

Expedited Shipping

Audit Report 201819-04

January 9, 2019

Executive Summary

The Department uses expedited shipping services through Federal Express (FedEx) and the United Parcel Service (UPS) to deliver time sensitive documents, letters, packages, and various consumables to its agents, regional offices, businesses, and consumers, as well as for administrative purposes in support of the Department's overall mission. Department members are eligible to select their preference for using regular mail or expedited shipping; however, purchasing guidelines require members to make purchases on an economically prudent and cost-effective basis. During the 2017-18 Fiscal Year, the Department spent \$277,342.38 for expedited shipping services. Our audit focused on the Department's use of expedited shipping to determine if it is being used in the most economic manor.

Our review determined controls over shipping account numbers should be improved. Because account numbers are not controlled, Department members can simply go online, print shipping labels, and write in a Department account number with no oversight. While observing the list of account numbers, we noted addresses tied to accounts that are not affiliated with the Department, multiple accounts with the same address, and account contact persons no longer employed with the Department. During our review, we learned FedEx offers an online administration portal which can be used to implement controls over shipping services, including monitoring and managing the shipping activity of all users throughout the Department. We recommend exploring the use of the online management portal to establish better control over the Department's shipping accounts. We also recommend archiving or removing old accounts from the list of shipping accounts.

Our review also determined guidelines promoting efficient use of expedited shipping would enhance mail management. Our review of invoices for reasonableness noted offices repeatedly selecting the same shipping options instead of choosing the most economical shipping method based on the item being shipped. We also noted inaccurate charges. We recommend communicating shipping guidelines, including ways to select cost-conscious shipping options, appropriate uses for expedited shipping services, and alternative methods to expedited shipping to Department members.

Improvements to the monitoring process could help deter and prevent abuse of expedited shipping services. While several areas within the Department receive shipping invoices, not all are being reviewed to ensure the Department was charged accurately, and none are reviewed for unnecessary use of expedited services. In some instances, the same member is receiving, reviewing, and approving the invoice for



payment prior to submission to the Bureau of Accounting. Without adequate oversight and monitoring activities, the Department may not have reasonable assurance of who is using expedited shipping, for what purposes, and to what extent. We recommend communicating guidelines for reviewing and reconciling expedited shipping transactions and invoices to Department members.

Background and Introduction

Expedited shipping is a category of shipping that provides faster delivery than standard mail. It generally encompasses priority, 2-day, and next day delivery. The Department uses expedited shipping services through FedEx and UPS to deliver time sensitive documents, letters, packages, and various consumables to its agents, regional offices, businesses, and consumers, as well as for administrative purposes in support of the Department's overall mission. Both FedEx and UPS offer tracking services showing the status of shipment while in transit and evidence of shipment delivery at no additional cost.

The Department of Management Services (DMS), Division of State Purchasing, procures state contracts for services that are frequently used by multiple state agencies and has contracted through FedEx and UPS for expedited shipping services for all state agencies. DMS's contract managers are responsible for enforcing performance of contract terms and conditions.

A shipping budget is determined for each Department division every fiscal year by way of approving purchase orders. Purchase order amounts are set and approved for designated funds available to be used for expedited shipping. The Department has 31 approved purchase orders totaling over \$318,000 and spent \$277,342.38 for expedited shipping services during the 2017-18 Fiscal Year.

Department members are eligible to use expedited shipping services at their discretion through FedEx or UPS. Currently, there is not an office/bureau designated as being responsible for expedited shipping usage or monitoring for the entire Department, and each division determines their own process for reviewing and approving their own invoices. Each division's members use their own discretion, or verbal guidance from their supervisor, to select their preference for using regular mail or expedited shipping. Methods for shipment are also at the discretion of the shipper; however, state purchasing guidelines require state agencies to purchase items on an economically prudent and cost-effective basis.

Department Headquarters Shipments

Most expedited shipments from the Department's headquarters go through the centralized mailroom. The mailroom is managed by a contracted vendor, Exela Technologies. The Department's Division of Administrative Services, Office of Support Services, is the primary liaison with the mailroom staff; however, the contract for Exela Technologies is a state-wide contract managed by DMS.

When choosing to send a package using expedited shipping via the mailroom, members complete a shipping form (a generic form the mailroom developed), or an air bill (shipping label), with the recipient information, the type of services requested (priority, standard, 2-day, etc.), handling instructions, and a shipping account number. Mailroom personnel weigh the shipment to determine the most cost-effective shipment method, enter the necessary shipping information into FedEx or UPS online, then print and affix the shipping label to the package.

If a shipping label is already affixed to the package with a shipping account number, the mailroom places the package in a bin for pick up. Parcel pickup occurs at preset times each business day. Once the package has been picked up for delivery, the mailroom returns the shipping form with a package tracking number to the shipper/office.

Field Office Shipments

Members located in the Department's field offices use FedEx for expedited shipping. Designated field members have established shipping accounts with FedEx online and either use the online system to enter shipping information and print a shipping label or take packages to a FedEx office. For some field offices, FedEx picks up daily, while others schedule package pick-up, or drop packages at any local FedEx drop box or office.

Central Supply Shipments

Upon request, the Department's Central Supply Office ships supplies to state and tax collector offices throughout Florida using UPS ground. Most items shipped from the Central Supply Office are large boxes and/or heavy materials, and can include license plates, title paper, law enforcement equipment and accessories, printer paper, and office supplies. The Central Supply Office has a UPS scale to weigh items and use UPS online to create shipping labels. All items shipped from the Central Supply Office are shipped UPS ground - which is second day delivery. The Central Supply office does not allow any overnight shipments.

Invoicing

Shipping transactions recorded by FedEx and UPS are provided to the Department via invoice for payment. FedEx bills the Department weekly and UPS bills monthly. Amounts invoiced for individual transactions depend on the weight of the item mailed and the type of service requested. Several areas within the Department receive invoices for expedited shipments that were made using their respective FedEx or UPS accounts.

Shipments sent via UPS through the Department's mailroom are included as part of the monthly Exela Technologies invoice. Shipments sent via FedEx through the Department's mailroom are invoiced separately on a weekly basis. Members in the Office of Support Services review these invoices and submit them into My Florida Marketplace (MFMP) for payment processing.

For members in the field, invoices are uploaded into MFMP by the office administrator who received the invoice and reviewed by the contract manager (the purchase order contact person) through the MFMP electronic approval system. In some instances, the contract manager is the same person receiving the invoice.

The Central Supply Office receives invoices monthly. Invoices are reconciled by the supply manager and reviewed by the section supervisor prior to submission in MFMP for payment processing.

The Department's Bureau of Accounting, Accounts Payable Section is the final step in reviewing invoices that have been submitted in MFMP prior to payment processing. Accounts Payable members compare the invoice amount to the purchase order amount to ensure charges do not exceed the amount authorized on the purchase order. Accounts Payable members rely on contract managers to ensure total charges do not appear abnormally high or irregular, and that purchases were approved. Accounts Payable members do not review individual transactions.

Findings and Recommendations

Account Controls

Finding No. 1: Controls over shipping account numbers should be improved.

Protecting public funds is a high priority for all governments. Because shipping account numbers are essentially billing accounts, it is important to have proper controls in place. Best practices for bank account fraud prevention include reviewing all accounts at least annually, consolidating or eliminating accounts that are not frequently used, and

ensuring controls exist for storing and destroying documents that contain account and other related information.

The Department currently has 337 account numbers with FedEx. Because account numbers for FedEx usage are not controlled, Department members can simply print shipping labels from FedEx online and write in a Department account number with no oversight. Anyone with knowledge of the Department account numbers could send FedEx packages at any time from any location, including shipments that do not originate in Department facilities. Additionally, the account number for FedEx that is billed to the mailroom is pre-printed on some air bills. While mailroom personnel stated pre-printed labels are only given out upon request, controls are not in place to ensure pre-printed shipping labels are only provided for legitimate shipments.

While observing the list of account numbers, we noted some addresses tied to accounts listed are not, or are no longer, affiliated with the Department, multiple accounts tied to the same address¹, and account contact persons who are no longer employed with the Department.

During our review, the Office of Support Services met with the Department's FedEx representative, who explained every state agency has hundreds of accounts, however FedEx offers an online administration portal which can be used to implement controls over the Department's use of FedEx shipping services. The administration system allows a single administrator or a group of users to centrally manage and control shipments that are processed by multiple individuals from different Department locations. This would allow the Department to monitor and manage shipping activity of all users throughout the Department.

Recommendations

We recommend the Division of Administrative Services, in coordination with the Department divisions, explore the use of the FedEx online management portal to establish better control and monitoring over the Department's shipping accounts.

We also recommend the Division of Administrative Services, in coordination with the Department divisions, archive or remove old accounts from the Department's list of expedited shipping accounts.

Management Response

The Division of Administrative Services agrees with the above recommendations.

¹ Multiple accounts may be tied to the same address in instances where offices share a location.

The Office of Support Services is now using the online management portal as an additional tool to review weekly invoices managed by the Office of Support Services, and agrees that this approach could likely transfer to other divisions' use of their FedEx accounts, and that account control is required.

The Office of Support Services has begun working with FedEx on identifying very old accounts that could be summarily deleted and will continue to work with FedEx to remove all old and inactive accounts.

Shipping Guidelines

Finding No. 2: Guidelines promoting efficient use of expedited shipping would enhance mail management.

The Department's Purchasing and Contract Manual states that state agencies may purchase only items necessary to carry out statutory duties and should select such items on an economically prudent and cost-effective basis, not to satisfy the personal convenience or personal preference of individuals.

We reviewed invoices from FedEx and UPS for reasonableness, and to identify inefficiencies in shipping practices. Our review of 150 invoices noted the following patterns and inefficiencies:

- Certain Department members/offices repeatedly selected FedEx Express Standard Overnight for all shipments instead of choosing the most economical shipping method based on the item being shipped;
- Certain Department members/offices always used FedEx Express instead of the more cost-conscious FedEx Ground; and
- The Department was charged residential delivery fees for addresses that were business or commercial locations.

During interviews with Department members, interviewees indicated they try to be cost-conscious when evaluating shipping options, however they also indicated they did not know the Department's stance on preferred shipping practices.

Recommendation

We recommend the Division of Administrative Services communicate shipping guidelines, including ways to select cost-conscious shipping options, appropriate uses for expedited shipping services, and alternative methods to expedited shipping, to Department members.

Management Response

The Division of Administrative Services agrees with the above recommendations and will begin the process of developing agency-wide expedited shipping guidelines by meeting with each division beginning in January 2019. Guideline development should be completed by May 1, 2019.

Monitoring

Finding No. 3: Improvements to the monitoring process could help deter and prevent abuse of expedited shipping services.

The Department's Purchasing and Contracts manual states invoices requiring continuous monthly or periodic payments for routine contractual services such as collection or parcel delivery service, shall be approved by the contract manager or designee. The contract manager will also certify the receipt of such services.

Several areas within the Department receive invoices for shipments that were made using their respective FedEx or UPS accounts. The member receiving the invoice is responsible for verifying the transactions listed on the invoice. During interviews with Department members, some members indicated they review the invoice to ensure the Department was charged accurately, while other members stated they only scan the invoice for particularly high charges. No members interviewed indicated they review invoices to determine whether items shipped were for a valid business purpose, or review for unnecessary use of expedited services.

Additionally, in some instances the same member is receiving, reviewing, and approving the invoice for payment prior to submission to the Bureau of Accounting. Currently, there is no required supervisory review or approval of invoices prior to submission to the Bureau of Accounting for payment. While the Bureau of Accounting is the final invoice reviewer prior to issuing payment to the vendor, Accounting staff are only comparing invoiced amounts with the purchase order amount to make sure the charges are within budget and are not able to determine whether shipments were legitimate.

Without adequate oversight and monitoring activities, the Department may not have reasonable assurance of who is using expedited shipping, for what purposes and to what extent. Without a monitoring process in place to provide accountability, there is little incentive to use expedited shipping services efficiently and greater risk that services will be abused.

Recommendations

We recommend the Division of Administrative Services communicate guidelines for reviewing and reconciling expedited shipping transactions and invoices to Department members.

We recommend the Division of Administrative Services explore the use of the FedEx online management portal to provide periodic reports of shipping activity to divisions to establish better monitoring over shipping costs.

Management Response

The Division of Administrative Services agrees with the above recommendations and will include best-practices related to invoice reconciliation in the guideline development process referenced in response to Finding 2. The Division of Administrative Services will also explore the feasibility of requiring other divisions to use the FedEx online management portal and the reporting capabilities of this application.

Purpose, Scope, and Methodology

The objective of this audit was to review the Department's use of expedited shipping to determine if it is being used in the most economic manner.

The scope of this audit included expedited shipping transactions and associated processes during the 2017-18 Fiscal Year.

The methodology included:

- Reviewing applicable Federal Statutes, Florida Statutes, and Florida Administrative Code;
- Reviewing applicable Department policies and procedures;
- Reviewing the process for using expedited shipping services;
- Reviewing the Department's use and controls over expedited shipping account numbers;
- Reviewing the monitoring process and how shipping transactions are reviewed and reconciled;
- Reviewing a sample of invoices for reasonableness, frequency of additional charges, and possible inefficiencies in shipping methods; and
- Interviewing Department members.

Distribution, Statement of Accordance, and Project Team

Distribution

Terry L. Rhodes, Executive Director
Jennifer Langston, Acting Chief of Staff
Lisa Bassett, Division of Administrative Services Chief Administrative Officer

Melinda M. Miguel, Chief Inspector General
Sherrill F. Norman, Auditor General

Statement of Accordance

Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Kim Butler, Auditor
Erin Mook, Auditor

Under the supervision of:
David Ulewicz, Audit Director

Approved by:


David Ulewicz, Acting Inspector General

ATTACHMENT - Management Response




Terry L. Rhodes
Executive Director


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MEMORANDUM

DATE: January 7, 2019

TO: David Ulewicz, Audit Director

THROUGH: Jennifer Langston, Acting Chief of Staff 

FROM: Lisa M. Bassett, Chief Administrative Officer, Division of Administrative Services 

SUBJECT: Management Response to the Expedited Shipping Audit (201819-04)

The Division of Administrative Services hereby submits the following audit response to the findings and recommendations presented in the above-referenced report.

Finding 1—Account Controls

Controls over shipping account numbers should be improved.

Recommendations

We recommend the Division of Administrative Services, in coordination with the Department Divisions, explore the use of the FedEx online management portal to establish better control and monitoring over the Department's shipping accounts.

We also recommend the Division of Administrative Services, in coordination with the Department Divisions, archive or remove old accounts from the Department's list of expedited shipping accounts.

Management Response

We agree with the above recommendations.

This audit was requested by the Division of Administrative Services (DAS) as part of the Department's annual risk assessment exercise. In reviewing the single FedEx account that DAS's Office of Support Services (OSS) oversees and manages, OSS members had identified instances where department members in many divisions consistently utilized the most expensive

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shipping options as a matter of course, even for regularly scheduled routine (i.e., non-urgent) weekly or monthly shipments.

As shipping practices vary from division to division and are not addressed in any current department guidelines or procedures, DAS representatives began meeting with members of different divisions earlier this year to discuss "best use" of expedited shipping services, including shipping by the most economical means. In addition, OSS staff also began reviewing weekly invoices with division members identified as "repeat shippers," discussing account usage and available shipping methods with these individuals. Some cost control is now occurring, however, in order to implement improvements and controls department-wide, we recognized that a standardized, and somewhat centralized, approach was going to be required.

In anticipation, earlier this year OSS contacted FedEx and met with FedEx state contract representatives to discuss cost and usage concerns, including account controls. This resulted in OSS requesting information about the FedEx online management portal mentioned in the above finding. OSS is now utilizing the portal as an additional tool by which to review the weekly FedEx invoices managed by OSS. Improper account charges are being addressed via the portal and once FedEx agrees to credit these charges, the respective invoice is manually corrected and uploaded to MyFloridaMarketPlace (MFMP).

We agree that this approach could likely transfer to other divisions' use of their FedEx accounts. We also agree that account control is required. This topic was extensively discussed during the meetings OSS held earlier this year with the FedEx account representatives. FedEx produced a report showing several hundred shipping accounts opened by department employees over the past several years, many of which have been inactive for some time.

According to FedEx, in order for an office to ship or receive a package, an account must be opened and active. These accounts, even when inactive for months or even years, are not typically closed. FedEx explained that accounts are left in place in the event a package will eventually need to be sent/received by the account. According to FedEx representatives, state agencies often have several hundred FedEx accounts, including accounts that are inactive.

We agree with the audit finding that old and obsolete accounts should be removed. OSS had begun working with FedEx earlier this year on identifying very old accounts that could be summarily deleted and will work with FedEx to begin removing all old and inactive accounts. We will request review and input from the respective division prior to removal/cancellation of an account.

Finding 2—Shipping Guidelines

Guidelines promoting efficient use of expedited shipping would enhance mail management.

Recommendations

We recommend the Division of Administrative Services communicate shipping guidelines, including ways to select cost-conscious shipping options, appropriate uses for expedited shipping services, and alternative methods to expedited shipping, to Department members.

Management Response

We agree with the above recommendation.

As noted in the audit report, there is currently no single office/bureau responsible for setting policy or procedure in regard to expedited shipping usage. DAS manages one FedEx shipping account (a second shipping account is held with UPS) out of the 337 department-wide accounts currently open.

As indicated in the response to Finding 1, DAS noted that in regard to the FedEx account it manages, there was a stark inconsistency in the shipping practices exercised by members from all divisions regarding their shipping option usage – some utilized the most economical shipping means, saving priority and other overnight shipping for more urgent shipments, and others utilized priority and other overnight delivery methods as a matter of course. Some members consistently required personal signatures from delivery recipients (at an added cost), others did not require signatures for deliveries to the same individual or office. OSS personnel began working with divisions that utilize the DAS-managed shipping account number to promote use of more economical shipping options earlier this year.

Standardized guidance would contribute significantly to promotion of good mail management practices. DAS will begin the process of developing agency-wide expedited shipping guidelines by meeting with each division beginning in January 2019. Guideline development should be completed by May 1, 2019.

Finding 3—Monitoring

Improvements to the monitoring process could help deter and prevent abuse of expedited shipping services.

Recommendations

We recommend the Division of Administrative Services communicate guidelines for reviewing and reconciling expedited shipping transactions and invoices to Department members.

We recommend the Division of Administrative Services explore the use of the FedEx online management portal to provide periodic reports of shipping activity to the Department Divisions to establish better monitoring over shipping costs.

Management Response

We agree with the above recommendations.

DAS will include best-practices related to invoice reconciliation in the guideline development process referenced in response to Finding 2. DAS will also explore the feasibility of requiring other divisions to use the FedEx online management portal and the reporting capabilities of this application.