

# Key Points Of Report

## General Services Commission 1994 Statewide Financial and Compliance Audit

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March 1995

### Overall Conclusion

The number and complexity of the problems identified, ineffective communication of policies and procedures within the program, and a net loss in operations indicates that a material weakness exists in the control environment over the Donation of Federal Surplus Personal Property program. The program received approximately \$34 million of federal property valued at original acquisition cost. The problems identified resulted in total questioned costs of \$10,343,533 (OAC). The operating loss may indicate that the program may not be able to continue operations.

While the Commission has resolved 7 of the 14 outstanding prior year issues, inadequate inventory controls, ineligible donees obtaining property, and nonadherence to policies for monitoring the use of property donated to donees still remain unresolved. As a result, material weaknesses and material noncompliance with federal regulations continue to exist in the program.

A "material weakness" is a lack of procedures which could allow large errors or fraud to occur and not be detected during the normal course of operations. "Material noncompliance" is a failure to follow federal program requirements in a significant number of instances.

### Key Findings

- The *Donation of Federal Surplus Personal Property* program experienced an operating loss of \$759,483 for fiscal year 1994. While the program had sufficient reserves to cover excess expenditures, a continuation of the current trend could jeopardize the State's ability to continue offering this program.
- The Commission did not ensure only eligible donees participated in the *Donation of Federal Surplus Personal Property* program. Fifty-eight percent of the donees receiving property were ineligible to receive property. This resulted in questioned costs of \$669,461 (OAC) and represents material noncompliance.
- The Commission did not have adequate controls in place to properly account for and store federal surplus property. The largest district had inventory overages of \$362,000 (OAC) and shortages of \$166,000 (OAC), which represents 10 percent of their total inventory. Also, property to be auctioned was lost or stolen, resulting in questioned costs of \$26,070 (OAC). These conditions indicate that a material weakness exists in inventory controls.
- The Fort Worth district did not follow the Commission's established system for monitoring the use of federal surplus property donated to donees. Fifty percent of the donated property was not monitored, which resulted in questioned costs of \$50,273 (OAC). This represents material noncompliance.
- Employees of the *Donation of Federal Surplus Personal Property* program do not receive timely and reliable information from management, which has contributed to the numerous issues identified in this report.
- On September 1, 1993, the General Services Commission assumed responsibility for administering the *Donation of Federal Surplus Personal Property Program* (CFDA 39.003). This program was previously administered by the Texas Surplus Property Agency.

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## Material Weakness In Control Environment

**The number and complexity of problems identified, the ineffective communication of policies and procedures, and the net loss in program operations, indicate a material weakness over the control environment of the *Donation of Federal Surplus Personal Property* program.** The control environment reflects the attitudes, awareness, and actions of management concerning the importance of controls and the emphasis on properly administering the program. A weakness in the control environment can have an impact on the implementation of management's operating policies and procedures. This increases the risk that unintentional mistakes and intentional improprieties could occur and go undetected.

Seven of the 14 prior year issues related to the *Donation of Federal Surplus Personal Property* program remain unresolved. Two of these issues are significant enough to be categorized as material noncompliance with federal regulations and one as a material weakness in internal controls. Also, three additional issues were noted this year that were not noted in previous years.

## Internal Control Issues

Internal Control Issue 1:

### **Evaluate The Operating Loss In The *Donation of Federal Surplus Personal Property* Program**

**Expenditures in the *Donation of Federal Surplus Personal Property* program exceeded revenue, resulting in a net operating loss of \$759,483 for fiscal year 1994.** Excess costs incurred in the program were funded from the program's cash reserves in the State Treasury. At August 31, 1994, the cash in the State Treasury was \$1,006,235.

The program is designed to be self-supporting. While the program had sufficient reserves to cover excess expenditures, a continuation of the current trend could jeopardize the State's ability to continue offering this program.

Recommendation: The Commission should evaluate the net operating loss in the *Donation of Federal Surplus Personal Property* program. A detailed analysis of program operations should be done to determine where expenditures can be reduced and revenues raised. Once cost savings and revenue enhancements are identified, adjustments should be made to ensure the long-term viability of this program.

Management's Response: *We agree with the recommendation and have already taken action to reduce operating costs. The program's cash reserves were accumulated in past years by the Texas Surplus Property Agency when revenues exceeded costs. These funds are available to fund program operations in lieu of raising donee charges. However, we agree that the program should be self-supporting and will continue to seek ways to increase revenues and further reduce costs. Most significantly, we are working with the General Services Administration to reduce or eliminate many of the program's burdensome and costly federal requirements.*

Internal Control Issue 2:

## **Correct Material Weakness To Ensure Property Is Adequately Accounted For And Stored**

(Prior Audit Issue)

**The Commission did not have adequate controls in place to ensure federal surplus property was properly accounted for and stored.** As a result, a material weakness exists in the control system over inventory. Adequate controls ensure that property is safeguarded against loss and unauthorized use.

Controls should be in place when property is received and distributed. A lack of controls caused the following:

- Overages of \$362,000 (OAC) and shortages of \$166,000 (OAC) occurred in the largest district, which represents 10 percent of total inventory of the district.
- Auction property of \$73,000 (OAC) was inadequately recorded in inventory records, and property of \$26,070 (OAC) was lost or stolen. This resulted in questioned costs of the same amount.
- Twenty-four percent (11 of 46) of donees tested obtained property from district warehouses before it was recorded in the inventory system.
- Two of the four districts' fencing contained holes, gaps, or sections without any barbed wire. One district fence was surrounded by trees and shrubs which facilitates burglaries. In addition, property of \$128,000 (OAC) stored in the yard was left susceptible to the elements and theft.
- Districts were not using available resources to evaluate inventory turnover which could cause excessive inventory accumulation.

In addition, a monthly physical inventory was not adequately performed due to automation problems with the inventory system. A monthly inventory is one of the most significant controls for accountability and storage. The largest district had not performed a monthly inventory for six months. Without adequate inventory controls, the potential risk of loss, misuse, or theft of property is significantly increased.

*Federal Property Management Regulations, Sections 101-44.204 and 101-44.205,* require the state agency to have procedures and facilities to ensure that surplus property is properly accounted for and adequately warehoused.

Recommendation: The Commission should develop controls to ensure federal surplus property is properly accounted for and stored. Specifically:

- Receiving personnel should ensure that all property is accounted for by physically counting all property received and all property disbursed.
- Alternative procedures should be developed when the automated controls cannot be adequately performed.

- Property should not be donated to donees until it is entered into the inventory system.
- Property should be protected from the elements and theft by repairing fences surrounding district property and storing susceptible property in the warehouse.
- Available resources should be used to routinely evaluate inventory turnover.

*Management's Response: We concur with this recommendation. Procedural policies have been developed to guide and assist the districts to consistently maintain a physical inventory, emphasize inventory control, and ensure verification of each operation. These policies will be enforced. The Federal Surplus Property ("FSP") compliance auditor will monitor the inventory process and verify and document compliance with policies. The perimeter security fences have been repaired and will be maintained at all districts to protect inventory. The inventory turnover will be monitored, evaluated and reported to program management on a regular basis to determine excessive inventory accumulation.*

Internal Control Issue 3:

### **Effectively Communicate Policies And Procedures To Employees**

**Policies and procedures in the Donation of Federal Surplus Personal Property program were not effectively communicated to employees.** Employees did not receive timely and reliable communication of policies and procedures, including reporting relationships and responsibilities. Program management was not aware of the following conditions until they were brought to their attention during the audit:

- Policies and procedures put in place by management to ensure compliance with federal regulations were not communicated routinely and consistently. As a result, material noncompliance with federal regulations occurred.
- Changes to existing policies and procedures were not formally documented and communicated to employees, resulting in confusion and misunderstanding.
- Program management implemented a new policy that relied on automation for implementation. Program personnel did not inform management that the automated control was not working. As a result, management relied upon a control that was not functioning as prescribed.
- Management was not aware that accounting records were not monitored for delinquent accounts receivable. A Commission policy makes delinquent donees ineligible to receive property, but does not designate who is responsible for execution. Consequently, accounts receivable status was not monitored as expected by district and administrative personnel increasing the risk that ineligible donees were participating in the program.

Management is responsible for establishing and maintaining a system of administrative and accounting controls. A key mechanism in ensuring effective controls is

communication of policies and procedures. Communication in an organization should flow up, down, and across the organization.

Recommendation: Management in the *Donation of Federal Surplus Personal Property* program should develop a method to effectively communicate policies and procedures to employees. The method should ensure that all employees are made aware of and kept current on policies and procedures. The policy should document all reporting relationships and job responsibilities. In addition, the job responsibilities should be clarified and discussed with employees.

Management's Response: *We concur with this recommendation. The operational handbook is currently being updated to include functional policies and procedures. Input from all FSP employees will be solicited during development. The handbook with all future updates, will be made available to all FSP employees. Training and testing will be provided to maximize individual job knowledge and performance. Policies will be tested after implementation to ensure controls are functional. Procedures for monitoring and collecting delinquent accounts receivable are being developed and will be included in the handbook.*

Internal Control Issue 4:

### **Improve Computer System Maintenance Process**

**The Commission did not ensure that necessary computer maintenance of the *Donation of Federal Surplus Personal Property* program's automated system was performed in a timely and effective manner. Specifically:**

- Prioritization of maintenance requests was not performed and communicated to automation personnel.
- The status of programming maintenance was not adequately documented.
- Monthly meetings to improve communications concerning automation problems were not initiated until December 1994 between the district users, program management, and automation personnel. In addition, the January meeting proceeded with neither input nor involvement from the district users.

Ongoing communication of computer problems helps to ensure that computer systems continue to meet the needs of the users. Communication problems among various groups impacted by the computer system can result in necessary program maintenance not being performed in a timely manner.

Recommendation: The Commission should improve its computer system maintenance process for the *Donation of Federal Surplus Personal Property* program's automated system. Specifically, program management should assume responsibility for establishing priorities for computer maintenance and should track the status of program modifications. In addition, program management should ensure that a mechanism for communication among district users, program management, and automation support is implemented so that problems and needs can be communicated to all involved parties.

*Management's Response: We agree with the recommendations. FSP management will implement a revised procedure which addresses all elements and recommendations in this finding no later than April 1, 1995. This process will include regularly scheduled meetings with FSP administration, district staff, and GSC Automation Resources staff.*

*These meetings will help establish necessary communications with district personnel and will make the monthly meetings between FSP and GSC Automation Resources personnel primarily for the solution of unusual problems/issues and the establishment of long range automation plans.*

Internal Control Issue 5:

### **Resolve Prior Automation Issues**

**The Commission has addressed four of six prior year automation issues.** However, the following prior year automation issues remain unresolved:

- Periodic changing of *Donation of Federal Surplus Personal Property* live data is not documented. Documentation of data modification is necessary to ensure that only authorized changes are made to the data.
- Automation Resources is not notified in a timely manner of employee transfers and terminations. Notification of employee transfers and terminations is necessary to ensure that only authorized users have access to computer resources.
- Adequate controls have not been developed to compensate for programmer access to *Donation of Federal Surplus Personal Property* programs and data. Compensating controls increase the likelihood that unauthorized data modification is detected.

Recommendation: The Commission should resolve the remaining prior year automation issues. Changes to *Donation of Federal Surplus Personal Property* data should be documented, and the Commission should ensure that Automation Resources is notified within one day of employee terminations and transfers. Additionally, compensating controls over programmer access should be implemented. One such control would be periodic testing of program data.

Management's Response:

*We concur with this recommendation. Live data has been changed only twice in the past year, by FSP personnel under carefully controlled circumstances. GSC Automation Resources personnel have never changed live data. However, a new procedure has been initiated to implement the recommendations in this finding. This new procedure involves automated logging of this change activity. Both Automation Resources and FSP management will review and retain copies of the logs.*

*On March 1, 1995, GSC will implement new procedures to notify Automation Resources of employee transfers and terminations in a timely manner.*

*GSC Automation Resources management has developed and implemented adequate compensating controls regarding programmer access. The initial implementation occurred in December 1994. Final enhancements were completed in February 1995.*

## Federal Compliance Issues

The examination included determining federal compliance with how surplus property was used, if surplus property was donated to eligible donees, and if adequate controls were in place to account for and store inventory. The examination was conducted at all four district warehouses. Forty-five transactions were tested for each specific compliance requirement.

Recommendations addressed in other sections of this report impact controls over federal funds, especially for the Commission's most significant federal program, *Donation of Federal Surplus Personal Property*.

Federal Compliance Issue 1:

### **Correct Material Noncompliance To Ensure Only Eligible Donees Participate In The *Donation of Federal Surplus Personal Property* Program**

(Prior Audit Issue)

**The Commission did not ensure only eligible donees participated in the *Donation of Federal Surplus Personal Property* program.** Fifty-eight percent (52 of 90) of the donees tested that received surplus property were ineligible to participate in the program, resulting in questioned costs of \$669,461 (OAC). This represents material noncompliance with federal regulations over eligibility.

The Commission has established policies and procedures for updating the eligibility status of donees. However, management did not ensure that the process for updating eligibility files was adequate. For example:

- Reliance was placed on prior administration "technical knowledge" for updating eligibility files despite significant problems noted in this area in previous audits.
- When the Commission began administering the program in September 1993, management elected not to review and update the eligibility of non-profit donees.
- When changes in policies and procedures occurred, eligibility files were not reviewed and updated accordingly.
- Management did not inform key personnel about changes to policies and procedures related to eligibility.

Federal Property Management Regulations 41, Chapter 101-44.207 require the Commission to review and update eligibility files, as frequently as necessary, to ensure current and accurate documentation to support the continuing eligibility of donees.

Recommendation: The Commission should ensure that only eligible donees participate in the *Donation of Federal Surplus Personal Property* program. This can be accomplished by identifying all eligibility files that need to be updated and following all federal policies and procedures for ensuring eligibility status. Additionally, key personnel should be aware of all established policies and procedures for updating eligibility files.

Management's Response: *We concur with this recommendation. Management has taken steps to ensure the accuracy of eligibility files. During the transition of the program from the Texas Surplus Property Agency ("TSPA") to the General Services Commission ("GSC"), management relied upon the knowledge and documentation of the prior administration as the only viable alternative to closing the doors of this program to donees. Closing the program would have resulted in operating for a period of several months with no income while staff was trained and approximately 5,000 donee eligibility files were revised.*

*Management began the process of updating eligibility files with the public agency files. Public agency files constituted approximately 85% of the total donee files. Eligibility determination for public agencies is less complex and, therefore, less time-consuming than for nonprofit corporations. Nonprofit corporations were reviewed on or before their expiration date.*

*Prior to December 1994, the program did not have adequate staffing to update eligibility files without computer automation. Detailed information had to be obtained by manually searching donee records. Information is now readily available due to automated data processing system enhancements made during December 1994. Eligibility files requiring updating are now identified through monthly computer reports. Additionally, this report can be generated upon request at any time.*

*Eligibility forms were revised during 1994 to comply with federal policies and procedures for ensuring eligibility status. All donees are now required to execute new eligibility forms at least every three years or more frequently if necessary to ensure continued current and accurate documentation.*

*Management is now using several methods of informing personnel throughout the program of established policies and procedures for updating donee eligibility files. Additionally, effective March 1995, the FSP compliance auditor will perform a random comparison of eligibility files against the computer donee data.*

## **Correct Material Noncompliance By Complying With Monitoring Procedures At The Fort Worth District**

(Prior Audit Issue)

The Fort Worth district is not complying with monitoring procedures for federal surplus property donated to donees. The Fort Worth district processed 24 percent of total surplus property donated in fiscal year 1994. Fifty percent (12 of 24) of the donated property tested was not adequately monitored to ensure proper use. As a result, questioned costs of \$50,273 (OAC) and material noncompliance with federal requirements occurred.

*Code of Federal Regulations (CFR), Title 41, part 101-44.208*, requires the Commission, through the use of utilization surveys and reviews, to ensure that donated property is placed in use within one year of its donation and that the donated property, during the period of restriction, is used for the purpose for which it was acquired. The Commission must also comply with the State Plan of Operation which requires the Commission to send utilization questionnaires to donees within six months of donating compliance items and to obtain a response within one year.

The Commission has established procedures for monitoring the use of federal surplus property donated to donees; however, these procedures are not being followed by personnel. Therefore, the following conditions resulted:

- Compliance items were not placed in use within one year.
- Donees did not respond to utilization questionnaires within one year.
- Personnel did not conduct timely follow up on utilization questionnaires when donees did not respond.
- Pertinent information from utilization questionnaires or on-site visits was not recorded.
- Personnel did not report noncompliance to the United States General Services Administration as required by federal regulations and the State Plan of Operation.

**Recommendation:** The Commission should ensure the Fort Worth district complies with monitoring procedures for federal surplus property donated to donees. Personnel should follow established procedures for monitoring the use of property donated. We also recommend that the Commission report all instances of noncompliance to the United States General Services Administration, as required.

**Management's Response:** *We concur with this recommendation. This was a prior audit issue at all four districts. Deficiencies were corrected at the other three districts.*

*Fort Worth district personnel have been directed, both verbally and in writing, to follow the existing procedures for monitoring the use of donated property. The district director*

*has indicated that he understands the procedure and is responsible for its implementation. The FSP compliance auditor will review performance of this procedure with the district director during the rest of this year and report any procedural deviations to the program administrator.*

*All compliance donations in fiscal year 1994, and those in fiscal year 1995 to date, will be reviewed by the district staff to ensure that any instance of noncompliance has been reported to the United States General Services Administration. Verification results will be tested by the FSP compliance auditor and reported in writing to the program administrator and the GSC Office of Internal Audit.*

Federal Compliance Issue 3:

### **Enforce Subrecipient Audit Report Requirements**

**The Commission did not enforce federal regulations requiring subrecipients to submit audit reports.** The Commission did not obtain all of the required audit reports from subrecipients participating in the *Donation of Federal Surplus Personal Property* program, resulting in questioned costs of \$8,727,901 (OAC). Additionally, of 12 subrecipients audit reports tested, 5 were not prepared in accordance with *Office of Management and Budget (OMB) Circulars A-128 and A-133*. This results in an additional \$824,933 (OAC) of questioned costs.

The subrecipients are required to submit audit reports in accordance with *Office of Management and Budget (OMB) Circulars A-128 and A-133*, no later than 13 months after their fiscal year end. The audit reports provide assurance that the federal assistance is properly utilized.

Recommendation: We recommend that the Commission enforce subrecipient audit report requirements by obtaining all audit reports as required.

Management's Response: *The audit reports that were not obtained are for donees who participated in the program under TSPA during its final fiscal year which ended August 31, 1993. FSP management has monitored compliance for donees who became subject to single audit reporting requirements after the program was transferred to GSC on September 1, 1993. However, TSPA management had not informed donees of the single audit requirements until May 1993. GSC management chose not to retroactively impose single audit criteria on donees whose audit reports were required as a result of federal surplus property received prior to September 1, 1993.*

*Recent and proposed federal changes will greatly reduce the impact of single audit requirements on the FSP program. Effective October 11, 1994, the General Services Administration issued a policy to value surplus property at 23.3% of its original acquisition cost. Surplus property was previously valued at 100% of original acquisition cost for purposes of the Single Audit Act. This change will reduce the number of donees subject to single audit requirements from over 200 for fiscal year 1994 to an estimated 50 donees in subsequent years. In addition, pending federal legislation would change the dollar threshold on federal financial assistance for single audit purposes from \$25,000 to \$100,000. Approximately five (5) donees would be*

*subject to single audit requirements when the \$100,000 threshold is combined with the market value change.*

Federal Compliance Issue 4:

### **Ensure Resolution Of Subrecipient Audit Findings Within The Required Timeframe**

**The Commission did not resolve all subrecipient audit findings within the required timeframe for the *Donation of Federal Surplus Personal Property* program.** The Commission failed to obtain corrective action from 20 percent (1 of 5) of the subrecipient files tested for unresolved findings. In addition, the Commission did not document review dates for subrecipient audit reports.

*Office of Management and Budget (OMB) Circulars A-128 and A-133, require the Commission to review the audit reports for audit findings and to obtain corrective action within six months of report receipt.*

Recommendation: We recommend that the Commission ensure resolution of subrecipient audit findings within six months by reviewing reports in accordance with federal regulations.

Management's Response: *We agree with this recommendation. As explained in the response to "Enforce Subrecipient Audit Report Requirements", these donees' single audit reports are for the year ended August 31, 1993. For federal financial assistance received since the program was transferred to GSC on September 1, 1993, FSP management will continue to ensure resolution of subrecipient audit findings in accordance with federal regulations.*

Federal Compliance Issue 5:

### **Comply With Federal Debarment/Suspension Requirements**

(Prior Audit Issue)

**The Commission did not comply with federal debarment and suspension requirements.** Federal surplus property was donated to donees who had not submitted debarment and suspension certifications, resulting in questioned costs of \$44,895 (OAC).

Since the Commission began administering the program in September 1993, letters were distributed to donees requesting debarment and suspension certifications. However, the Commission did not prevent donees who subsequently failed to submit the required certifications from participating in the program.

*Title 41 of the Code of Federal Regulations (CFR), Part 105-68.5, requires the Commission to obtain certifications from donees that they are not debarred or suspended from participating in federal assistance programs.*

Recommendation: The Commission should comply with debarment and suspension requirements by preventing donees who do not submit debarment and suspension certifications from participating in the program.

Management's Response: *We concur with this recommendation. The automated data processing system was modified so that employees are automatically warned when donees do not have debarment and suspension certifications on file. Additional procedures are being developed to ensure compliance.*

Federal Compliance Issue 6:

**Ensure That Price Adjustments Are Justified At The Houston District**  
(Prior Audit Issue)

**The Houston District is not justifying price adjustments made to handling fees.** Although the Commission has procedures for justifying price adjustments, 33 percent (5 of 15) of price adjustments tested at the Houston District were not justified. The price adjustments ranged from discounts of \$74 to \$770.

*Federal Property Management Regulation 41, part 101-44.202 (5), requires the service and handling fees the Commission charges to be fair and equitable to all donees. Adequate justification of price adjustments is necessary to ensure donees are charged fair and equitable handling fees.*

Recommendation: The Commission should ensure that the Houston District justify all adjustments to handling fees.

Management's Response: *We agree that all districts should justify adjustments to handling fees. Procedures for justifying price adjustments were communicated by memo to all districts in October 1993. However, Houston District management did not implement the procedure until March, 1994. We have directed the current manager of the Houston office to ensure that this is done. The FSP compliance auditor will monitor.*

Federal Compliance Issue 7:

**Develop Formal Policies And Procedures To Ensure That Petroleum Violation Escrow Funds Have Not Been Substituted**

**The Commission does not have formal policies and procedures in place to ensure that state or other federal funds have not been substituted with Petroleum Violation Escrow funds.** For fiscal year 1994, the Petroleum Violation Escrow funds were valued at \$57 million. In the absence of policies and procedures, the Commission cannot be assured that state, local, or other federal funds have not been replaced with Petroleum Violation Escrow funds.

*Title 10 of the Code of Federal Regulations (CFR), part 420.4(5), requires each state receiving federal financial assistance to establish policies and procedures designed to ensure that the funds will be used to supplement, not supplant (substitute), state, local, and other federal funds ordinarily available to the program.*

**Recommendation:** The Commission should develop formal policies and procedures to ensure that state, local, or other federal funds are not substituted with Petroleum Violation Escrow funds.

*Management's Response:* We will develop recommended policies and procedures. However, the "supplement, not supplant" rule only applies when other state or federal funds have been provided to fund the program in question. Only two of the programs directly administered by the State Energy Conservation Office/General Services Commission have historically received state or federal funds apart from Petroleum Violation Escrow (PVE) on oil overcharge funds. These are the Institutional Conservation Program and the State Energy Conservation Plan. By statute, Chapter 2305 of the Government Code, the Department of Housing and Community Affairs and the Texas Department of Transportation separately and directly administer several programs which receive oil overcharge monies in addition to other state and federal funds.

*The "supplement, not supplant" rule is also not violated when PVE funds are used to continue a program for which independent state or federal funds have been exhausted or depleted. In each case, the Department of Energy must approve the expenditure of PVE funds. In short, most of these programs would not exist in the absence of oil overcharge monies.*

## **Audit Scope**

The primary focus of our audit was the Commission's administrative controls over the Donation of Federal Surplus Personal Property program valued at \$34 million of original federal acquisition cost and the Petroleum Violation Escrow (PVE) funds valued at \$57 million. The Commission performed the administrative function for the PVE program on behalf of the Office of the Governor. We gained an understanding of the internal control structures related to these federal programs and tested compliance with significant federal requirements. We also followed up on all unresolved prior audit issues identified in Appendix 2.

## Appendix 1:

### Background

The objective of the *Donation of Federal Surplus Personal Property* program is to distribute federal surplus property to state and local public agencies and certain nonprofit, tax exempt activities (donees). Personal property which is surplus to the needs of the Federal Government is approved for transfer to the states on a fair and equitable basis by the United States General Services Administration.

The Commission serves as the link between the federal agencies that generate the property and eligible organizations in Texas which use donated property for a wide variety of programs. The program is designed to be self-supporting, assessing a service and handling fee to sustain its operations.

The *Donation of Federal Surplus Personal Property* program is the Commission's largest federal program. The program received approximately \$34 million of federal property valued at original acquisition cost and generated \$2 million in program income from service and handling fees in fiscal year 1994.

Material weaknesses in internal controls and material noncompliance with federal regulations have existed in this program since fiscal year 1991. The status of prior year issues is highlighted in Appendix 2 of this report.

## Appendix 2:

### Status Of Prior Year Issues

Status of Prior Year Issues		
<i>Donation of Federal Surplus Personal Property Program</i>	Unresolved	Resolved
Develop a System to Monitor Subrecipients		X
Comply with Federal Financial Report Requirements		X
Comply with Property Accountability and Storage Requirements	X	
Comply with Federal Property Distribution Requirements	X	
Comply with Property Utilization Requirements	X	
Comply with Eligibility Requirements	X	
Enhance Access Controls over Inventory	X	
Ensure Separation of Duties in the Automated Environment		X
Strengthen Backup and Recovery Procedures		X
Implement Systems Development Methodology		X
Enhance Inventory System's Input Controls		X
Enhance Controls over General Services Administration Form 123		X
Comply with Federal Debarment/Suspension Requirements	X	
Sustained Program Weaknesses	X	
Other		
Restrict Access to Computer System	X	

*The issues identified above were unresolved findings from fiscal years 1991, 1992, and 1993. SAO report numbers 2-109, 3-048, and 4-076, highlight the specific conditions noted in each of the three past fiscal years. This report highlights the specific conditions noted in fiscal year 1994.*