deliver it directly to office locations at prices competitive with current prices paid by the agency.

Sound internal controls require:

- accurate and timely recording of transactions and events;
- rotation and issuance of items to ensure fresh stock is maintained and obsolescence reduced;
- disposal of broken, obsolete or worn out items on a regular basis to reduce costs of handling and storing items; and
- active management of warehouse operations to ensure that warehouse storage areas are fully utilized and space requirements are minimized.

These issues were caused by the lack of availability of management information to users of the warehouse on a timely basis. While individual decision-makers were generally aware of warehouse inventory, efforts were not made to fully manage the items in the warehouse and utilize or dispose of aging, obsolete or excessive amounts of items on hand. As a result, money has been wasted on items that are held in the warehouse that are deteriorating, underutilized or becoming obsolete. In addition, additional costs were incurred for square footage that was not needed. The FTC must obtain more complete and timely information on all items maintained in the warehouse for managers to make better decisions on either utilizing or disposing of items as appropriate.

## **Background**

The FTC has a workforce of over 1,100 employees that work in three Washington D.C. office locations and eight field office locations. To support the administrative needs of the three Washington D.C. office locations, the FTC leases a 22,000 square foot warehouse in Landover, MD at an annual cost of \$221,860 that is used to store an inventory of office supplies, furniture, equipment, publications and building materials. The warehouse is managed by a contractor who is on-site five days a week. Two contractor employees are responsible for managing the warehouse, receiving, storing and distributing goods, and transporting items to and from the warehouse to FTC office locations. In addition, on delivery days of Tuesday and Thursday, an additional contractor “consultant” is available to assist in the delivery operations. The FTC pays the contractor \$213,000 per year for their services. The overall cost for leasing and operating the warehouse is about \$435,000 per year. The current lease is set to expire in March of 2012.

The FTC maintains an inventory of furniture to replace broken and worn out furniture as well as for furnishing offices for new employees. There is a wide variety of furniture stored at the warehouse such as desks, chairs, credenzas, coat racks, coat closets, and bookcases. Items that are new are still in their original boxes and are usually dated to be able to match wood colors for matching furniture, similar to dye lots on fabrics.

Office supplies are kept on-hand to maintain an inventory of commonly needed items such as paper, printer toner cartridges, envelopes and binders. Some of these items, such as bulk paper, are purchased in large quantities to achieve cost savings and have sufficient quantities on hand to supply daily office needs. A supply room at the headquarters location supplements the warehouse inventory and also replenishes its own stock from the warehouse.

Information technology equipment, such as laptops, desktops, printers, servers and associated accessories is also stored at the warehouse. Generally, items of higher value such as laptops are stored in a separate locked room in the warehouse. This room can only be accessed by special key that records who has entered the room.

The warehouse also stores rolled carpet and carpet tiles that serve as replacement stock when either repairs need to be made or a renovation of an entire floor or office takes place in the headquarters building. Glue is also stored at the warehouse to adhere the carpet to the floor. In addition, light bulbs and clay roofing tiles are stored at the warehouse for future repairs or replacements.

A variety of consumer education publications are also maintained at the warehouse for distribution. Frequently, staff attend conferences where they give presentations and distribute FTC publications to supplement their presentations. The FTC also distributes publications directly to the public through mail or phone call requests. The publications at the FTC warehouse supplement the ones distributed by the Federal Citizens Information Center in Pueblo, Colorado.



# OBJECTIVE, SCOPE, METHODOLOGY

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## Objective

The objective of our audit was to determine the cost effectiveness of maintaining the current size warehouse. This audit was self-initiated by the OIG as a result of weaknesses identified during a recent investigation involving the supply room.

## Scope

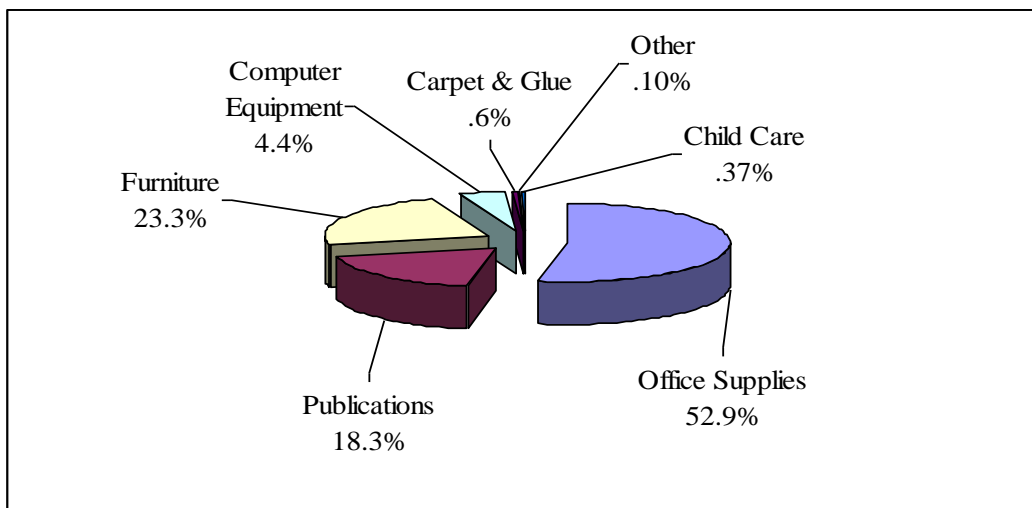
We reviewed records related to warehouse activity for the period April 2010 through March 2011. We also observed warehouse operations during the first 6 months of 2011.

## Methodology

We performed our audit through interviews of managers and warehouse staff; reviewed available records and made observations of warehouse facilities and operations. We specifically obtained and reviewed warehouse receipt and issue records for the period April 2010 through March 2011. From these records we developed a database of activity of all items that were transferred to and from the warehouse during this time period. We summarized this activity to determine the types of items that are most often received and issued by the warehouse. In addition, we estimated warehouse shelf utilization by visual observation of contents at the warehouse.

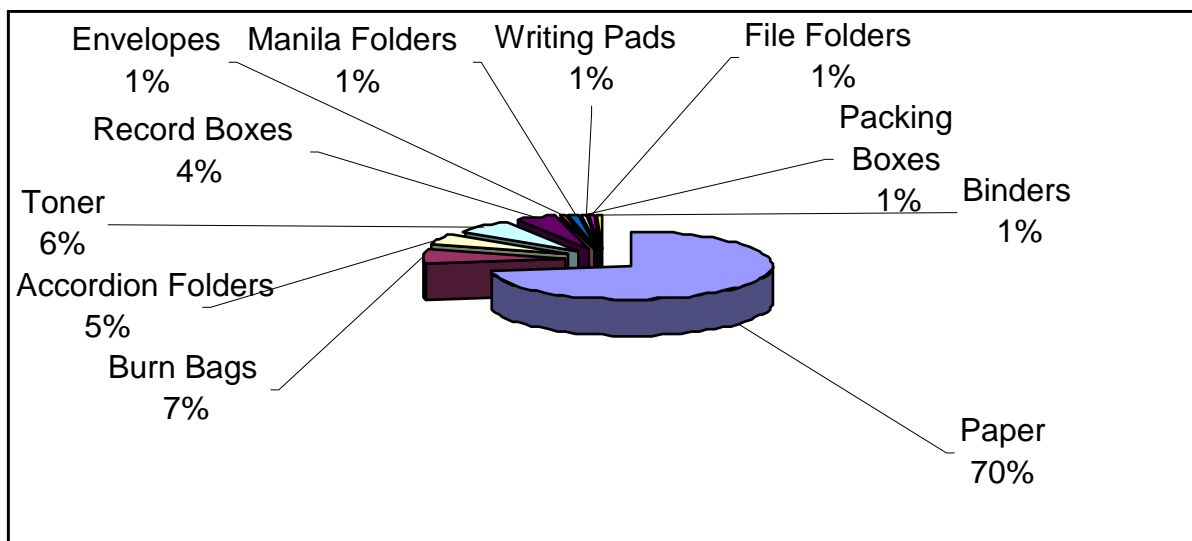
We summarized the activity of all warehouse requests that were processed during the April 2010 through March 2011 time period in the table shown below. We categorized the activities into seven areas, sorted by the quantity requested. (See Figure 1).

**Figure 1: Summary of Overall Warehouse Activity**



Because office supplies represent over half of the activity for items requested from the warehouse, we provided summary chart showing a list of the top 11 items. As shown in Figure 2, paper accounts for nearly 70 percent of all office supplies delivered.

**Figure 2: Summary of Office Supplies**



### Reliability of Computer Based Data

We did not rely on computer based information. Information developed by the contractor in charge of maintaining the warehouse was limited to the recording of quantities on-hand and their records were not always timely updated to reflect current inventory information. As a result, we did not rely on contractor generated computer based records for our testing.

We conducted this performance audit from March 2011 to July 2011 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# FINDINGS

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## Finding 1 – Aging, Obsolete or Underutilized Furniture held at the Warehouse

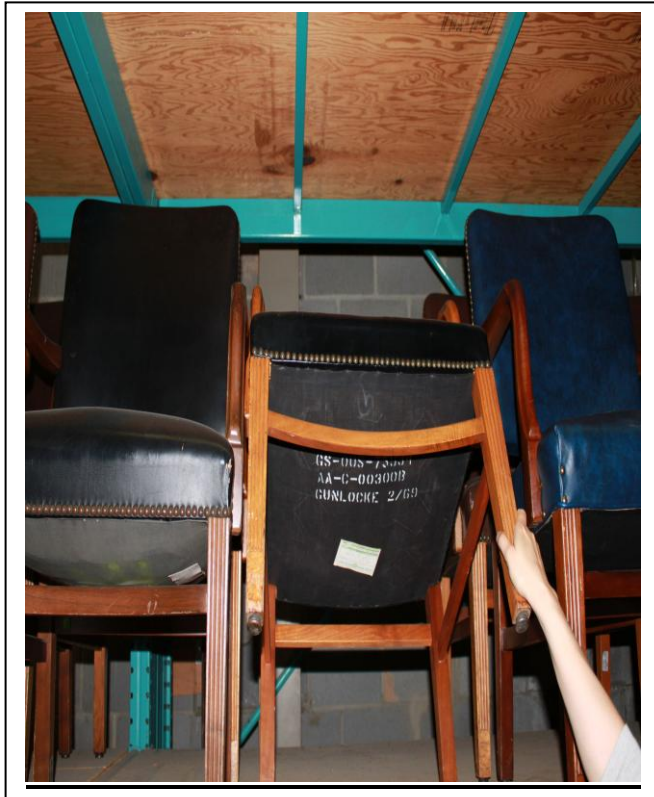


Illustration 1 -Leather chairs circa 1969

A significant amount of furniture stored at the warehouse was either aging, obsolete, or has remained in original boxes for several years waiting to be utilized. From a March 2, 2011 listing, we found 372 chairs listed on the inventory. Of the 372 chairs, about 129 are older leather (circa 1969), fabric or antique chairs that are rarely, if ever utilized.

From our analysis of the warehouse transactions from April 2010 through March 2011, we identified two of the older leather chairs placed in service during the year. (See illustration 1 & 3). The types of chairs that were placed in service during the year were the modern side chairs and ergonomic desk chairs (Illustration 5). We also found furniture, such as credenzas, desks and closets that are still in their original shipping boxes that have remained on the warehouse shelves for many years (Illustration 2).

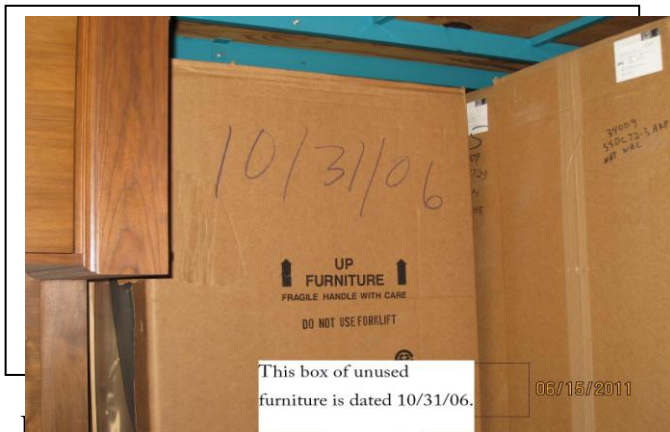


Illustration 2 - New furniture in storage since 10/31/06.



Illustration 3 – Rows of older chairs and tables.

These items are kept in storage at the warehouse to serve as replacements for broken items or for special occasions where additional furniture is needed. Because there is no real mechanism to track the usage of furniture, management does not have the necessary information to make determinations as to current needs as well as when to excess furniture. As a result, furniture remains stored at the warehouse for an indefinite period of time until it is either placed into service or excessed. The FTC is incurring additional costs to store furniture that is either obsolete or not needed for current requirements.

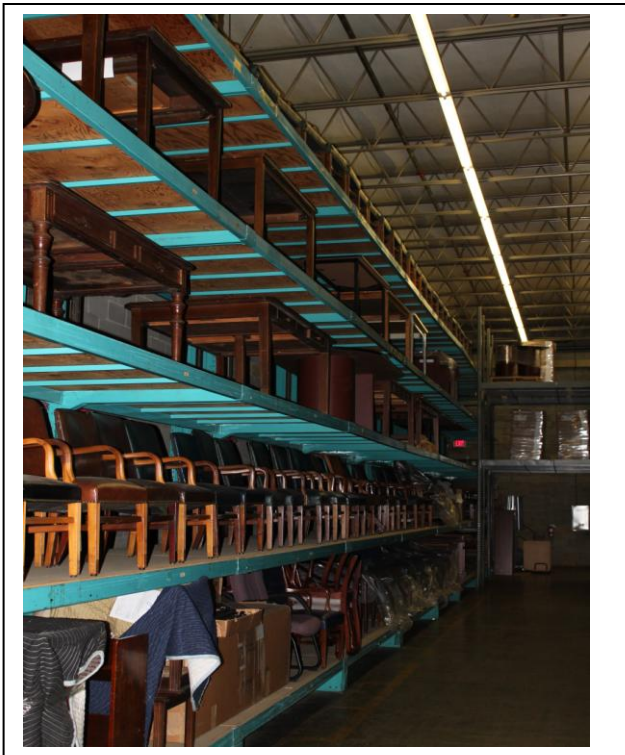


Illustration 4 – Furniture aisle view

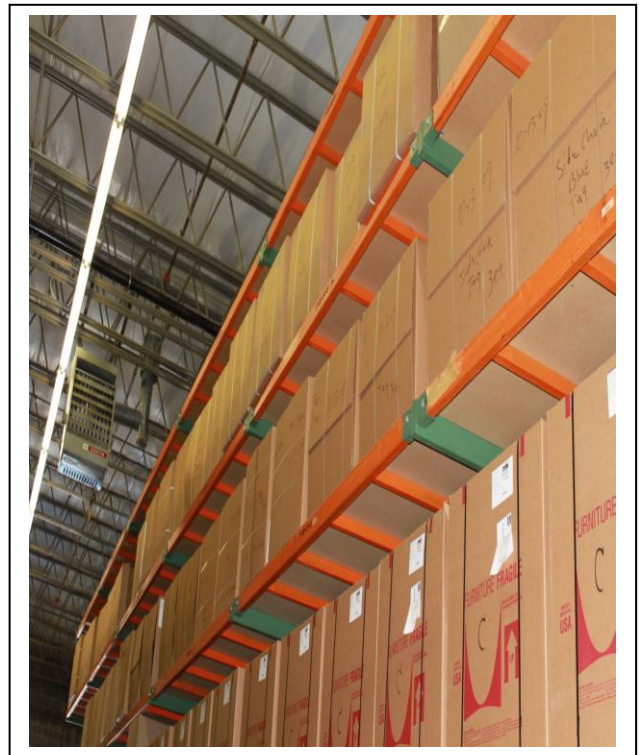


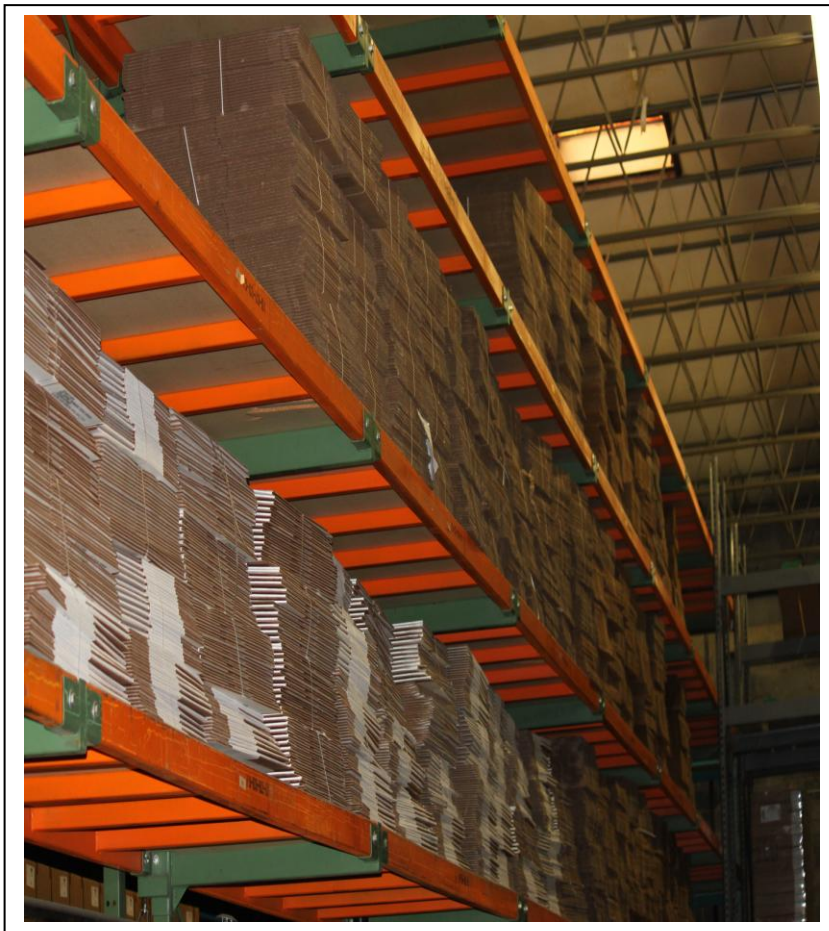
Illustration 5 – Modern side chairs in original boxes

**Recommendation 1:**

- a. Evaluate all items in the warehouse for current and/or future need. Discard or excess items that are no longer needed for utilization in the agency.
- b. Determine minimum and maximum numbers of furniture pieces, such as chairs, tables, desks, etc., that should be maintained on-hand for future use and replacement. The stock levels will be used as reorder points to replenish stock and maintain adequate numbers of furniture to be kept on-hand.

**Finding 2 – Obsolete and Excessive Amounts of Office Supplies and Other Items are held in Inventory**

Various office supplies held at the warehouse, such as printer toner cartridges, binders and shipping envelopes known as “jiffy bags” have exceeded their shelf life, in some cases by 5 to 10 years.



We also found over 4,800 packing boxes at the warehouse (Illustration 6). Based on our usage analysis from April 2010 to March 2011, this would represent about a seven year supply of boxes. One current issue that could mitigate this situation is the high probability that the FTC may be relocating out of its New Jersey building and would probably use a substantial number of these boxes for the move. While a large number of boxes may be utilized, the FTC should assess how many boxes should be held in stock for future use.

Illustration 6 – Packing boxes



Illustration 7- ABA Antitrust 4<sup>th</sup> Ed. 1977

In addition, we noted a pallet of out-of-date legal reference book, the ABA Anti-trust Law Developments (4<sup>th</sup> Ed.) published in 1997, stored in the warehouse. The current edition of the ABA Antitrust Law Development update is the 6<sup>th</sup> edition (Illustration 7).

While some of the office supplies may be salvageable, items such as the obsolete Antitrust Law Development should be discarded. Other items, such as the padded shipping bags and toner printer cartridges need to be evaluated for usability and either issued for use or disposed of. We also noted that some items were reordered and placed in storage at the warehouse despite the fact that sufficient quantities were already on hand. (See Illustration 8 on “Jiffy bags” that had expiration dates over many years).



Illustration 8 - These boxes of Jiffy bags are dated with expiration dates 04/01 and 06/07 on right.

This issue was caused by a lack of information on the amount and age of inventory stored at the warehouse. Other than basic inventory levels, the FTC does not have a mechanism that tracks all attributes for items stored at the warehouse such as: age of items, minimum and maximum storage levels, acquisition cost, usage patterns, etc. As further described in Finding 4, management needs to have sufficient information readily available on which to base decisions such as reorder points, stock rotation and usage patterns. At a minimum, management should ensure that current stock levels are depleted before reordering replacement items.

## **Recommendation 2**

- a. Evaluate all items stored at the warehouse for obsolescence and serviceability, especially items that indicate they have expired or are beyond recommended installation dates. Items such as toner printer cartridges, padded envelopes and maintenance kits should be utilized, recycled or disposed of as necessary.
- b. Determine current usage patterns of office supplies to assess the economy of buying and storing large quantities of items. The headquarters stockroom should be included in this analysis to determine whether the warehouse should be used to store spare items or if the headquarters stockroom has sufficient space to store current daily requirements.

## **Finding 3 - Warehouse Storage and Delivery of Bulk Paper Unnecessary**

The method of purchasing paper in bulk and storing it, as needed, is unnecessary and an inefficient use of warehouse space and contractor resources. Paper is the single most received and issued item from the warehouse. To obtain the lowest prices, the FTC purchases paper in bulk, usually by the truckload from office supply companies. For the one-year period we reviewed, the FTC warehouse fulfilled over 700 requests for almost 3,600 boxes of paper. Our analysis showed that office supplies represent almost 53 percent of the warehouse delivery activity. Within the office supply category, paper represents almost 70 percent of the office supplies delivered to the three FTC buildings in the Washington D.C. area.

We benchmarked with four local office supply vendors that recently bid on FTC office supply solicitations to explore alternative methods of delivering office supplies and paper. Three of the four vendors stated that they could price their bids by the truckload, but would store and deliver paper as needed to the three FTC Washington, D.C. locations. The three vendors estimated that this method would only result in a slight increase in price to cover the additional deliveries. The three vendors also mentioned that they also use this method of hold and delivery of paper for other federal customers in the D.C. area. The fourth vendor stated that there would be a higher price increase to cover the additional delivery costs.

Handling and storage of bulk paper is inefficient and costly when office supply vendors could deliver it directly to the user and offer it at prices similar to prices currently paid. This situation occurred because vendors have established new, more efficient ways of delivering paper. Eliminating the need for storing paper would reduce warehouse storage requirements and be more environmentally friendly as delivery would be made directly to the end user as needed.

**Recommendation 3:**

- a. Conduct a purchase solicitation using the alternative method of purchasing paper in bulk with the contract specification of delivery on demand by the FTC. The solicitation would specify that the vendor will store and deliver paper on a set schedule or as needed, generally within one day of a request thereby eliminating the need for warehouse storage space.

**Finding 4 – Inadequate Controls over Inventory**

There is a lack of management oversight and separation of duties in contractor activities. Contractor personnel currently receive, record, transport, and distribute all goods from the warehouse to FTC locations with minimal FTC oversight. The FTC relies entirely on the warehouse contractor to record, manage and issue all goods stored at the warehouse. No independent records exist, other than contractor created and maintained records. The FTC relies solely on warehouse personnel to track all warehouse items such as furniture, computers, printers, facsimile machines, and other high cost office supply items that are easily lost or stolen. In discussions with FTC staff, we found that management completely relies on the contractor to maintain accurate records of all warehouse inventory items. In addition, no tests are conducted on contractor records to ensure that they are accurate. While the contractor does conduct inventory counts on a periodic basis, any adjustments to records are made by the contractor at its discretion without FTC knowledge or agreement.

Sound internal controls require adequate oversight and separation of duties. Without adequate oversight, the contractor can alter records and could commit fraud without detection. This vulnerability was created when management first established a warehouse operation and contractually assigned responsibility for warehouse accountability and operations entirely to the contractor. Without adequate oversight, the FTC is susceptible to waste, fraud or abuse by the contractor going undetected.

Note - During FY 2011, the warehouse contractor installed a new software program to track inventory. This software is an off-the-shelf program that is designed for inventory accountability and includes the ability to track items using a bar-code scanner. The warehouse contractor has begun using the software; however its use was limited to tracking quantities of items and assigning bar codes to specific products.

**Recommendation 4:**

- a. Evaluate and install inventory software (such as off-the-shelf software that the contractor is using) to track all warehouse items such as furniture, supplies, equipment and publications. This includes recording all information about an item, such as date of purchase and cost, and utilizing bar-coding technology to track items. The FTC should consider the network version of an inventory software program that would be available on a shared server with access by FTC and contractor personnel. Specific access privileges such as recording and changing the database record should be assigned to



specific users by their job function. In addition, access privileges should be assigned to implement separation of duties such as initial recording of items, issuance of items, adjustments to inventory amounts, etc.

- b. FTC personnel should conduct periodic inventory counts at the warehouse to verify contractor records. Any variances should be investigated and adjustments made to the official records to ensure that inventory amounts are accurate.

### **Finding 5 – Warehouse Shelf Space is Utilized at about 60 Percent**

Our analysis of shelf space at the warehouse indicates a utilization of about 60 percent of capacity. The warehouse is generally organized by item type such as furniture, office supplies, publications and equipment separated into aisles. Most aisles have 4 to 5 shelves. Because many shelves were either not used at all or had limited number of items on a shelf, we estimated that approximately 40 percent of the overall shelf space was not used.

With a large amount of excess shelf space available, there is no incentive to consolidate items and shrink the size of the warehouse. Management should discuss shelf utilization with the contractor to ensure that the warehouse is used as efficiency as possible. In addition, with the warehouse lease expiring in March of 2012, the FTC should evaluate their needs and determine if a 22,000 square foot warehouse is still warranted.

#### **Recommendation 5:**

Consolidate all items in the warehouse to reduce space requirements.

#### **Recommendation 6:**

Based on actions taken in recommendations 1, 2, and 5, assess the amount of square footage needed for storage and determine if a smaller warehouse could be leased at a reduced cost.

## **Management Comments**

Management agreed in principle with our findings and has planned or initiated corrective actions on all recommendations. Management has also established a timetable for completion of the recommendations within the next six months. Their plans include disposing or recycling excess, aged or expired items in the warehouse. In addition, actions were taken to bar code accountable IT inventory, assess additional inventory software for tracking all supplies and inventory items stored at the warehouse, and conduct a physical inventory of all items in the warehouse. Finally, management directed the warehouse contractor to consolidate items in the warehouse for more efficient utilization of space.

## **OIG Response**

We believe management's response to our recommendation should significantly improve internal controls at the warehouse and establish accountability over all items located at the warehouse. In addition, the use of inventory tracking software should provide timely information to managers enabling them to better utilize items stored at the warehouse, reduce costs and waste, and improve overall warehouse operations.

Management has indicated that they have assessed and concluded that the need for the current sized warehouse is justified. While the OIG understands management's position, we continue to believe that the future need of the warehouse will be significantly reduced or possibly eliminated when the FTC moves to other office space, especially if additional storage space can be acquired at that location. Management should continue to assess its storage needs semi-annually to determine if it is cost effective to eliminate or move to a smaller warehouse.

## ABBREVIATIONS USED IN THIS REPORT

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ABA	American Bar Association
FTC	Federal Trade Commission
FY	Fiscal Year
IG	Inspector General
OIG	Office of Inspector General

## EXHIBIT A – SUMMARY OF WAREHOUSE ACTIVITY

**Figure 3: Summary of Overall Warehouse Activity**

Category	Number of Requests	Percent	Quantity Requested	Percent
Office Supplies	1012	52.90%	5141.0	68.26%
Publications	350	18.30%	983.0	13.05%
Furniture	445	23.26%	681.0	9.04%
Computer Equipment	85	4.44%	556.0	7.38%
Carpet & Glue	12	0.63%	108.5	1.44%
Other	2	0.10%	39.0	0.52%
Child Care	7	0.37%	23.0	0.31%
<b>Totals</b>	<b>1913</b>	<b>100.00%</b>	<b>7531.5</b>	<b>100.00%</b>

Activity April 2010 to March 2011

**Figure 4: Summary of Office Supplies**

Description	Number of Requests	Percent	Quantity Requested	Percent
Paper	704	69.70%	3593.	69.92%
Burn Bags	23	2.28%	366.	7.12%
Acco Folders	42	4.16%	281.	5.47%
Toner	71	7.03%	321.	6.25%
Record Boxes	11	1.09%	224.	4.36%
Envelopes	17	1.68%	48.	0.93%
Manila Folders	27	2.67%	47.	0.91%
Packing Boxes	14	1.39%	27.	0.53%
Writing Pads	16	1.58%	25.	0.49%
File Folders	9	0.89%	24.	0.47%
Binders	15	1.49%	25.	0.49%
Other	61	6.04%	158.	3.07%
<b>Totals</b>	<b>949</b>	<b>100 %</b>	<b>4981</b>	<b>100. %</b>

Activity April 2010 to March 2011

# EXHIBIT B – MANAGEMENT RESPONSE

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



Office of the Executive Director

September 1, 2011

## MEMORANDUM

To: John M. Seeba  
Inspector General

From: Sherry Greulich   
Director, Administrative Services Office

Subject: Response to the Draft Audit Report AR 11-004 – Audit of the Federal Trade Commission Warehouse

## BACKGROUND

On August 11, 2011, the Office of the Inspector General (OIG) issued a Draft Audit Report on the Federal Trade Commission (FTC or Commission) Warehouse. The Audit Report identified deficiencies and opportunities for improvement in the FTC's operations of its leased warehouse space. Further, the OIG recommended that the Administrative Services Office (ASO) take the following courses of action as a remedy:

1. Evaluate all items in the warehouse for current need and obsolescence. Discard, excess, or recycle all items no longer needed for utilization in the agency.
2. Determine optimum stock levels for each item maintained in the warehouse. Determine reorder points to replenish stock and maintain adequate quantities on-hand.
3. Analyze current usage patterns of office supplies to assess the economy of buying and storing large quantities of items.
4. Evaluate alternative methods of purchasing and delivery of paper and the need to store bulk paper at the warehouse.
5. Deploy and fully utilize inventory software to track all furniture, supplies, equipment and publications. This includes recording all information about an item such as date of purchase and cost, and utilizing bar-coding technology to track items, establishing minimum stock levels and reorder points.

6. FTC personnel should conduct independent, periodic inventory counts at the warehouse to verify contractor records. Any variances should be investigated and adjustments made to the official records to ensure that inventory records are accurate.
7. Consolidate items and utilize shelf space more efficiently for all items in the warehouse to reduce space requirements.
8. Based on actions taken in the seven recommendations above, assess the amount of square footage needed for storage and determine whether a smaller warehouse could be leased at a reduced cost.

This memorandum responds to the OIG's audit recommendations, outlines the actions that ASO and the Office of the Chief Information Officer (OCIO) have taken and actions planned on each item listed above, and provides proposed completion dates. ASO manages the warehouse lease and is responsible for furniture, office supplies, and publications stored at the warehouse; OCIO is responsible for all information technology (IT) equipment.

#### **FTC ACTION PLAN**

**Action Item 1: Evaluate all items in the warehouse for current and/or future need. Discard or excess items no longer needed by the Commission.**

Staff from ASO and OCIO visited the warehouse on several occasions over the past month to evaluate all furniture, office supplies, publications, and IT equipment for current and future need and obsolescence. At ASO's direction, the warehouse contractor, MSTI, has moved all obsolete furniture, determined to be broken or damaged, to a central location in the warehouse. Removing these items carries a high cost. Hence, there is a supply of broken, damaged, and/or obsolete items on the warehouse shelves. As soon as ASO identifies a sufficient quantity of items as excess to justify the expense, we will rent a dumpster and remove these items from the Commission's inventory. We estimate that this will be completed by November 1, 2011.

ASO is also in the process of identifying excess furniture in the warehouse with value, and thus, technically still useable. As noted in the OIG's Audit Report, the FTC has approximately 129 older leather (circa 1969), fabric or antique chairs that are rarely utilized by the agency. In fact, the OIG's audit found that only two of these older chairs were used between April 2010 and March 2011. We plan to excess as much of this furniture as possible while still being able to meet the FTC's needs. Our initial estimate is 90% of this furniture may be removed from our inventory and sent to a General Services Administration (GSA) warehouse. ASO is drafting a memorandum of understanding with GSA to include the transfer of furniture. However, since the FTC must pay for each truckload of items sent to the GSA warehouse, ASO plans to wait until we identify enough items for excess to fill an entire truck. We estimate that this will be completed by November 1, 2011.

ASO's inventory revealed outdated office supplies, publications and shipping envelopes known as "jiffy bags" that have exceeded their shelf life. As referenced in the Audit Report, there is a pallet of the American Bar Association Antitrust Law Developments (4<sup>th</sup> Ed.) that was published in 1997 located in the warehouse. All of these obsolete supplies are scheduled to be discarded by

October 31, 2011. Further, the ASO Supply Clerk reviewed and verified with the OCIO the FTC's current ink and toner usage. Based on this review, ASO identified approximately 64 expired toner cartridges. All of these expired cartridges will be shipped to UNICOR, a contractor that recycles old ink and toner. We estimate that this will be completed by October 20, 2011. All four of these actions will reduce the amount of office supplies and furniture stored in the warehouse, and therefore, will increase the amount of available off-site storage space.

As noted in OIG's Audit Report, the Commission maintains a supply of rolled carpet and carpet tiles at the warehouse for repairs and renovations to the Headquarters Building. Glue is also stored at the warehouse to adhere the carpet to the floor. ASO has determined that we need to maintain this supply because we frequently use it to conduct patch work to damaged carpets. Eliminating or greatly reducing the agency's supply would ultimately result in the procurement of carpet tiles that do not match the originals since we would have to purchase newer carpet for each required patch. ASO patches carpet approximately 15 to 20 times per year and replaces as much as an entire floor each year. Further, the glue has an extremely long shelf-life and is still usable. Therefore, we plan to maintain the current supply on-hand at the warehouse.

In addition to supplies and furniture, the warehouse also stores IT equipment, including laptops, desktops, and printers. These items are stored in a separate locked room in the warehouse that can only be accessed by a special key that records who has entered. OCIO staff conducted an independent inventory of all IT equipment at the warehouse. Each piece of equipment was barcoded and entered into Remedy, which among other things, tracks OCIO's inventory. This allows OCIO to monitor IT equipment and verify the contractor's records.

**Action Item 2: Evaluate alternative methods of purchasing and delivery of paper and the need to store bulk paper at the warehouse.**

As noted in the OIG's Audit Report, the FTC purchases paper in bulk and stores it in the warehouse. The price of paper can fluctuate monthly. Therefore, buying in bulk when the price is low helps control costs. On the other hand, we must store the bulk paper off-site at the warehouse. In response to the OIG's recommendation, ASO evaluated a just-in-time office supply program for purchasing and delivering paper, which would significantly reduce the amount of bulk paper stored in the warehouse. We contacted two vendors to investigate our options. While the vendors were not able to provide firm quotes, we ascertained that there likely is not a significant price variance between the two methods of acquisition. We currently have a large supply of paper stored at the warehouse and plan to deplete this stock before purchasing more. In the meantime, ASO will continue to investigate just-in-time pricing versus pallet pricing. It should be noted that, as discussed below in Action Item 6, ASO management has decided not to reduce the leased warehouse space in the nearby future due to the two likely upcoming building moves, and therefore, will have the off-site storage space available to store bulk paper. It is possible that a just-in-time system for paper will make sense if the FTC reduces its warehouse space in the future.

**Action Item 3: Deploy and fully utilize inventory software to track all furniture, supplies, equipment and publications. Determine optimum stock levels and reorder points for each item maintained in the warehouse.**

As noted in the OIG's Audit Report, the FTC previously relied on the warehouse contractor to record, manage, and issue all items stored at the warehouse. Both ASO and OCIO have developed plans to improve accountability through independent inventory tracking. As noted above in Action Item 1, OCIO entered all IT equipment stored at the warehouse into Remedy to track IT inventory.

ASO plans to implement an in-house electronic monitoring system to track inventory in both the warehouse and the supply room located in the Headquarters Building in early 2012. ASO is currently evaluating the Web, Application and Software Problem (WASP) system that the warehouse contractor uses and other asset management tools to determine which will best meet our needs. The system that we ultimately choose will be utilized by ASO to maintain the inventory of commonly used items such as paper, printer toner cartridges, envelopes, and binders independently. It will contain all information about an item, including date of purchase, cost, and shelf location. Further, it will print and scan barcode labels for instant, accurate data entry. This will provide ASO staff with real-time visibility into stock levels and location. Barcoding is scheduled to begin by November 2011, after the obsolete supplies identified above are removed. As a result, ASO will be able to identify optimum stock levels and reordering points for each item automatically, which will improve efficiency by ensuring that we have adequate supplies available to meet customer needs and reduce the amount of excess items in storage. ASO will be able to ensure that current stock levels are depleted before reordering replacement items. Until the WASP system, or an equivalent solution, is implemented, ASO will use the contractor's records, verified by our independent inventory, to monitor stock levels and reorder points.

As an added benefit, the system will allow ASO to adopt a just-in-time program for purchasing standard office supplies on the FTC approved vendor supply list in the future. This will increase efficiency and improve internal controls. Only the ASO Supply Clerk and the Support Services Supervisor will be authorized to place orders via the vendor's online website using an agency credit card. All orders will be routed to the Support Services Supervisor daily for monitoring purposes. The system will also allow ASO to collect data in real-time to monitor usage patterns and spending habits for each Bureau and Office. ASO management will then use this data to monitor the FTC's supply budget.

**Action Item 4: Conduct an independent, periodic inventory counts at the warehouse to verify contractor records.**

On Tuesday, August 30, 2011, ASO staff visited the warehouse and completed an independent inventory of all office supplies and furniture. As noted above in Action Item 1, we identified obsolete supplies and broken and excess furniture for removal. Going forward, the ASO Customer Services Supervisor, or a designated full-time equivalent (FTE) employee, will make quarterly visits to the warehouse to inspect inventory, shelf location, and expiration dates for all office supplies, furniture, and publications. These quarterly independent audits will allow ASO to designate excess items for discard, and accordingly, have them moved to a central location in the warehouse for removal. Further, as discussed above in Action Item 3, ASO plans to have an FTE conduct quarterly independent audits through on-site visits and the WASP system, or



another identified electronic tracking solution, to verify the contractor's records. Any variances between the FTC's records and the contractor's records will be investigated and any necessary adjustments to the official records will be made to ensure that inventory amounts are accurate. In addition, OCIO staff also plan to conduct quarterly independent audits of IT equipment stored at the warehouse.

**Action Item 5: Consolidate items and utilize shelf space more efficiently.**

As noted above in Action Item 1, the warehouse contractor has moved all excess and obsolete furniture, determined to be broken or damaged by ASO, to a central location in the warehouse. ASO staff is continuing to work with the contractor on utilizing shelf space as efficiently as possible. As discussed below in Action Item 6, this consolidation will improve the efficiency of the FTC's use of the warehouse for holdover space in upcoming building moves.

**Action Item 6: Assess the amount of square footage needed for storage and determine whether a smaller warehouse could be leased at a reduced cost.**

Based on the previous five action items, which ASO and OCIO have taken or plan to take in the near future, ASO management has assessed the amount of square footage needed to meet the FTC's storage needs. The intent of our assessment was to determine whether the FTC could lease a smaller warehouse at a reduced cost. After a thorough evaluation, ASO has determined that the FTC needs to maintain its current square footage for the following reasons. Of foremost importance is that the FTC's lease at the New Jersey Avenue Building expires in August 2012. Accordingly, it is very likely that the Commission will be moving from that location within the next 12 to 18 months. This move will most likely correspond with a move from the FTC's other Washington, DC satellite building located at 1800 M Street in Northwest. It is imperative that the FTC maintains its current warehouse space to serve as flexible storage space during these moves. As noted above, ASO has already begun consolidating space by identifying excess furniture and expired supplies at the warehouse. This consolidation has produced a centralized location for items that need to be housed at the warehouse during the moves. We will continue to consolidate items in the warehouse on a regular basis during our quarterly inventory audits. Secondly, the high cost of moving to a smaller warehouse will likely offset the minimal savings that we may obtain. The current warehouse included shelving units. We would need to replicate the existing setup, including the shelving units, racks, and sprinkler system. With these requirements, we estimate that relocating to a new, smaller warehouse would cost between \$120,000 and \$150,000. Simply put, the costs outweigh the benefits at this time.

Given these two circumstances, ASO is concerned that relocating to a smaller warehouse will hinder our ability to conduct the upcoming moves effectively and efficiently. However, ASO management will continue to evaluate the Commission's storage space requirements on a periodic basis to see if we can lease a smaller warehouse at a reduced cost in the future, especially after the two imminent moves.

## SUMMARY

In response to the OIG Audit Report issued on August 11, 2011, regarding deficiencies and opportunities for improvement at the FTC's leased warehouse space, ASO has developed a comprehensive action plan. As detailed above, ASO and OCIO has or soon will: evaluate all items in the warehouse for current and future need; discard or excess items no longer needed; evaluate alternative methods of purchasing and delivery of paper; deploy and utilize inventory software to track all items; determine optimum stock levels and reorder points; conduct independent, periodic inventory counts; and consolidate items and utilization shelf space more efficiently. We believe that this plan will improve efficiency and internal controls over inventory. Based on this action plan, ASO management assessed the FTC's need for maintaining its current warehouse space. Based on our analysis, we determined that several external factors, such as the soon to expire lease at the New Jersey Building, warrant the continued use of the current warehouse. However, we will continue to monitor the FTC's storage needs and reevaluate the size of the warehouse in the future.

## EXHIBIT C – WAREHOUSE IMAGES

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Used Furniture in Storage



New furniture in boxes (box is dated 08/31/09) and old furniture



IT equipment and Publications



FTC Publications and Paper



Partially filled shelving



Printer maintenance kits



Laptop batteries dated 03/04/2009



Excess furniture

