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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF DEPARTMENT OF ENERGY'S
WAREHOUSE SPACE

Report No.: CR-B-97-01
Date of Issue: January 28, 1997

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AUDIT OF DEPARTMENT OF ENERGY'S
WAREHOUSE SPACE

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

AUDIT OF DEPARTMENT OF ENERGY'S
WAREHOUSE SPACE

Audit Report Number: CR-B-97-01

SUMMARY

The Department of Energy (Department) and its contractors use warehouses for the storage of furniture, equipment, and office supplies. The Department had about 3.5 million total square feet of warehouse space of which about 493,400 square feet was leased from outside sources. The annual cost of these leases was over \$2.5 million.

The purpose of the audit was to assess the efficiency of the Departments use of warehouse space. Our specific audit objective was to determine whether the Department was minimizing the need for warehouse space for the storage of furniture, office supplies, and equipment.

Although Federal Property Management Regulations require Government agencies to continuously review their space requirements and minimize the need for space, this was not always being accomplished throughout the Department. A review of four entities (entities are both Department and contractor operations) showed that the Department had more space than needed because about 76,000 square feet of warehouse space was used to store unusable, unneeded and/or excess furniture and equipment. In addition, office supplies were warehoused instead of adopting a just-in-time or equivalent delivery system. If two of the four entities relinquished 76,000 square feet of warehouse space, the Department could save about \$1 million in lease costs over the remaining lease periods. Additional savings could be achieved by implementing a just-in-time or equivalent delivery system to reduce space needed for office supplies inventory.

We recommended that the Department take action to dispose of excess and unneeded property, reduce the storage of office supplies, and establish stock levels for any furniture and office supplies that need to be warehoused. We also recommended specific actions be taken at three of the four entities reviewed that dealt with specific conditions identified at these locations.

The Assistant Secretary for Human Resources and Administration generally agreed with the finding and three of the four recommendations. However, management did not agree to relinquish leased warehouse space at DOE Headquarters until further studies are completed.

Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Department of Energy (Department) and its contractors use warehouses for the storage of various items including furniture, equipment, and office supplies. As of August 23, 1996, the Department had about 3.5 million square feet of total warehouse space of which about 493,000 square feet was leased from outside sources. The annual cost of these leases was over \$2.5 million.

The purpose of the audit was to assess the efficiency of the Department's use of warehouse space. Specifically, our objective was to determine whether the Department was minimizing the need for warehouse space for the storage of furniture, equipment, and office supplies.

SCOPE AND METHODOLOGY

To accomplish our objective, we obtained and reviewed applicable Federal and Departmental regulations and correspondence related to warehouse activities. We also reviewed related reports issued by the Office of Inspector General and the General Accounting Office. Discussions were held with staff at each site visited on policies designed to provide oversight and control over warehouse operations. We also held discussions with officials from the General Services Administration (GSA) on the benefits and limitations of just-in-time delivery systems, leasing of warehouse space, and the disposal of personal property.

Information on warehouse space used for the storage of furniture, equipment, and office supplies was requested from the 27 operation/field offices and the Federal Energy Regulatory Commission (FERC). From the responses received, 17 offices reported storing office supplies, 24 offices reported storing furniture, and 13 offices reported storing equipment. This information covered 69 separate Department entities (Department and contractor operations). We selected four of the 69 entities covering about 583,000 square feet of warehouse space and FERC covering about 26,000 square feet of space for a more detailed review. This included about 200,000 of the 493,000 square feet of leased space. The review was limited to warehouse operations for the storage of furniture, equipment, and office supplies. We verified the data provided by these five entities by judgmentally selecting and analyzing available supporting documentation.

Our analysis included:

- Verifying the amount of warehouse space used by the Department for the storage of furniture, equipment, and office supplies.
- Reviewing and discussing the contract terms related to warehouse operations including the amount of space used.

- Reviewing personal property records and disposal programs for furniture and equipment.
- Reviewing stock levels and ordering and delivery systems for furniture, equipment, and office supplies.

In addition to obtaining information and conducting telephonic discussions with responsible officials, we made site visits to the four Departmental entities and FERC. Site visits included walk throughs and physical observations of warehouses and their operations at Department of Energy Headquarters, Landover, Maryland; Lockheed Martin, Oak Ridge, Tennessee; Department of Energy, Oak Ridge, Tennessee; Lawrence Berkeley National Laboratory, Berkeley, California; and FERC, Landover, Maryland.

Work performed at FERC was reported separately in Office of Inspector General report CR-B-96-01 dated May 24, 1996. This report identified areas where warehouse space and storage of materials could be reduced. As a result, FERC planned to reduce its warehouse space and adopt a more frequent ordering program for office supplies.

The audit was made in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed internal controls regarding warehouse practices and procedures. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed.

The audit was performed between April and August 1996. We did not rely on computer-processed data to accomplish our audit objective. An exit conference was held with Procurement and Assistance Management representatives on December 10, 1996.

BACKGROUND

The Code of Federal Regulations provides that each agency shall establish and maintain such control of personal property inventories as will ensure that the total cost involved will be kept to the minimum consistent with program needs. Further, storage and warehouse services should be operated in accordance with generally accepted industrial management practices and principles.

Furniture, equipment, and office supplies are stored in warehouses to support daily activities of the Department. Stock levels should be established considering all relevant factors such as the item's usage, lead time for receiving an order, and shelf life. There are also economic factors to be considered such as warehouse cost, handling, and ordering costs. Stock levels are designed to ensure that an adequate supply is available to meet foreseeable needs. In addition, stock levels can be used to identify excess or surplus items being stored.

Items excess to the needs of the Department should be disposed of to minimize the use of warehouse space and to reduce costs. There are several options available for the disposal of excess or surplus furniture, equipment, and office supplies. Donations to nonprofit organizations;

transfers within the Department, its contractors, and to other Government agencies; and personal property sales are commonly used disposal options.

Although the Department does not require the use of a just-in-time delivery system, it was recently decided to abandon the "Federal norm" as the standard for contractor purchasing systems and move towards a "best commercial standards" practice. One goal of a just-in-time delivery system is to produce and deliver goods just-in-time to be used. This technique lowers inventory carrying costs by reducing the need for warehouse space and the amount invested in inventory. The GSA provides several just-in-time delivery systems for Federal agencies and their contractors. The Department's Contractor Purchasing Council suggested this system as one way of successfully relieving organizations from owning, warehousing, maintaining, and protecting the inventory necessary for mission accomplishment.

Also, under the requirements of the Business Management Oversight Pilot Project, Human Resource Management has established performance objectives and measures for personal property management systems for laboratories, nonlaboratory contractors and field offices. There are six performance objectives and measures for personal property management. Specifically under performance objective four and its measure, each operations/field office should have a program in place for the acquisition, management, control, and disposition of all personal property.

This report contains a finding that addresses minimizing warehouse space that should be considered by management in preparing the yearend assurance memorandum on management controls. Part II of this report provides details on our finding and recommendations. Part III of this report includes detailed management and auditor comments.

PART II

FINDING AND RECOMMENDATIONS

Minimizing Warehouse Space

FINDING

Although Federal Property Management Regulations require Government agencies to continuously review their space requirements and minimize the need for space, this was not always being accomplished throughout the Department. The Department was utilizing more space than it needed because unusable, unneeded and/or excess furniture and equipment was stored. In addition, office supplies were warehoused instead of adopting a just-in-time or equivalent delivery system. By relinquishing about 76,000 square feet of leased warehouse space, the Department could save about \$1 million in lease costs over the remaining lease periods. Additional savings could be achieved by implementing a just-in-time or equivalent delivery system to reduce space needed for office supplies inventory.

RECOMMENDATIONS

We recommend the Assistant Secretary for Human Resources and Administration take action to minimize warehouse space by:

1. Instructing operation/field offices to:
 - a. Dispose of excess property in a timely manner.
 - b. Adopt a just-in-time or equivalent delivery system for office supplies.
 - c. Establish stock levels for any office supplies and guidelines for storage of furniture to be held in the warehouses.
 - d. Review the need for all warehouse space.
 - e. Require their contractors to perform the above recommendations.
2. Requiring the Manager, Oakland Operations Office, to direct Lawrence Berkeley National Laboratory to:
 - a. Dispose of all unneeded furniture.
 - b. Relinquish 60,000 square feet of warehouse space.

3. Requiring the Director, Logistics Management Division, Office of Administrative Services, at Department Headquarters to:
 - a. Dispose of excess furniture, assess and justify the retention of furniture awaiting repair or rehabilitation, and dispose of unneeded specialty furniture.
 - b. Relinquish its two warehouse annexes back to GSA and consolidate into a single warehouse, as quickly as possible, in line with the downsizing efforts ongoing at the Department.
4. Directing the Manager, Oak Ridge Operations Office, to:
 - a. Establish property records for personal property.
 - b. Ensure that an effective system is in place for the acquisition, management, control, and disposition of personal property.

MANAGEMENT REACTION

The Assistant Secretary for Human Resources and Administration generally agreed with the finding and recommendations 1, 2, and 4. However, management did not agree to relinquish leased warehouse space at DOE Headquarters until further studies are completed.

DETAILS OF FINDING

Federal Property Management Regulations establish policies and procedures for agencies to follow in managing and operating warehouses. Agencies are required to continuously review their needs for space and relinquish unneeded space. The amount of space should be limited to what is needed to accomplish their programs, and space no longer needed should be considered excess. These regulations also prescribe property management practices that limit the amount of property on hand to what is needed to accomplish their program.

WAREHOUSE SPACE

The Department was not minimizing its need for warehouse space. A review of four entities showed the amount of warehouse space used for the storage of furniture, equipment, and office supplies could be reduced at three entities. Two of the three entities, which leased about 173,000 square feet of warehouse space, could reduce space by about 44 percent or 76,000 square feet. It appeared that the third entity, which owned the warehouse, could also reduce space. However, a complete review was not possible to determine the actual amount of unneeded space because inventory records and annual physical inventories were not available for review.

STORAGE OF FURNITURE, EQUIPMENT AND OFFICE SUPPLIES

Warehouse space was used to store unneeded and/or excess furniture and equipment and furniture awaiting repair or rehabilitation. Also, a just-in-time or equivalent delivery system was not utilized to minimize the storage and handling of office supplies.

Furniture and Equipment

Three of the four entities stored unneeded and/or excess furniture and equipment and furniture awaiting repair or rehabilitation. Two of the three entities used about 48,000 of 72,000 square feet to store furniture and equipment. At the third entity, the amount of space could not be determined because furniture and equipment was intermingled with other items such as scientific supplies, cable wire, and other materials outside the scope of our audit.

One entity, for example, leased a main warehouse and two annexes totaling about 53,300 square feet. In addition, there was a secured storage area adjacent to one of the entity's loading dock that totaled about 6,400 square feet. The two annexes consisting of about 16,000 square feet were used to store excess furniture, furniture awaiting repair or rehabilitation, and specialty furniture held for executive level offices. All of the excess had already been identified as such prior to being received at the warehouse. Also, furniture awaiting repair or rehabilitation was still being warehoused in the annexes even though there was no money budgeted for rehabilitation in Fiscal Years 1995 and 1996. In addition, there were no records maintained to determine how long the specialty furniture had been stored. However, the deteriorated condition of the furniture led us to conclude that it had been in storage for an extended period of time.

The entity discussed above had a Memorandum of Understanding (MOU) with GSA for the disposal of furniture to reduce the waiting period between the reporting of excess and when GSA would accept responsibility for disposal. However, instead of promptly disposing of excess furniture through this MOU and holding the items at the secured storage area, the excess furniture was stored at the two annexes. Logistics management staff informed us that since the Department was already paying for the warehouse space, it didn't matter that the excess or unusable furniture was warehoused.

By disposing of excess, unneeded, and unusable furniture, about 16,000 square feet of space could be relinquished back to GSA. Warehouse operations at this entity could be consolidated into the main warehouse, and the secured storage area could be used for future excess items awaiting disposal. Relinquishing the two annexes would save about \$756,000 in lease costs over the remaining 5 years of the lease.

Another entity that we visited leased a two-level warehouse with 120,000 square feet of space and used 60,000 square feet for the storage of a large amount of old modular furniture and archived records, as well as an excess area. Warehouse officials stated that this type of modular furniture was not used often and the archived records were being stored until the moratorium on accepting any research and development documents for storage at the archive center was resolved. By disposing of the unneeded furniture, transferring the archived records to the archive

center, and consolidating the excess area into the bottom level, about 60,000 square feet of warehouse space could be relinquished. About \$289,000 in lease costs could be saved over the remaining 2 years of the lease.

In addition, three of the four entities had not established stock levels for the amount of furniture that needed to be kept on hand. Agencies are required to establish and maintain control of property that will ensure that the total cost involved will be kept to the minimum consistent with program needs. Without establishing stock levels, entities will not know how much warehouse space is actually needed to support mission operations.

Also, the physical inventory at another entity had not been done since 1993. Warehouse officials could not locate inventory records, provide a copy of the inventory, or any other property records to show what furniture and equipment was stored in the warehouse. As a result, the personal property stored in the warehouse could not be verified. The Department's Business Management Oversight Pilot Project states that each operations/field office should have a system in place for the acquisition, management, control and disposition of all personal property. In addition, Federal Property Management Regulations require all agencies to continuously survey property to ensure maximum use and promptly make available excess personal property for transfer.

Office Supplies

At two of the four entities, warehouse space was used to store office supplies instead of utilizing a just-in-time or equivalent delivery system. These two entities used about 15,800 out of 72,000 square feet of warehouse space for the storage of office supplies, which varied from 19 to 23 percent of total warehouse space for each entity. For example, although paper could be ordered and received within 3 days from GSA at comparable prices, one entity had established policies to stock a 3-month supply. The entity also allocated warehouse space for office supplies at a 90-day stock level. However, because of budgetary constraints, less than 30 days of supplies were actually stored and the space was not reallocated.

If these two entities used up the inventory of office supplies and adopted just-in-time or equivalent delivery system, warehouse space could be used for other property or, if unneeded, relinquished. However, as discussed previously, at one entity that owns space, it is unknown exactly how much could be better utilized due to the lack of inventory records and physical inventories of personal property. At the second entity, some of the space currently allocated to office supplies could be used to store any remaining property once the two annexes are vacated and the 16,000 square feet relinquished.

Another entity had established a just-in-time delivery system for office supplies except for copier paper because of their concerns over the quality of paper required. In addition, individual offices procured large quantities of copier paper with yearend funds and were allowed to store it at the warehouse for future use.

One entity was utilizing a just-in-time delivery system and had established vendor agreements for materials including office supplies. Although the just-in-time delivery system has been in place

since 1988, the vendor agreement for office supplies was established in 1995. Officials performed a cost-benefit analysis for 1993 to show the benefits of utilizing a just-in-time delivery system. The analysis showed that savings of over \$2.1 million could be achieved and over 66,000 square feet of warehouse space could be reallocated. Officials anticipate additional savings and reallocations of warehouse space.

IMPACT ON WAREHOUSE OPERATIONS

Reducing warehouse space for the storage of furniture, equipment, and office supplies would reduce costs for the Department. At two of the four entities that leased warehouse space, we calculated that disposing of unneeded and/or excess furniture and equipment, specialty furniture, and furniture awaiting repair or rehabilitation would free up about 76,000 square feet of warehouse space. This would save the Department about \$1 million in lease costs if the unneeded space was relinquished over the remaining lease periods. Also, some of the 15,800 square feet of space used for the storage of office supplies would be available when the supplies are used up after adopting a just-in-time or equivalent delivery system. When this space is vacated, action should be taken to identify total warehouse space requirements and relinquish unneeded space. Further, the Department should review all warehouse space to identify space requirements and continue to minimize space in line with downsizing efforts at the Department.

PART III

MANAGEMENT AND AUDITOR COMMENTS

In response to this report, the Assistant Secretary for Human Resources and Administration generally concurred with three of four recommendations. Management believes that the Department and its contractors are minimizing the need for warehouse space and stated that most contractors have adopted just-in-time inventory control processes. A summary of management's comments and our response follows.

Recommendation 1. Minimize warehouse space by instructing operation/field offices to:

- a. Dispose of excess property in a timely manner.
- b. Adopt a just-in-time or equivalent delivery system for office supplies.
- c. Establish stock levels for any office supplies and guidelines for storage of furniture to be held in the warehouses.
- d. Review the need for all warehouse space.
- e. Require their contractors to perform the above recommendations.

Management Comments. Concur. The Assistant Secretary for Human Resources and Administration will issue a memorandum to the operations/field offices requiring them to: (a) dispose of excess in a timely manner including furniture and office supplies; (b) where it is in the best interest of the Government, adopt a just-in-time or equivalent delivery system for office supplies; (c) establish stock levels for office supplies and criteria for storage of office furniture, furnishings, and equipment in the warehouse; (d) review the need for warehouse space at the operations/field offices; and (e) instruct their contractors to do the same. The memorandum is expected to be issued by February 28, 1997.

Auditor Comments. Management's comments are responsive to the recommendation.

Recommendation 2. Require the Manager, Oakland Operations Office, to direct Lawrence Berkeley National Laboratory to:

- a. Dispose of all unneeded furniture.
- b. Relinquish 60,000 square feet of warehouse space.

Management Comments. Concur in principle. Management stated that Berkeley has a program in place to excess all unneeded furniture and has plans to use the modular furniture identified in the report as it phases into a more open work environment. Also, the current lease agreement prohibits relinquishing space prior to the expiration of the 2 remaining years on the

agreement. The Assistant Secretary for Human Resources and Administration stated a memorandum will be issued to the Oakland Operations Office instructing them to ensure that Berkeley still has a current need for the entire 60,000 square feet of warehouse space prior to the renewal of the current lease. The memorandum is expected to be issued by February 28, 1997.

Auditor Comments. Management's comments are responsive to the recommendation.

Recommendation 3. Require the Director, Logistics Management Division, Office of Administrative Services, at Department Headquarters to:

- a. Dispose of excess furniture, assess and justify the retention of furniture awaiting repair or rehabilitation, and dispose of unneeded specialty furniture.
- b. Relinquish its two warehouse annexes back to GSA and consolidate into a single warehouse, as quickly as possible, in line with the downsizing efforts ongoing at the Department.

Management Comments. Concur in principle. Management stated that excess furniture will continue to be processed through GSA in a timely manner and consistent with established regulations and agreements. The Logistics Management Division will develop a plan to handle furniture excess to the Department's Headquarters needs and furniture awaiting repair and/or rehabilitation. This plan will take into consideration utilization of warehouse space, the number of individuals being supported, and funding allocated for repair and/or rehabilitation of furniture. As a result of a survey conducted in January 1997, the Logistics Management Division is in the process of developing a plan for the disposal of unneeded specialty furniture taking into consideration the length of time held, regularity of issuance, and utilization of warehouse space. These plans are expected to be completed by November 1997. Efforts are also being made to relinquish warehouse space in the two annexes to GSA as quickly as possible. A reduction of warehouse space is anticipated due to the downsizing effort of the Department, the Strategic Alignment Initiative, and a special emphasis on the disposition of property. A review will be made of warehouse space, taking into consideration the plans being developed for the disposal of furniture, to determine the amount of warehouse space needed by the Department. This review is expected to be completed by December 1997.

Auditor Comments. Management's planned actions are not considered responsive to the recommendation. Taking until November 1997 to plan how to dispose of unneeded furniture is unreasonable. Warehouse space that is not needed should be relinquished as quickly as possible to minimize leasing costs.

Recommendation 4. Direct the Manager, Oak Ridge Operations Office, to:

- a. Establish property records for personal property.
- b. Ensure that an effective system is in place for the acquisition, management, control, and disposition of personal property.

Management Comments. Concur. The physical inventory of the Oak Ridge direct operations property over \$5,000 and sensitive property has been completed and effective property records have been established. Processes for the acquisition, management, control, and disposition of Oak Ridge direct operations personal property are being reviewed as part of the "Business Management Oversight Process" established in conjunction with DOE Headquarters. This process includes self-appraisal, external reviews, and verifications by Oak Ridge Operations Office and DOE Headquarters. These actions will assure that an effective property management system is in place. This review will be completed by February 28, 1997.

Auditor Comments. Management's comments are responsive to the recommendation.

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