*** INVESTIGATIVE ALERT ***

Weak Internal Controls Over Use of Federal Express Mail Services

The Office of Inspector General (OIG) recently closed an investigation of an employee who operated a personal business from his Federal Trade Commission (FTC) office. As part of this investigation, the OIG learned that lax controls over the use of Federal Express (FedEx) mail services enabled him to use these services in the conduct of his business. Specifically, this particular employee abused the agency's FedEx account for years accumulating thousands of dollars in charges which were paid by the FTC.

BACKGROUND

FedEx services are available to FTC staff as an alternative to the U.S. Postal Service (USPS) and other private shipping services. Advantages of FedEx over USPS mail include speed (same day and overnight delivery), security and the ability to track a parcel throughout its delivery. Agency staff use FedEx to send legal and other official documents to FTC regional offices, law firms, businesses, litigants and consumers.

The agency has made the use of FedEx easy and convenient for its staff. Any FTC employee can obtain a preprinted FedEx *airbill* (mailing label) from the mailroom or fill out a blank airbill that can be obtained from any FedEx drop box, or printed from *www.fedex.com.* The preprinted information on the airbill available from the mailroom includes the FTC address, as well as the FTC 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 Avenue Satellite building and one for each regional office.

Before each FedEx package is sent out, the sender must provide his/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 sender may include an additional completed airbill and 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 affixed 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, and in the headquarters building garage, as well as on several other floors of each building and in the regional offices. Parcel pickup occurs at preset times each business day.

Several times each month, FedEx bills the agency for mail services used by FTC staff. Amounts invoiced for individual transactions depend on the weight of the item mailed and the type of handling instructions requested. Most transactions range from between $5 and $10. Invoices are sent directly to the Contracting Officer's Technical Representative (COTR) in the Administrative Services Office (ASO) and to the FTC's payment servicer, the National Business Center. They are not seen by the sender or his/her bureau/office supervisor. The COTR completes a receiving report and sends it to NBC where the invoice is scheduled for payment. In FY 2004, these invoices totaled $165,600.

FINDINGS

Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of an agency's assets.[1]

The OIG found several weaknesses in internal control in the agency's administration of the FedEx mail services program. These weaknesses permitted program abuses to continue unnoticed for multiple years at a substantial cost to the agency.

Finding 1. FTC account numbers for FedEx usage are not controlled

The FTC does 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 on line and download airbills and write in the FTC account number. 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.

Finding 2. Supervisory Approval is not Required to use FedEx

Unlike some other federal agencies, the FTC does not require supervisory approval before FedEx can be used. As a result, staff alone make determinations on the best method for delivery of the correspondence or parcel. The subject of the OIG investigation used FedEx as frequently as 20 times per month in select months and in one month used it 107 times and was never questioned by his supervisor.

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[1] *Standards for Internal Control in the Federal Government.* United States General Accounting Office (GAO/AIMD-00-21.3.1)

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 any number 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. In the months of October and November 2004, the OIG noted that 97 percent of invoiced transactions for 601 NJ Avenue (420 of 432) were less than $50.

When the radar is set high, many transactions will go unquestioned. The subject of the OIG investigation operated unnoticed because all of his domestic charges, including the relatively more expensive weekend service, were far less than the $50 per transaction threshold. Similarly, overseas usage by this employee was not questioned for the same reason. Twenty FedEx transactions of approximately $40 each were sent from outside the U.S. Frequent and/or extraordinary (e.g., overseas) usage in and of themselves are not reasons for scrutiny.

Lowering the dollar threshold for more careful scrutiny would not necessarily result in the COTR identifying more fraudulent or inefficient transactions. The COTR cannot determine whether staff's use of FedEx is for business-related purposes, regardless of the invoiced amount. Further, one cannot rely on the recipient's name and address in making this determination. On the other hand, such insight is usually available to employee supervisors. However, invoices are not sent to the supervisors for review before they are paid. It is likely that the supervisor of the investigative subject was unaware of the extent to which FedEx was used by this agency employee.

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, it is likely that 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.

SUMMARY

The OIG found 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. Our recent investigation of misconduct by one agency employee indicated that employee abuse of this service spanned multiple years before the employee was reported to the OIG by a third party FedEx mail recipient. We learned of no instance where a supervisor informed an employee not to use FedEx, and employees do not need supervisory approval to use FedEx. Furthermore, the current centralized billing of FedEx charges to ASO reduces the need for staff in the bureaus and offices to be accountable for how it uses FedEx. The agency should establish effective, yet efficient program controls to provide assurances that the program is used only for its intended purposes.

RECOMMENDATION

The OIG recommends that ASO develop and implement procedures requiring supervisory review of FedEx invoices. ASO should work with FedEx to provide a format to facilitate this review.