

The Library of Congress
Office of the Inspector General



Integrated Support Services
Library Services
Congressional Research Service

*Lack of an Inventory System and
Ineffective Processes Contribute to
Inefficient Warehousing Operations*

Audit Report No. 2004-PA-103

March 2005





UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

TO: James H. Billington
Librarian of Congress

March 31, 2005

FROM: Karl W. Schornagel
Inspector General

A handwritten signature in black ink, appearing to read "Karl W. Schornagel".

SUBJECT: *Inventory and Equipment Management: Lack of an Inventory System
And Ineffective Processes Contribute to Inefficient Warehousing Operations*
Final Audit report No. 2004-PA-103

This transmits our final audit report on inventory and equipment management prepared by the Office of the Inspector General, Office of the Librarian. The Executive Summary begins on page *i*, and complete findings and recommendations appear on pages 5 to 11. All recommendations apply to Integrated Support Services. Recommendations I.3 and I.4 also apply to the Preservation Directorate and Congressional Research Service.

The responses to the draft report of Integrated Support Services, Library Services, and the Congressional Research Service are briefly summarized in the Executive Summary and in more detail after individual recommendations. Their complete responses are attached as Appendices I through III.

Based upon responses to the draft report, we consider recommendations I.1, I.3, I.4, and II resolved. Accordingly, Integrated Support Services' action plan should address recommendations I.2 and III in accordance with LCR 1519-1, Section 4B.

We appreciate the cooperation and courtesies extended by personnel from Integrated Support Services, Preservation Directorate, and Congressional Research Service during the audit.

cc: Deputy Librarian
Director, Integrated Support Services
Associate Librarian, Library Services
Director, Congressional Research Service

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	i
INTRODUCTION.....	1
BACKGROUND.....	2
OBJECTIVES, SCOPE, AND METHODOLOGY.....	2
FINDINGS AND RECOMMENDATIONS.....	5
I. ISS Lacks an Inventory Management System and Warehousing Operations Are Not Effectively Managed and Coordinated.....	5
A. ISS Needs an Inventory Management System and Improved Warehousing Policies, Procedures, and Oversight.....	5
B. Service Units Need Better Tracking, Planning, Coordination, and Communication with ISS’s Logistics Section to Reduce Unneeded Inventory.....	7
Recommendations.....	8
Management Response and OIG Comments.....	8
II. In-House Office Supply Operation May Not Be Cost Effective.....	9
Recommendation.....	9
Management Response and OIG Comments.....	9
III. The Library Could Potentially Increase Its Paper Recycling Revenues.....	10
Recommendation.....	10
Management Response and OIG Comments.....	11
APPENDICES	
Response from Integrated Support Services.....	12
Response from Library Services.....	18
Response from Congressional Research Service.....	20

EXECUTIVE SUMMARY

The Logistics Section, Integrated Support Services (ISS), is responsible for the receipt, storage, delivery, and disposal of over 100,000 line items of Library inventory¹ valued at over \$325 million. The Library leases a 216,500 square foot warehouse in Landover, MD for \$1,275,185 annually or \$5.89 per square foot. ISS's warehousing operation occupies 85,000 square feet of the Landover facility. The remaining space is used for the Library's collections such as motion pictures, music, serials, manuscripts, and copyright deposits. A portion of the space has also been designated as an emergency operations headquarters.

The objective of our audit was to assess the economy and efficiency of warehousing operations. We performed a limited evaluation of the Supply Store located in the Landover warehouse to determine the cost effectiveness of supplying popular items internally. In addition, we reviewed the Library's paper recycling program. The audit included an evaluation of Library-wide policies, procedures, and internal controls related to inventory management process for FY 2003.

We found that the Library's inventory function, and supply and paper recycling programs could benefit from efficiency improvements. The lack of an inventory management system, and adequate policies and procedures has resulted in at least \$1.5 million in excess and obsolete inventory.² Had we been able to identify the historical cost of almost 2,500 additional old inventory items, the amount of the inefficiency may be significantly higher. Service units contributed to the inefficiency by not coordinating inventory needs with ISS. ISS provides an in-house supply store; however, it may not be cost effective. Additionally, the Library could receive additional revenues from its paper recycling program if recyclable paper was properly sorted. Our findings and recommendations are summarized as follows.

ISS Lacks an Inventory and Management System and Warehousing Operations Are Not Effectively Managed and Coordinated

There are no policies or procedures requiring communication and coordination between the service units and ISS regarding inventory control. Thus, the process of acquiring, storing, and disposing of inventory has resulted in at least \$1.5 million of excess and obsolete inventory being held in the Landover warehouse.

The Office of Compliance issued a citation to the Library for fire code violations for having inventory in the aisles due to overcrowding. The Preservation Directorate contracted for more

¹ For purposes of this report, inventory includes equipment and supplies and consists of assets that are capitalized, but not depreciated for financial reporting purposes (i.e. computers, carpet, and books); equipment costing \$25,000 or more, and with a useful life in excess of three years that is depreciated over its useful life and capitalized on the financial statements; and supplies that are expensed immediately (i.e. paper, pencils, etc.).

² Excess inventory refers to items that are not required to meet the agency's need or responsibilities during the current operating cycle. Obsolete inventory refers to items that are no longer needed due to changes in technology, laws, customs, or operations.

warehouse space in California and Maryland. The additional space would not be needed if the Landover facility were used more effectively. We determined that about 20 percent of the warehouse space for inventory is wasted through inefficient use. Warehouse usage in Landover was a factor in determining requirements for the new warehouse at Ft. Meade, MD anticipated in 2010. Accordingly, ISS needs to reconsider the Ft. Meade, MD warehouse space requirements.

Our report recommends that ISS acquire or develop an inventory management system and develop, in conjunction with the service units, policies and procedures for communicating and coordinating the acquisition, storage, and disposal of inventory, and reconsider Ft. Meade, MD, warehouse space needs. Library Services agreed with our recommendation. ISS agreed with three out of four of our recommendations. ISS disagreed with our recommendation that it should re-evaluate its space needs for the future warehouse planned at Fort Meade, MD. We still believe that a requirements analysis is necessary to document how ISS arrived at the square footage requested for the new warehouse.

In-House Office Supply Store May Not Be Cost Effective

The ISS Logistics Section manages a reimbursable office supply operation from the Landover warehouse that buys commonly used office supplies in bulk to take advantage of volume discounts. The Supply Store costs the Library approximately \$142,759 annually in space and personnel costs. Based on our analysis of five popular Supply Store items and the cost of the space and personnel, the Library is losing approximately \$30,922 annually to keep the items on hand. Our report recommends that ISS Logistics Section conduct a study to determine whether it is cost effective to continue operating the Supply Store. Our report also recommends that the study should explore increasing the use of credit cards and establishing Indefinite Delivery Contracts with vendors. ISS agreed with our recommendation that it conduct a study.

The Library Could Potentially Increase Its Paper Recycling Revenues

Library personnel at the Madison building prepares the paperwork that shows the different categories of used paper sold to a General Services Administration (GSA) contractor for recycling. However, the contractor is consistently downgrading the quality of the paper because Library employees are contaminating the higher-grade paper. Library personnel responsible for oversight do not reconcile the paperwork that would show the contamination and resulting lower sales price. As a result, the Library is not maximizing the amount of revenues that could be derived from the paper recycling program.

Our report recommends that the recycling program committee inform Library personnel about recycling paper categories to maximize the amount of revenues being derived from the program. Additionally, the reports recommend that ISS management monitor and reconcile information appearing on the reports of recyclable activity from GSA to our internal reports to identify incidents where the Library's paper is downgraded. ISS agreed with our recommendation that it should inform Library personnel about recycling paper categories. ISS disagreed with our recommendation that it should monitor and reconcile information appearing on the reports of recyclable activity from GSA to our internal reports.

INTRODUCTION

This report represents the results of our audit of the Library's inventory management program. The Logistics Section, administratively under Integrated Support Services (ISS), is responsible for the Library's inventory management program. The Logistics Section's receiving and warehousing operations staff is responsible for the receipt, storage, and delivery of over 90 percent of the inventory destined for the Library's Capitol Hill buildings, as well as the pick-up and disposal of surplus property. Equipment or property that is deemed no longer useful is normally disposed of through donations to states, other federal agencies, schools, and other places of learning. In FY 2003, ISS staff picked up over 27,412 items of furniture and equipment, an increase of 130 percent over the number of items transported in FY 2002. The Logistics Section also manages a reimbursable office supply operation for the Library that buys commonly used office supplies in bulk to take advantage of volume discounts.

The inventory management process involves several different functional areas within the Library. Service units initiate the process by preparing purchase requisitions that are forwarded to the Contracting Office using the Procurement Desktop automated system (via the Momentum system beginning October 1, 2004). The Contracting Office selects a vendor using the appropriate procurement method and prepares a purchase order. The purchase order is sent to the vendor by either e-mail, fax, or traditional mail. However, because there is no inventory management system in place, the warehousing and receiving personnel are not aware of what they will be receiving from the vendors. Warehousing and receiving personnel receive equipment and supplies from vendors and store it until requested by the service unit. Locating inventory in the warehouse is based on memory.

Service units obtain commonly used office supplies by requisitioning from the Supply Store located in the Landover warehouse. Supply Store staff fill orders and the supplies are delivered to the service unit the following day by the receiving and warehousing operations staff. These services are accomplished using a staff of twelve persons including two truck drivers, three supply store clerks, and seven receiving and warehousing personnel. Currently, there is one delivery to the Library's Capitol Hill buildings each day by each truck driver. However, in the case of a special deliver an additional delivery is added. The service unit is charged for the office supplies, and the Supply Store fund is reimbursed when the monthly transaction report is submitted to the Chief Financial Officer.

ISS is also responsible for the Library's paper recycling program and uses a recycling contractor under a government-wide General Services Administration contract. Currently, ISS has no documented policies and procedures for the recycling program. However, the basic framework for the recycling program was documented and has been forwarded to the Executive Committee for approval.

BACKGROUND

In 1976 the Library leased a 216,500 square foot warehouse and light industrial facility in Landover, MD. The space is under lease until January 31, 2006 with a five-year option period. The Logistics Section manages 85,000 square feet of the Landover warehouse for receiving, storing, and disposing of inventory for the Library's service units. The remaining space is used for the Library's collections such as motion pictures, music, serials, manuscripts, and copyright deposits. A portion of the space has also been designated as an emergency operations headquarters for Library senior management.

Inventory is stored at the Landover warehouse until delivered to the Library's three Capitol Hill buildings. Normally, inventory is stored for a relatively short period; however, the service units do not request some of these items, and as a result, over the years the Landover warehouse has become full to capacity. Most of this inventory belongs to the Preservation Directorate (Library Services), Facility Design and Construction (ISS), the Congressional Research Service, and the Publishing Office (Library Services).

In April 2003, the Office of Compliance issued a citation to the Library for fire code violations related to inventory obstructing the aisle ways in the warehouse. The citation resolution deadline to correct the problem was December 31, 2003. In September 2003, ISS Director sent an e-mail to Library Services and Preservation advising that the warehouse could not accept any additional inventory from the vendor, Metal Edge, and requested Library Services work with the Logistics Section to clear out some of the old inventory. The Preservation Directorate maintains preservation inventory for all of the service unit's projects, and therefore, contracted for two additional warehouse sites in Los Angeles, California and Jessup, MD.

The Library plans to request funding in its FY 2007 budget for a new 166,000 square foot warehouse to be built at Ft. Meade, MD. The new warehouse will contain approximately 110,000 square feet of storage space, 15,000 square feet for 85 work stations in an alternative operating facility, and 41,000 square feet for receiving and administrative operations. ISS anticipates that the Landover warehouse will be phased out in FY 2010.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of our audit was to assess the economy and efficiency of the Library's inventory management program. We tested controls to determine whether: (1) inventory was acquired, stored, and disposed of in accordance with applicable laws and regulations; (2) the Supply Store was cost effective; and (3) the paper recycling program was being run in accordance with Library policies and procedures. Our review of Supply Store cost effectiveness was limited to testing five high turnover items.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States, and Library of Congress Regulation (LCR) 1519-1, *Audits and Reviews by the Office of Inspector General*, October 18, 1999. Our audit covered activities for FY 2003. Our fieldwork was performed from December 2003 to July

2004. A substantial portion of the audit fieldwork was conducted at the warehouse in Landover, MD.

Statistical sampling was used in determining testing for compliance with certain policies and procedures involved in the inventory management acquisition process.³ We tested the acquisition of inventory to determine whether:

- purchase orders were properly authorized and approved;
- only authorized and approved items were ordered;
- only authorized and approved items were received;
- differences between items ordered and received were promptly resolved; and
- transactions were properly recorded.

Specific steps taken to accomplish our objectives included:

- reviewing and evaluating policies and procedures;
- interviewing key personnel in ISS, the Contracting Office, and Office of the Chief Financial Officer;
- analyzing the acquisition process for inventory;
- analyzing the supply and storage process for inventory;
- analyzing the disposal of inventory; and
- reviewing and evaluating the Library's Recycling Program.

We evaluated Library written procedures and actual practices against criteria documented in LCRs and General Accountability Office guidance. Specific laws and regulations used to evaluate audit evidence included:

- LCR 1614-1, Responsibility for Maintenance and Issuance of Supplies;
- LCR 1614-2, Acquisition of Supplies and Services;
- LCR 1615-1, Inventory Control of Equipment and Furniture Owned or Leased by the Library of Congress;
- LCR 1617, Assignment and Inspection of Government-owned or Furnished Property;
- LCR 1619, Uniforms and Protective Clothing and Equipment;
- 2 U.S.C. 1341 (a), 1341 (c) and 1341 (d), Congressional Accountability Act;
- Public Law 108-7, Consolidated Appropriations Act of 2004;
- GSA Order, ADM 4800.2E;
- 29 C.F.R. Parts 1900 – 2400, Office of Safety and Health Administration and Department of Labor;
- 41 C.F.R. Chapter 101, Replacement of Property Pursuant to the Exchange/Sale Authority;

³ The total number of purchase orders issued in fiscal year 2003 was 4,670. Inventory costing \$2,500 and above is capitalized for internal accounting purposes; \$25,000 and above is capitalized and included in the Library's financial statements. There were 631 purchase orders that were issued for \$2,500 and above. We used the 631 purchase orders as our audit universe. We drew a statistical sample using an error rate of 3 percent and a 90 percent confidence level. The resulting sample size was 45 transactions.

- Federal Property Management Regulations;
- 41 C.F.R. 102 – 38.180, Sale of Personal Property;
- 41 C.F.R. 102 – 36.35 ©, Disposition of Excess Personal Property;
- Joint Financial Management Improvement Program’s Inventory, Supplies, and Materials System Requirements; and
- *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), November 1999.

We held an exit conference with the ISS Director on July 7, 2004. She generally agreed with the findings and recommendations. We held an exit conference with the Director and managers of the Preservation Directorate on July 9, 2004. The Preservation Director and managers generally agreed with our findings and recommendations.

FINDINGS AND RECOMMENDATIONS

Overall, we found deficiencies throughout the inventory management program resulting in approximately \$1,461,913 of identifiable excess and obsolete inventory. The cost would be significantly higher if we were able to determine the historical cost of almost 2,500 additional old inventory items. Adequate policies, procedures, and oversight could improve the operation of inventory management and warehousing operations. Acquisition or development of an adequate inventory management system would allow the Library's Logistics Section to better manage the process and eliminate unneeded and unnecessary inventory in the Landover warehouse. Also, the Library could possibly realize savings/cost efficiencies by analyzing the operation of the Supply Store. Additionally, the Library could further increase revenues from its paper recycling program through increased management oversight.

I. ISS Lacks an Inventory and Management System and Warehousing Operations Are Not Effectively Managed and Coordinated

The Library needs to acquire or develop an inventory management system that ensures control over the following core critical processes: (1) acquisition, (2) warehousing, and (3) disposition of inventory. The lack of an adequate inventory management system has resulted in inefficient use and excessive cost in operating the Landover warehousing operation. Both ISS's Logistics Section and service units are responsible for the inefficiency. ISS does not perform an annual inventory of inventory and equipment items that cost less than \$25,000 and no perpetual records are kept. This has resulted in the Library leasing more space than needed and incurring unnecessary costs for excess, obsolete, and slow moving inventory. Given the efficiencies that can be achieved in warehousing operations, ISS should reevaluate its space requirements for the future warehouse to be located at Ft. Meade, MD.

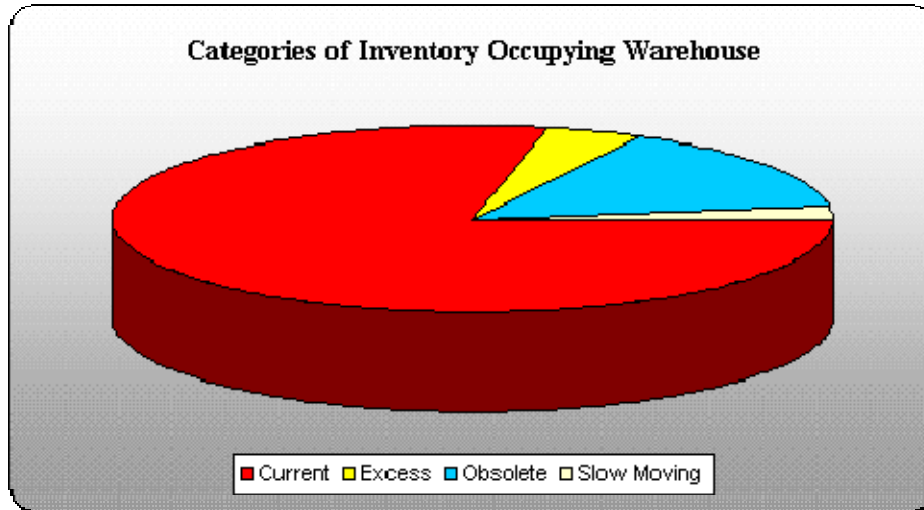
A. ISS Needs an Inventory and Management System and Improved Warehousing Policies, Procedures, and Oversight

ISS's ineffective inventory operation and lack of policies and procedures have negatively affected warehousing efficiency. There is no inventory management system in place. Receiving and warehousing personnel receive and store inventory, then deliver items to the service units when requested. However, there is no mechanism of tracking the quantities of the various inventory stored in the Landover warehouse, and therefore, ISS cannot advise the service units of what they have on hand.

The policies and procedures regarding inventory control have not been updated since October 1985. In 1985, inventory with an acquisition cost in excess of \$300 was added to the serialized inventory records. Currently, inventory costing in excess of \$2,500 should be added to serialized inventory records; however, no records are kept. Only inventory with an acquisition cost in excess of \$25,000 is inventoried annually and capitalized for financial statement purposes. In 1985, annual inventories were conducted and certified by the service units. The annual inventory results currently are not shared with the service units.

There are no policies and procedures in place to effectively manage the acquisition, storage, and disposition of inventory. As a result, there is furniture stored in Landover warehouse that has been there since 1983. Excess, obsolete, and slow moving inventory⁴ occupies approximately 20 percent of the Landover warehouse as shown in figure 1. The annual lease cost of this space is \$108,612.

Figure 1. Landover, MD Warehouse Contents



\$108,612.00 (for purposes of this chart “other” represents current inventory).

The *Joint Financial Management Improvement Program's*⁵ *Inventory, Supplies and Materials Systems Requirements*, states that managers should seek to minimize inventory, supplies, and materials levels using economic order quantity or other acceptable methods. The primary means of doing so are working closely with: (1) customers to determine accurate long-term demand forecasts, and (2) vendors to ensure accurate forecasts of delivery time by shortening lead-time and using other “just-in-time” techniques. It also states that Federal inventory and related systems should encompass the processes, policies, and procedures needed to obtain, control, account for, and dispose of inventory, supplies, and materials effectively. The criteria further states that the storing process should provide the ability to identify historically slow periods of operation when there is little movement of inventory, supplies, and materials.

⁴ Slow moving inventory represents inventory being carried for more than one operating or accounting cycle. We included only the cost of the space occupied by the slow moving inventory in our analysis.

⁵ JFMIP is a joint and cooperative undertaking of the U.S. Department of the Treasury, the General Accountability Office, the Office of Management and Budget, and the Office of Personnel Management working in cooperation with each other and other agencies to improve financial management practices in government. The Program was given statutory authorization in the Budget and Accounting Procedures Act of 1950 (31 USC 65). Effective December 1, 2004, the JFMIP Program Management Office, which certifies financial management software, reports to a new Chief Financial Officers Council (CFOC) committee chaired by the Chief of OMB's Office of Federal Financial Management (OFFM), Federal Financial Systems Branch. Other JFMIP functions will be assumed by OFFM, the Office of Personnel Management, and the CFOC.

The excessive, obsolete, and slow moving inventory can be attributed to management changing priorities regarding the timing of certain projects, lack of communication and coordination between the service units and ISS’s Logistics Section, and lack of management oversight. An inspection of the Landover warehouse following the completion of audit fieldwork disclosed that ISS and the service units have made significant progress in eliminating the excess, obsolete, and slow moving inventory.

B. Service Units Need Better Tracking, Planning, Coordination, and Communication with ISS’s Logistics Section to Reduce Unneeded Inventory

There are no policies and procedures for communicating and coordinating inventory information between the service units and ISS’s Logistics Section. There is also no communication and coordination between the service units and the Logistics Section regarding project lead times and inventory needs determination. Based upon its annual usage, the Preservation Directorate has 3.69 years of inventory on hand at the Landover warehouse and in storage in California.

The warehouse currently being leased in California would not be needed if there were better communication and coordination about existing inventory. The total cost of the space and inventory in California is \$29,220 and \$647,791, respectively. The Preservation Directorate needs to work more closely with other service units to determine inventory needs more accurately. However, the overwhelming majority of the obsolete inventory belongs to ISS’s Facility Design and Construction unit. Some of this inventory (i.e. carpet) has been in the warehouse since 1988. The Congressional Research Service has more than 25 years of inventory of “Inquiry Section Worksheets.” CRS requests approximately 20 boxes, three times a year from this inventory, which has been in the Landover warehouse for over 10 years.

The total cost for the excess and obsolete inventory on hand is at least \$1,461,913. The cost is understated because an additional 1,700 items were so old that we could not determine the historical cost. Also, Facility Design and Construction staff provided estimated costs for approximately 770 items between \$70 and \$1,300 each that we did not include. Additionally, we did not include costs for the slow moving inventory because most of these items have been in the warehouse in excess of 10 years, and we could not determine historical cost.

FUNDS TO BE PUT TO BETTER USE	
Inventory/Space	Cost
Excess Inventory	\$ 912,271
Obsolete Inventory	549,642
Total Cost of Inventory	1,461,913
Leased Space in California ⁶	29,220
Total Cost	\$1,491,133

In the past, the service units have not properly planned project lead times to avoid holding inventory an excessive amount of time. The Preservation Directorate has developed a Microsoft

⁶ We did not include the cost of the leased space for Jessup, MD because it was not occupied at the time of our audit. Lease payments do not begin until the space is occupied.

Access database to help support gathering and consolidating division requests. The database also assists in the tracking of orders, testing of materials, payment of invoices, and monitoring inventory levels. They have been using the Microsoft Access database since November 2001. ISS's Logistics Section does not have a tracking and inventory reporting system so they could not advise the service units on the type and amount of inventory on hand, and therefore, new orders were placed each year to replenish stock thinking that old stock would be exhausted.

Recommendations

1. ISS's Logistics Section acquire or develop an inventory management system, and update and document policies and procedures for the inventory management process.
2. ISS's Logistics Section needs to re-evaluate its space needs for the future warehouse planned at Ft. Meade, MD.
3. ISS's Logistics Section in conjunction with service units should develop policies and procedures for communicating and coordinating the acquisition, storage, and disposition of inventory.
4. ISS's Logistics Section and service units should to continue to eliminate the obsolete inventory in the Landover warehouse as soon as possible.

Management Response and OIG Comments

ISS agreed with three out of the four recommendations. ISS disagreed with our recommendation that it needs to re-evaluate its space needs for the future warehouse planned at Fort Meade, MD. ISS's Logistics Section indicated that the reduction of excess, obsolete and slow-moving inventory has freed storage space at the warehouse in Landover, MD. However, this space will be utilized for inventory already warehoused in old facilities at Fort Meade, MD, and other items currently occupying valuable space at the Library's Capitol Hill buildings; new incoming inventory; new storage needs such as records from Iron Mountain; and provide space for unanticipated storage needs. We reaffirm our recommendation that ISS re-evaluate its space needs for the planned warehouse at Fort Meade, MD. ISS informed us of what the additional space will be used for, however, we were not provided with a detailed requirements plan. ISS and Preservation have made substantial progress in eliminating excess and obsolete inventory, and may have freed up more than the 20 percent of space occupied by this inventory. We believe that ISS should perform a requirement analysis including such factors as actual space currently occupied, the impact of its new policies and procedures, and the service units anticipated space needs, and document how the total square footage for the new warehouse was derived.

The Preservation Directorate generally agreed with our recommendation. It indicated that it orders and undertakes quality control tests of supplies, arranges for their delivery and payment, and notifies the custodial divisions of their availability. The Preservation Directorate cannot compel divisions to use supplies they order. Preservation is in the process of implementing a new ordering system that requires custodial divisions to name projects which will allow them to better review, track, and advise on custodial division resources (time, personnel, and supplies) needed for projects. This will hopefully assist them in eliminating excess inventory. The

Congressional Research Service agreed with our recommendations.

II. In-House Office Supply Operation May Not Be Cost Effective

Supply Store space and personnel costs at the Landover facility are approximately \$142,759 annually. Although our analysis disclosed that the Library does achieve some cost savings by buying in volume, the store lost money on the five items we tested; and therefore, may be losing a significant amount of money on the other 303 items stocked. We selected the five office supply items (file folders, shipping bags, ring binders, filing jackets, and presentation binders) that were the most requisitioned by service units. These five office supply items also occupied the most space in the Supply Store at the Landover warehouse. We compared the Library's cost of the five items to the cost of purchasing them from an office supply store (Staples and Office Depot). Based on our analysis, the Library is losing approximately \$30,922 annually to keep these five inventory items on hand.

The Supply Store has significantly reduced the number of items on hand; there were originally over 500 items stocked. Service units use the Supply Store because it is convenient, and because they are reluctant to use their credit cards to purchase office supplies directly from commercial outlets. ISS advised that purchase card orders often arrive at the warehouse without a specific office identification address or credit card information; and therefore, the supplies are never delivered to the ordering office.

According to the General Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, one of the integral components of an organization's management is to provide reasonable assurance that the objective regarding the effectiveness and efficiency of operations is achieved. In addition, House Report 108-577 that accompanied the Legislative Branch Appropriations Act for FY 2005 directs GAO to work closely with the head of each Legislative Branch entity to implement management changes that will increase efficiency and effectiveness of agency operations. Best practices in government and private industry dictate that management should always be looking for ways to enhance and increase efficiency and effectiveness of agency operations.

Recommendation

ISS should continue its study to determine whether it is reasonable to continue to operate the Supply Store. The study should explore increasing the use of credit card purchases and establishing Indefinite Delivery Contracts with vendors.

Management Response and OIG Comments

ISS agreed with our recommendation, and has conducted a recent survey and analysis of its Supply Store customers/service units. It indicated that the majority of its customers responded positively, and want the Supply Store to continue. Based on the survey results, Supply store inventory was rearranged and stock on hand reduced by 50 percent. ISS plans to monitor the Supply Store's operation on an on-going basis. ISS disagreed with our recommendation regarding exploring the increased use of credit cards for purchases, and indicated that while the

use of credits cards may seem convenient, there are hidden costs associated with their use. According to ISS, the Landover warehouse receives many deliveries that are the result of credit card purchases. However, these deliveries are often lacking the proper address causing ISS staff to spend valuable time trying to identify the proper ordering service unit/office. We reaffirm our recommendation that the study should explore increasing the use of credit cards. The potential savings from lower transaction costs of using credit cards rather than purchase orders, and potential vendor discounts could out weigh the administrative costs for ISS staff locating orders. Service units should be required to provide all contact information (including delivery addresses) before the purchase is authorized and approved.

III. The Library Could Potentially Increase Its Paper Recycling Revenues

The General Services Administration (GSA) contractor that picks up the Library's recyclable paper (510 tons in FY 2004) is consistently downgrading the quality of it because it is contaminated with lower graded paper. As a result, the Library is receiving less revenue from its recycling program. There are six different categories of paper that the Library recycles to generate revenue and receives from approximately \$135 per ton for Category 1 paper, down to approximately \$45 per ton for Category 6 paper. The paper is being contaminated because personnel throughout the Library are not aware of the different types, qualities, and prices paid for the various grades, and inadvertently commingle the grades. The Library is given credit only for the lowest grade paper.

In addition, the recycling program lacks proper management oversight. Library personnel responsible for oversight do not reconcile the tickets left by the GSA contractor to the report of recycling activity published by GSA and investigate discrepancies; and therefore, do not know that the quality level of recyclable paper is being downgraded. The GSA contractor leaves a "Recyclable Material Delivery Order Ticket" after picking up the recyclable paper at the Library's Madison building loading dock. The recyclable paper is reported in six different categories. From January 7 through November 21, 2003, the contractor downgraded more than half of the 232 Library recycling entries because of contamination.

Sound internal and accounting controls require that subsidiary records be reconciled to control records and discrepancies resolved in a timely manner. According to GAO's *Standards of Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), November 1999, "Internal control should generally be designed to assure that ongoing monitoring occurs during the course of normal operations. It includes regular management and supervisory activities, comparisons, reconciliation, and other actions taken in performing their duties."

Recommendation

The committee with responsibility for the paper recycling program needs to inform Library personnel about recycling categories to maximize the amount of revenues being derived from the program. Additionally, ISS management should monitor and reconcile information appearing on the report of recyclable activity to our internal reports to identify incidents where the Library's paper is downgraded.

Management Response and OIG Comments

ISS agreed with our recommendation that the paper recycling program needs to inform Library personnel about paper recycling categories to maximize the amount of revenues being derived from the program. However, it disagreed with our recommendation that management should monitor and reconcile information appearing on the reports of recyclables activity to internal reports to identify incidents where the Library's paper is being downgraded. ISS indicated it is confident that the vendor's reports are correct, and attributed the downgrading of the Library's recyclable paper to a misunderstanding on the part of a Library loading dock employee regarding the categorization of the tubs of paper provided to the contractor. We reaffirm our recommendation. An adequate system of internal control requires that management reconcile control records to subsidiary records and discrepancies, if any, be researched and resolved in a timely manner.

Major Contributors to This Report

Anita Scala, Assistant Inspector General for IT and Security Audits
Douglas C. McLellan, Auditor

Response from Integrated Support Services

APPENDIX I
(Page 1 of 6)

UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

Memorandum

Integrated Support Services

TO: Karl W. Schornagel
Inspector General

DATE: March 23, 2005

FROM: Mary Levering
Director, Integrated Support Services

RECEIVED

SUBJECT: ISS Comments on Draft Audit Report No. 2004-PA-103

OFFICE OF
INSPECTOR
GENERAL

This is in response to the draft audit report on inventory and equipment management prepared by your office and conveyed with your memo of February 10, 2005. As discussed in meetings with the Office of the Inspector General, ISS had already noted and begun to address the issues identified in the draft report. The attached document provides ISS responses to the audit recommendations I.1, I.2, I.3, I.4, II, and III.

Thank you for the opportunity to provide comments and thank you for your helpful input for improving our Logistics operations.

Attachment: ISS Audit Response

cc w/copy of attachment:

Jim Kopp, Logistics
Quincy Allen, Logistics
Rob Williams, OSS
Associate Librarian for Library Services
Director of Preservation
Director of the Congressional Research Service

File: I:\director\admin\audits\Logistics # 2004-PA-103 cover.wpd

Response from Integrated Support Services

APPENDIX I
(Page 2 of 6)

Integrated Support Services/Logistics response
to Draft Audit Report No. 2004-PA-103
March 23, 2005

Recommendation I.1: ISS's Logistics Section should acquire or develop an inventory management system, and update and document policies and procedures for the inventory management process.

I.1(1) ISS's Logistics Section should acquire or develop an inventory management system.

ISS response: Agree

ISS/Logistics agrees with the need for an automated inventory management system and explored various options during 2003-04. ISS purchased a new off-the-shelf automated inventory management system (Intellitrack) in FY04 with linked, but separate, software components for warehouse and supply management, and for property management. System installation at the Landover Center Annex (LCA) warehouse is in progress.

Once installation of the Intellitrack system is complete, training of staff members in use of the system will begin. The next step will be to input all existing and new incoming inventory into the system in order to maintain a current inventory. Every item will be assigned a bar-code/purchase-order number and location. The system will improve the accuracy of receiving, warehousing of inventory, and retrieval of items for delivery to the services units. ITS has agreed to provide support to assist onsite at LCA with implementation of the system.

I.1(2) ISS's Logistics Section should update and document policies and procedures for the inventory management process.

ISS response: Agree

ISS had already identified the need for documenting the Logistics inventory management processes at the time the Office of the Inspector General initiated Audit No. 2004-PA-103. ISS funded a contract at the end of FY03, and work began during FY04, for a business consultant to write policies and procedures for all Logistics services covering the areas of Property Management, Property Re-utilization, Supply Management, Property Disposals, Recycling, Shipping and Receiving, Warehousing, Administration, and Customer Service. To date, 83 policies have been drafted and more are underway.

Recommendation I.2: ISS's Logistics Section needs to re-evaluate its space needs for the future warehouse planned at Ft. Meade, MD.

ISS response: Disagree

The Landover Center Annex (LCA) provides 85,000 ft² of space for warehouse storage. Significantly improved management at LCA during 2004 of acquisition, storage, and disposition of inventory, coupled with the reduction of excess/obsolete inventory has freed storage space at LCA, which has been utilized by new incoming inventory for storage, for new storage needs such as records storage, and provides available space for unanticipated storage needs without having to store bulk items in aisles in violation of safety regulations. In addition, inventory already warehoused in old facilities at Ft. Meade currently occupies 30,000 ft². These items include historic furniture removed from reading rooms prior to renovation of the Jefferson Building (FACS/FD&C), metal shelving (LS/CALM), and exhibit materials and display cabinets (LS/IPO).

Response from Integrated Support Services

APPENDIX I
(Page 3 of 6)

The new Logistics warehouse at Ft. Meade is designed to provide 112,670 ft² for warehouse storage of property and equipment already on hand at Ft. Meade, shifting of materials from LCA to Ft. Meade, and to accommodate a variety of warehousing requirements associated with the Library's current and growing needs. Appropriate storage space is additionally needed at the new facility to house expensive exhibit cases constructed specifically for IPO that have been stored recently in Capitol Hill buildings in rooms that are now being cleared for proper utilization, e.g., LJ-130, LJ-230, LM-241. Further additional space at Ft. Meade is needed to house official Library records now utilizing valuable space on Capitol Hill, or records that were sent to leased space in Iron Mountain in 2003 to free space such as LM-SB21 for occupation by mail contractors and to house contractors processing Law Library collections. Lastly, some space must be available at Ft. Meade to support unanticipated warehousing needs.

Recommendation I.3: ISS's Logistics Section in conjunction with service units should develop policies and procedures for communicating and coordinating the acquisition, storage, and disposition of inventory.

ISS response: Agree

In the past, SU/SUs, divisions, and offices have usually not communicated in advance to Logistics when warehouse storage would be needed, nor have many of them kept an accurate, up-to-date inventory of what was being received and stored for them at LCA. Also, items were often – and continue to be – “dumped” at LCA without prior notice to Logistics.

The new Acting Asst. Head, Logistics, has been working diligently for the past year together with the former incumbent (now under a personal services contract for part-time advisory assistance after his retirement) to review and reduce inventory at LCA and to manage it more effectively. The acting supervisor has identified SU/SU, division, and office liaisons for inventory management and communicates with them frequently. He invited each liaison to LCA and met with them personally to assist with review of their inventory on hand, identifying what was obsolete and what was still needed. He took steps to dispose of all surplus or excess materials.

Use of the Intellitrack system will also help improve the accuracy of tracking inventory receipt, warehousing, and retrieval of items for subsequent delivery to the service units, divisions, and offices. It can be used to generate a variety of analytical reports and will allow Logistics to give each customer office an on-demand inventory of products on hand. Twice a year, all items in the warehouse will be physically inventoried. The physical inventory will be reconciled to the Intellitrack system and any discrepancies investigated immediately, which will assist in ensuring that reports given to the service units, divisions, and offices are accurate.

ISS/Logistics also worked with the Office of the Chief Financial Officer (OCFO) and Contracts during 2004 in developing the Momentum system to ensure that SU/SUs, divisions, and offices would be required to notify Logistics well in advance of items that will require more than temporary storage in the warehouse so adequate preparations can be made before receipt of shipments. This notification process is expected to be implemented shortly by OCFO.

Response from Integrated Support Services

APPENDIX I
(Page 4 of 6)

Recommendation I.4: Continue to eliminate obsolete inventory at LCA

ISS response: Agree.

SU/SUs should be responsible for managing their own inventory of material and equipment. The responsibility of ISS/Logistics is to receive the previously agreed-upon inventory, store it safely for a reasonable period of time, and deliver it to the right place when it is needed.

During FY04 ISS/Logistics worked extensively to establish regular communication with CRS, Copyright, Library Services (Catalog Distribution Service, Publications Office, and Motion Picture, Broadcasting and Recorded Sound), and ISS/FD&C to eliminate excess and obsolete inventory in the Landover Center Annex (LCA), MD.

With the help of these units, Logistics donated or disposed of more than 75% of the excess inventory in the warehouse, including all furniture, carpeting, books, paper, computers, and so forth. This reduction in the inventory corrected the fire code violations cited by the Office of Compliance in 2003.

I.4 NOTE: ISS wishes to note for the record the unusual circumstances that led to the Library Services, Preservation Directorate, arrangement for temporary storage space in California for large amounts of special preservation supplies. "The warehouse currently being leased in CA would not be needed if there were better communication and coordination about existing inventory." (OIG draft report, p. 7)

In the past few years, LCA has received huge amounts of specialized, bulky storage materials (metal-edged boxes) for the Preservation Directorate. During 2003 alone, the Logistics warehouse received and was storing on racks more than 155 skids of these, plus 25 more skids in the bay on the upper floor level, and 134 skids of new preservation materials that had come in over the previous 4-6 months. Then, in September 2003, without prior notice, another whole tractor-trailer load of boxes arrived at LCA and more unanticipated skids had to be stored. In communication with the Preservation Directorate about these skids, Logistics staff learned – again without prior notice – that \$500,000 worth of materials (2-3 additional tractor-trailer loads – an estimated 65-70 more skids) had just been ordered. LCA could not accept and store these shipments without violating fire codes. The Preservation Directorate was advised that it needed to find its own solution to the problem of temporarily storing these additional materials until space could be made available at LCA. The suggestion was made that the supplier store the boxes and ship them as needed. The Preservation Directorate had incorrectly understood that some storage space was available at the Elkwood storage facility (rented and used by LS/MBRS), but instead, all boxes had to be diverted to LCA.

ISS began working in 2003 with the Music, Prints & Photographs, and Manuscript Divisions (LS) for them to remove excess materials from LCA. At this time, Preservation was also working (June 2003) to better inventory its materials and to develop a method for managing them more effectively. Preservation has also informed Logistics that no new special material will be ordered until their supplies at Landover have been used.

ISS strongly contends that SU/SUs should maintain their own inventory and usage statistics to ensure that no more than a one-year stock of materials/supplies is in storage.

Response from Integrated Support Services

APPENDIX I
(Page 5 of 6)

Recommendation II: ISS should continue its study to determine whether it is reasonable to continue to operate the Supply Store. The study should explore increasing the use of credit card purchases and establishing Indefinite Delivery Contracts with vendors.

II.1 Study whether it is reasonable to continue to operate the Supply Store.

ISS response: Agree

Based on recent surveys and analysis, ISS considers that it is reasonable to continue the Supply Store. During FY04 ISS surveyed Library SU/SU Supply Store customers to assess how it could better meet their needs. The vast majority of respondents responded positively. They want the Library's supply operation to continue to be available and they made many helpful suggestions. Based on survey results, Supply Store inventory was rearranged and stock on hand reduced by 50% (from 500 items originally stocked to less than 300 items stocked). An online catalog was developed in September 2004 and is available on the ISS website to make it easier for all SU/SU customers to shop for basic, frequently used office supplies. The catalog prices are updated electronically two to three times a month.

In May of 2004 Logistics assigned an acting team leader to more closely oversee the supply operation. ISS/Logistics staff are now in steady communication with its customers regarding potentially new items, and are also meeting with service unit liaisons to identify means by which the Supply Store inventory or operation could be enhanced to meet their needs.

II.2 Use of credit card purchases.

ISS response: Disagree

ISS believes that it is the SU/SUs responsibility and discretion, not ISS's, to determine whether or not to use credit cards for purchase of their supplies directly from commercial sources. However, ISS also notes that although credit cards may seem convenient to use, there are hidden costs for ISS associated with that use. The Landover warehouse receiving operation receives many supply orders placed by Library SU/SUs over the telephone with credit cards that are lacking adequate addresses. Consequently, ISS staff have no idea where the received materials are to go, and waste considerable time trying to identify the ordering offices, and, in some cases, are never able to match the delivery to the requesting office.

Recommendation III: The committee with responsibility for the paper recycling program needs to inform Library personnel about recycling categories to maximize the amount of revenues being derived from the program. Additionally, ISS management should monitor and reconcile information appearing on the report of recyclable activity to our internal reports to identify incidents where the Library's paper is downgraded.

III.1 Inform Library personnel about recycling.

ISS response: Agree

A Library-wide Recycling Program was proposed in November 2002 and a Recycling Committee, chaired by ISS, was formed in FY2003. The committee developed a proposed Recycling Program Plan for the Library with 5 principal objectives, including obtaining Library-wide staff involvement and commitment to recycling.

ISS has been working long and hard with the Recycling Committee to identify and codify all the current policies and practices regarding recycling, and to propose improved practices for future operation

Response from Integrated Support Services

APPENDIX I
(Page 6 of 6)

of the recycling program. In trying to define actual practices within the Library, the committee has identified several problems with current processes. Committee members are working individually with many Library offices as needed to correct as much mis-information and incorrect practices as possible prior to launching a major Library-wide Recycling Program Plan. Currently the committee is working with Chimes, the custodial contractor, whose responsibility it is to collect and empty recycle containers, in order to clarify and correct problems with their procedures.

This foundational research is helping to raise individual awareness about recycling within the Library. The Recycling Committee is also planning a multi-faceted Library-wide marketing campaign to raise awareness within the Library. This campaign will include the placement of articles in Library publications, signage around the Library, web-site information, flyers to staff, and other outreach programs and information. Library management and the union representatives will be engaged. Appropriate information materials will be distributed to motivate Library staff to participate in the recycling effort.

Even before conducting the major outreach campaign, the Library is already running a very successful recycling program and is realizing more income as a result than most other federal agencies, according to our GSA contractor.

III.2 "Additionally, ISS management should monitor and reconcile information appearing on the report of recyclable activity to our internal reports to identify incidents where the Library's paper is downgraded."

ISS response: Disagree

ISS wishes to note for the record situation referenced in the second sentence of OIG Recommendation III has been dealt with administratively, and ISS is confident that the vendor's reports are correct.

Apparent discrepancies between LC records about the grades of paper being sent for recycling and GSA records about the grades of recyclable paper received by the contractor largely resulted from a misunderstanding on the part of a Library loading dock employee regarding the categorization of the tubs of paper provided to the contractor.

Response from Library Services

APPENDIX II

(Page 1 of 2)

UNITED STATES GOVERNMENT

Memorandum

LIBRARY OF CONGRESS

DATE: February 25, 2005

TO: Karl W. Schornagel
Inspector General

FROM: Deanna Marcum *DM*
Associate Librarian for Library Services

SUBJECT: Draft Audit Report No. 2004-PA-103
Lack of an Inventory System and Ineffective Processes
Contribute to Inefficient Warehousing Operations

Pursuant to your Memorandum of February 10, 2005 to Mary Levering, I have taken the opportunity to review Draft Audit Report No. 2004-PA-103, in consultation with the Acting Director for Preservation. I have paid particular attention to Recommendations I.3 and I.4, which you indicated apply to Library Services.

In compliance with LCR 1519-1, we are submitting written comments below, acknowledging that we, in principle, agree with the findings and recommendations. We appreciate this opportunity to provide additional information, with particular reference to completed and proposed corrective actions to resolve the audit recommendations. Our comments parallel the sequence of the report.

BACKGROUND (p. 2, second paragraph):

"Most of this inventory belongs to the Preservation Directorate (Library Services), Facility Design and Construction (ISS), the Congressional Research Service, and the Publishing Office (Library Services)."

The inventory of preservation-quality housing supplies for collections doesn't actually belong to the Preservation Directorate. The Preservation Directorate, at the request of Library Service's custodial divisions, orders and undertakes quality control tests of the supplies; arranges for their delivery and payment; and notifies the custodial divisions of their availability for deployment. While Preservation can't compel divisions to use the supplies they order (sometimes the divisions lose staff needed to implement deployment), Preservation is now in the process of implementing a new ordering system that compels custodial divisions to name projects for which they are ordering supplies. Armed with custodial project names, Preservation has initiated a feasibility study to see whether it can better review, track, and advise on custodial division resources (time, personnel and supplies) needed for projects. Preservation has recently filled a key position to monitor and coordinate this feasibility study.

Response from Library Services

APPENDIX II
(Page 2 of 2)

-2-

FINDINGS: I. B (p. 7, second and third paragraphs):

"...Preservation Directorate has 3.69 years of inventory on hand at the Landover warehouse and in storage in California."

"The Preservation Directorate needs to work more closely with other service units to determine inventory needs more accurately"

To help LS custodial divisions identify their old stockpiles, the Preservation Directorate has redeployed its staff and project point allocations to create an inventory of old supplies in Landover. Supplies no longer wanted by the divisions (change in staff, change in priorities) are being matched by Preservation staff to other project needs.

Some of the inventory at Landover is for MDEPs that expire September 30, 2006 (1.9 years from now), and it is expected that by that time the supplies will have been deployed to fulfill the MDEP mandates to rehouse items going to Ft. Meade Modules 3 and 4. The move to these modules, however, is currently suspended, since funding for the modules was not approved by Congress in the 2005 budget. The current plan is to continue rehousing the collections identified to move to Ft. Meade. Additional preservation-quality housing inventory needed for the expiring MDEPs is stored in California because Landover refused to accept more deliveries, owing to its lack of space.

Recommendations 3 and 4 (p. 8):

The Preservation Directorate agrees with these recommendations and has already begun working with ISS to comply with them, through, among other things, the newly filled position and feasibility study; the compilation of an inventory of old divisional stockpiles; and the matching of old stockpiles to new projects.

cc: Deputy Associate Librarian for Library Services
Acting Director for Preservation

Response from Congressional Research Service

APPENDIX III
(Page 1 of 2)



Memorandum

September 7, 2004

TO: Karl W. Scjornagel
Inspector General

FROM: Daniel P. Mulholland
Director

SUBJECT: Audit Report No. 2004-PA-103, Integrated Support Services' Inventory and Equipment and Warehousing Policy, Procedures, and Oversight Need Improving

This memorandum responds to Audit Report No. 2004-PA-103. Please call Kathy Williams if you have any questions with regard to the CRS response or action plan.

Finding: ISS's Inventory and Equipment and Warehousing Policy, Procedures, and Oversight Need Improving

Condition: *There are no policies and procedures regarding communication and coordination between the Service Units and ISS's Logistics Section regarding inventory control.*

CRS Response: The CRS appreciates the Library's need to manage properly its inventory of supplies and materials. The Service was, however, unaware that a 26-year supply of CRS Inquiry Section Worksheets was housed at the Landover warehouse. The Service supports all three audit recommendations.

CRS Action and Time line:

1. We recommend that ISS's Logistics Section, in conjunction with the Service Units develop policies and procedures regarding communication and coordination of the acquisition, storing, and disposal of inventory and equipment.

Congressional Research Service Washington, D.C. 20540-7000

7/

Response from Congressional Research Service

APPENDIX III
(Page 2 of 2)

CRS-2

CRS Action: *The CRS Associate Director for Finance and Administration is available to participate in any effort to establish and/or update the Library's policies and procedures regarding the acquisition, storage, and disposal of Library inventory and equipment.*

2. We recommend that ISS's Logistics Section and the Service Units work together to eliminate the obsolete inventory in the Landover warehouse.

CRS Action: *Every effort will be made to reduce the worksheet inventory within the next 60 days. As a first step, within the next 30 days, CRS will visit the warehouse to verify that all the boxes thought to be the Inquiry Worksheet are (1) in fact the CRS Inquiry Section Worksheet, and (2) the current version. Once the contents of all of the boxes are examined fully, any outdated worksheets will be properly destroyed. Other items that could be mixed in (such as CRS Info Packs) will be evaluated and appropriate disposition action taken. In addition, we recently requested that 20 boxes of the worksheets be transferred to the Madison Building for on-site storage in CRS and not at Landover.*

3. We recommend that the Service Units adhere to the bona fide needs rule to minimize inventory on hand.

CRS Action: *As stated above, the Service will confirm the existing inventory and take immediate and appropriate action. As a matter of routine practice, CRS complies with the bone fide needs rule and will ensure that all future acquisitions for CRS supplies and equipment adheres to this fundamental financial law.*

cc: Kathy Williams
Chrissie Nash
Barbara Exum

8/