

PERFORMANCE AUDIT
OF THE
OFFICE OF SUPPORT SERVICES
DEPARTMENT OF MANAGEMENT AND BUDGET
September 2000

EXECUTIVE DIGEST

OFFICE OF SUPPORT SERVICES

INTRODUCTION

This report, issued in September 2000, contains the results of our performance audit* of the Office of Support Services (OSS), Department of Management and Budget.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

OSS's mission* is to provide a centralized source of expertise and value-added services meeting the needs of State government. OSS attempts to accomplish its mission through customer focus, integrity, innovation, responsiveness, expertise, and teamwork. OSS operations consist of mail and delivery services, materials management services, records and forms management, print and graphic services, and consolidated print center services.

As of October 1, 1999, OSS had 239 employees. OSS operating revenues and expenditures for fiscal year 1997-98 were approximately \$56.8 million and \$55.0 million, respectively.

* See glossary at end of report for definition.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To assess the effectiveness of OSS's mail and delivery operations, materials management services, records and forms management, and print and graphic services.

Conclusion: We concluded that OSS's mail and delivery operations, materials management services, records and forms management, and print and graphic services were generally effective. However, we noted reportable conditions* relating to forms management, materials management, the monitoring of printing operations, and Consolidated Print Center control procedures (Findings 1 through 4).

Audit Objective: To assess the effectiveness and efficiency of the State and Federal Surplus Property Programs.

Conclusion: We concluded that the State and Federal Surplus Property Programs were generally effective and efficient. However, we noted a reportable condition related to Federal Surplus Property Program effectiveness (Finding 5).

Audit Objective: To assess the internal control related to OSS warehousing operations.

Conclusion: We concluded that the internal control related to OSS warehousing operations was generally effective. However, we noted a reportable condition related to federal surplus property inventory controls (Finding 6).

* See glossary at end of report for definition.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Office of Support Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included an examination of OSS's records and activities covering the period October 1, 1997 through November 30, 1999.

We performed a preliminary review that consisted of interviewing management and program staff and reviewing legislation, administrative rules, management plans, and other OSS reports and manuals. The purpose of the preliminary review was to obtain an understanding of OSS operations and to plan our audit.

We reviewed agency procedures, observed activities, and examined production data and inventory records to assess the effectiveness of OSS's mail and delivery operations, materials management services, records and forms management, and print and graphic services.

We examined the internal control related to the State and Federal Surplus Property Programs to determine if surplus property was adequately safeguarded. In addition, we examined documentation related to surplus property obtained, stored, and distributed to ensure that OSS was in compliance with State and federal requirements and that the property was disbursed in an effective and efficient manner.

AGENCY RESPONSES

Our audit report contains 6 findings and 6 corresponding recommendations. OSS indicated that it agrees with the recommendations and has either complied with or taken steps to comply with all the recommendations.

September 25, 2000

Ms. Janet E. Phipps, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Phipps:

This is our report on the performance audit of the Office of Support Services, Department of Management and Budget.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Office of Support Services' (OSS's) mission is to provide a centralized source of expertise and value-added services meeting the needs of State government. OSS attempts to accomplish its mission through customer focus, integrity, innovation, responsiveness, expertise, and teamwork. OSS accounts for its operations in the Office Services Revolving Fund. This Fund was created by Act 262, P.A. 1952, and was continued by Act 431, P.A. 1984, as amended (Section 18.1269 of the *Michigan Compiled Laws*). The cost of services performed by OSS is charged to the user departments and agencies.

OSS consists of three divisions and two programs:

1. Business Support Services Division - This Division performs finance and administrative functions.
2. Mail, Delivery, and Materials Management Division - This Division provides centralized services to State agencies.

Mail services include presorting, weighing, metering, inserting, addressing, labeling, packaging, and zip code sorting of mail.

Delivery services include the pickup and delivery of mail, freight, furniture, supplies, records, printing orders, and other related materials throughout the State.

Materials management services include:

- a. Building and Maintenance Supplies - This service allows State agencies to obtain building and maintenance supplies from a centralized location.
- b. Confidential Records Destruction Program - The Mail, Delivery, and Materials Management Division administers a contract for the destruction of confidential records and media.

- c. Federal Surplus Property Program - This service allows the State to acquire federal surplus property, which is available for distribution to State and local units of government, as well as to qualified schools, colleges, and universities and charitable organizations, at prices significantly below the original federal government acquisition cost. Surplus property is transported to distribution centers in Lansing, Cadillac, and Marquette where property is displayed for review and reacquisition.
 - d. Forms and Publications - This service, offered to all State agencies, provides a centralized distribution center for the receipt, storage, and distribution of forms and publications.
 - e. Recycling Program - The Mail, Delivery, and Materials Management Division administers a contract for the collection and recycling of paper from State facilities.
 - f. State Surplus Property Program - All surplus State property, excluding real estate, is processed through this program. State agencies may review this surplus property and transfer items to their programs for continued use without charge. State surplus property that is not reused is sold through public auction or sealed bid.
 - g. Warehouse Services - This service provides State agencies with storage facilities for their short- and long-term storage needs.
3. Records and Forms Management Division - This Division is responsible for the storage, control, and retrieval of inactive State records. In addition, the Division is responsible for reviewing public forms in an effort to reduce, simplify, and properly design such forms. Also, the Division performs micrographic services, which include source document and computer output microfilm services and microfilm storage.
4. Print and Graphic Services (PGS) - PGS provides a full range of services, which include printing, binding, platemaking, graphic arts, copying, desktop publishing, and technical consulting services.

5. Consolidated Print Center (CPC) - CPC performs high volume mainframe output printing applications.

As of October 1, 1999, OSS had 239 employees. OSS operating revenues and expenditures for fiscal year 1997-98 were approximately \$56.8 million and \$55.0 million, respectively.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Office of Support Services (OSS), Department of Management and Budget, had the following objectives:

1. To assess the effectiveness of OSS's mail and delivery operations, materials management services, records and forms management, and print and graphic services.
2. To assess the effectiveness and efficiency of the State and Federal Surplus Property Programs.
3. To assess the internal control related to OSS warehousing operations.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Support Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our fieldwork was performed from July through November 1999. Our audit procedures included an examination of OSS's records and activities covering the period October 1, 1997 through November 30, 1999.

We performed a preliminary review that consisted of interviewing management and program staff and reviewing legislation, administrative rules, management plans, and other OSS reports and manuals. The purpose of the preliminary review was to obtain an understanding of OSS operations and to plan our audit.

We reviewed agency procedures, observed activities, and examined production data and inventory records to assess the effectiveness of OSS's mail and delivery

operations, materials management services, records and forms management, and print and graphic services.

We examined the internal control related to the State and Federal Surplus Property Programs to determine if surplus property was adequately safeguarded. In addition, we examined documentation related to surplus property obtained, stored, and distributed to ensure that OSS was in compliance with State and federal requirements and that the property was disbursed in an effective and efficient manner.

Agency Responses

Our audit report contains 6 findings and 6 corresponding recommendations. OSS indicated that it agrees with the recommendations and has either complied with or taken steps to comply with all the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Office of Support Services' (OSS's) mail and delivery operations, materials management services, records and forms management, and print and graphic services.

Conclusion: We concluded that OSS's mail and delivery operations, materials management services, records and forms management, and print and graphic services were generally effective. However, we noted reportable conditions relating to forms management, materials management, the monitoring of printing operations, and Consolidated Print Center control procedures.

FINDING

1. Forms Management

OSS could improve the forms management program by actively advising State agencies of the most cost-effective methods for the printing and storage of forms and publications.

Section 18.1205(2) of the *Michigan Compiled Laws* (Act 431, P.A. 1984, as amended) requires the Department of Management and Budget to issue directives for the implementation and maintenance of a forms management program within each State agency. The purpose of the program is to improve the efficiency of State government through a forms management program that includes, but is not limited to, the survey, analysis, design, specification, printing, buying, inventory storage, use, and distribution of forms and publications.

OSS's forms management operations currently consist of maintaining a centralized warehouse distribution center for the receipt, storage, and physical inventory of approximately 4,100 State forms and publications. OSS annually reports to State agencies the amount of forms and publications stored in inventory. While these

forms and publications are owned and controlled by State agencies, OSS has the responsibility for the Statewide forms management program that should actively work with State agencies to design and maintain quantities of forms and publications that minimize inventory carrying costs* .

Our review of costs associated with forms and publications usage disclosed:

- a. A sample of 100 forms and publications stored in OSS's warehouse from April 1, 1998 through March 31, 1999 disclosed an average forms turnover rate* of only 1.25 times per year, with 79% of the sample items having a forms turnover rate of less than 1 time per year. In addition, State agencies had not acquired from inventory 28% of the forms and publications in our sample during our test period. A recent report from the U.S. Department of Commerce for private sector companies noted that turnover rates ranged from approximately 8 to 14 times per year for similar products. A low turnover rate indicates idle inventory and possible overstocking and obsolescence, which could result in increased carrying costs.
- b. State agencies incurred unnecessary printing and storage costs for overstocked and obsolete forms and publications. We estimated the costs of forms and publications and the associated storage costs (for the year of

* See glossary at end of report for definition.

destruction only) of forms and publications destroyed for 10 departments from October 1, 1997 through September 30, 1999. A summary of our review follows:

Department	Quantity of Forms Destroyed	Estimated Cost of Destroyed Forms	Estimated Cost of Forms Storage	Total Estimated Costs
Family Independence Agency	6,286,397	\$ 139,558	\$ 92,508	\$ 232,066
Department of Treasury	5,733,347	65,360	75,408	140,768
Department of Community Health	3,003,717	66,683	43,782	110,465
Department of Consumer and Industry Services	2,674,102	59,365	38,049	97,414
Michigan Jobs Commission	2,260,362	50,180	32,148	82,328
Department of Corrections	535,071	28,001	16,258	44,259
Department of Management and Budget	158,550	3,520	2,065	5,585
Department of Natural Resources	54,747	1,215	723	1,938
Department of Agriculture	0			0
Department of Education	0			0
	<u>20,706,293</u>	<u>\$ 413,882</u>	<u>\$ 300,940</u>	<u>\$ 714,822</u>

OSS informed us that it is each State agency's responsibility to determine the amount of forms and publications to print and store and to determine when to dispose of overstocked or obsolete forms and publications. However, OSS's forms management program should actively advise State agencies of the most cost-effective methods for the printing, storage, and disposal of forms, based on State agencies' needs. For example, OSS should work with State agencies to determine if it is more cost effective to frequently print smaller quantities of forms and publications or to print and store large volumes of forms and publications.

RECOMMENDATION

We recommend that OSS improve the forms management program by actively advising State agencies of the most cost-effective methods for the printing and storage of forms and publications.

AGENCY PRELIMINARY RESPONSE

OSS agrees with this recommendation. OSS informed us that, in March 2000, its Materials Management Services (MMS) Program sent a letter to all agencies that store forms and publications with MMS. MMS provided the agencies with

information about their inventory usage, cost, square feet occupied, and number of forms in inventory for the prior 12-month period. MMS asked for a confirmation of continued storage needs. OSS informed us that responses from agencies have resulted in decreasing the total space occupied by 1,500 square feet.

In a more comprehensive effort, OSS informed us that it has established an officewide team to review the storage of forms and publications. The team is made up of representatives from Print and Graphic Services, the Consolidated Print Center, Mail and Delivery Services, MMS, and Records and Forms management. The objective of the team is to reduce the inventory and provide more cost-effective solutions for the printing and storage of forms and publications. OSS will work with each individual agency to identify alternatives, including electronic forms, print on demand, and Internet-based forms and publications. OSS will comply by May 31, 2001.

FINDING

2. Materials Management

OSS could improve the inventory practices of its building and maintenance supplies operation by eliminating excessive inventory to maximize warehouse space and reduce carrying costs.

OSS uses a centralized warehouse to maintain an inventory of approximately 3,800 building and maintenance supplies available for purchase by all State agencies. In-stock commodities include: plumbing, mechanical, lighting, piping and fittings, hardware, electrical, tools, and janitorial supplies. For the fiscal year ended September 30, 1999, building and maintenance supplies revenue was approximately \$7.6 million and related year-end inventory was approximately \$815,000.

Although OSS dramatically reduced the number of items held in inventory from approximately 9,500 to 3,800 between 1992 and 1999, OSS still maintains excess or obsolete building and maintenance supplies inventory in its warehouse. OSS reduced the number of items in inventory by focusing on purchasing items that were difficult to locate or items that took an extended lead time to purchase. In prior years, OSS emphasized volume purchases to obtain discounts in order to be

cost effective. With the new purchasing initiatives used by the State, such as procurement credit cards, OSS should evaluate customer needs and maintain the most cost-effective inventory levels.

We noted that OSS still stored a significant level of inactive or rarely issued inventory items in its warehouse. We reviewed 100 items held in inventory at March 31, 1999. We noted that 56 items had an inventory commodity turnover rate of 1 time or less per year, including 30 items that were not used in the past year. The commodity turnover rate for our entire sample averaged 1.04 times per year. The results of our sample are noted below:

Annual Commodity Turnover Rate	Sample Items
No turnover	30
.1 to .5	17
.51 to 1	9
1.1 to 2	25
Greater than 2	19
Total	100

By comparison, a recent report from the U.S. Department of Commerce for private sector companies noted that turnover rates for similar commodities ranged from approximately 5 to 10 times per year. Higher turnover rates suggest that warehouse staff are managing stock effectively and frequently pulling items for use.

We also noted that inventory balances for 73 of the 100 sample items exceeded the established maximum inventory quantity levels. Excess inventory balances could result in increased inventory carrying costs and inefficient use of warehouse space. Prior to the completion of our audit, OSS had begun to analyze different purchasing and inventory practices to reduce excess inventory.

RECOMMENDATION

We recommend that OSS continue to improve the inventory practices of its building and maintenance supplies operation by eliminating excessive inventory to maximize warehouse space and reduce carrying costs.

AGENCY PRELIMINARY RESPONSE

OSS agrees with this recommendation and informed us that it has complied. OSS informed us that, in May 2000, MMS liquidated the building and maintenance supplies inventory. Users will now purchase supplies using just in time, drop-ship or procure additional commodities with the State's procurement card. OSS also informed us that MMS has reduced its warehouse space requirements as a result of eliminating the building and maintenance supplies inventory and has vacated the MMS facility and incorporated existing commodities into the General Services Building and two small warehouses. Warehouse space needs for MMS have dropped approximately 50%, from 160,000 square feet to approximately 80,000 square feet.

FINDING

3. Monitoring of Printing Operations

OSS's Print and Graphic Services (PGS) did not have an efficient cost accounting system and job tracking system to effectively monitor its printing operations.

PGS provides a full range of printing and photocopying services available to all State agencies. For the fiscal year ended September 30, 1999, PGS completed approximately 7,500 printing jobs, in addition to preparing 233.4 million photocopies, and reported revenue of approximately \$9.7 million. Our review of PGS operations disclosed:

- a. PGS does not have an efficient cost accounting system to assist in the development of billing rates for printing services, to monitor printing costs, and to evaluate program operations.

Section 18.1269(2) of the *Michigan Compiled Laws* (Act 431, P.A. 1984, as amended) requires that rates established for printing services reflect the

actual cost of those services. PGS annually develops rates for its printing services based on various criteria that include production standards, anticipated units of services, private sector printer's rates for similar services, and estimated costs for services. OSS's print job billings process and rate development procedures were time consuming and labor intensive.

An automated cost accounting system would enable PGS to efficiently accumulate printing expense data for preparation of billings and for developing rates for printing services. In addition, an automated cost accounting system would enable OSS to monitor its production and identify inefficient use of personnel, equipment, and materials. Comparing budgeted hours and estimated costs used for developing rates to actual productivity would enable management to set or adjust billing rates to help ensure recovery of its costs.

- b. PGS's job tracking system did not sufficiently document reasons for printing job processing delays.

PGS's job tracking system allows staff to locate printing jobs in progress and records required completion and shipping dates. However, the tracking system does not provide PGS with efficient access to updated information regarding job alterations, processing delays by requesting agencies, or job completion date changes. An analysis of 1,217 print jobs recorded on PGS's job tracking system for two months reported that 591 (49%) were completed, on average, 15 days after the requested due date. PGS stated that some of the delays occur because of the requesting agency's proofing delays, required changes, changes in printing priorities, and deadlines. However, a sample of 100 late jobs indicated that only 31 were delayed as a result of the requesting agency. Adequate documentation in a job tracking system would assist PGS in identifying reasons for processing delays and inefficient operations.

OSS has pursued the acquisition of an automated cost accounting system and job tracking system for several years; however, no system has been developed or acquired.

RECOMMENDATION

We recommend that PGS acquire or develop an efficient cost accounting system and job tracking system to effectively monitor its printing operations.

AGENCY PRELIMINARY RESPONSE

OSS agrees with this recommendation and will comply by December 31, 2000. OSS informed us that PGS is in the process of finalizing the business case for this project. Procurement and implementation of a system has been established as a priority in the business plan for PGS.

FINDING

4. Consolidated Print Center (CPC) Control Procedures

OSS had not established control procedures to prevent or detect unauthorized changes to computer warrant files by computer operators in its CPC.

CPC procedures allow computer operators access to warrant files and give operators the ability to make changes to file contents. While these procedures facilitate the efficiency of the printing process, they also allow inadvertent or intentional changes to file contents and inappropriate payments.

OSS control procedures should limit computer operators to file read-only capabilities or could include the preparation of an automated transaction log of all warrant file changes to help ensure the propriety of file contents and payments made. The CPC system's security officer or the originating requesting agency should monitor all warrant file changes.

RECOMMENDATION

We recommend that OSS establish control procedures to prevent or detect unauthorized changes to computer warrant files by computer operators in its CPC.

AGENCY PRELIMINARY RESPONSE

OSS agrees with the recommendation and informed us that it has complied. OSS informed us that, in November 1999, CPC removed the software that provided the ability to change computer warrant files. OSS also informed us that CPC does not

have the ability to alter warrant-related print files. The ability to change warrant print files is the sole responsibility of the originator of the print file.

EFFECTIVENESS AND EFFICIENCY OF SURPLUS PROPERTY PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the State and Federal Surplus Property Programs.

Conclusion: We concluded that the State and Federal Surplus Property Programs were generally effective and efficient. However, we noted a reportable condition related to Federal Surplus Property Program effectiveness.

FINDING

5. **Federal Surplus Property Program Effectiveness**

OSS did not sufficiently promote or advertise the Federal Surplus Property Program to eligible and potentially eligible participants and did not collect service charges sufficient to cover all expenses of the Program.

The amount of federal surplus property distributed to participants, as measured by the property's original government acquisition cost, declined from \$11,545,638 to \$5,707,555 (a 51% decrease) for the fiscal years ended September 30, 1995 to September 30, 1999. During that same period, expenses of the Program remained relatively constant.

OSS indicated that its program distributions are hindered by the limited amount of desirable surplus property available from federal warehouses located within Michigan's geographical region. OSS's program costs are affected by the increased cost of obtaining desirable federal surplus property located in other parts of the United States and abroad.

OSS promotion efforts for the Federal Surplus Property Program were primarily limited to a newsletter distributed to active participants. Because this newsletter was

sent only to active participants, it had little effect in attracting new participants or producing new sources of revenue.

In November 1999, OSS implemented an Internet web site that outlines the qualifications for the Federal Surplus Property Program and provides both contact information and application forms. This appears to be an effective way to attract new participants as one state attributed its new Internet web site to a 9% increase in the number of registered participants. In addition, another state developed an Internet web site that included a listing of surplus property available for distribution. This enabled the surplus property program to efficiently market surplus property availability and allowed participants to electronically screen the surplus property inventory.

OSS service charges for the Federal Surplus Property Program were not sufficient to cover expenses of its operations. Financial results of the Program's operations indicated that it has lost an average of \$93,350 per year for the last five years. Department of Management and Budget Administrative Guide procedure 340.04 and federal regulations allow the State to assess service charges that cover both direct and reasonable indirect costs sufficient to cover the costs of procuring surplus property for eligible participants. While the Federal Surplus Property Program is a valuable resource for public agencies and nonprofit organizations to stretch their budget dollars and obtain needed items at a nominal cost, OSS should evaluate options to either increase service charges or reduce program costs.

RECOMMENDATION

We recommend that OSS increase its efforts to promote or advertise the Federal Surplus Property Program to eligible and potentially eligible participants and collect service charges sufficient to cover all expenses of the Program.

AGENCY PRELIMINARY RESPONSE

OSS agrees with the recommendation. OSS informed us that it has already increased its marketing efforts. OSS's web site has been enhanced to include photographs of available surplus property. In addition, included in the business plan for the Federal Surplus Property Program is the creation of an electronic catalog to allow customers the ability to visit the web site to view commodities that

are available. OSS staff have participated in two donee trade shows in the last six months and have contacted additional donee organizations to market the program. OSS informed us that it is increasing its efforts to compare service charges with acquisition costs and that plans are underway to automate this process. OSS will comply by September 30, 2001.

INTERNAL CONTROL RELATED TO WAREHOUSING OPERATIONS

COMMENT

Audit Objective: To assess the internal control related to OSS warehousing operations.

Conclusion: We concluded that the internal control related to OSS warehousing operations was generally effective. However, we noted a reportable condition related to federal surplus property inventory controls.

FINDING

6. **Federal Surplus Property Inventory Controls**

OSS did not establish sufficient procedures to improve inventory records, safeguard federal surplus property, and dispose of surplus property in a timely manner.

Federal Property Management Regulation 101-44.202(c)(3) requires that State agencies use an accounting system that effectively controls and accounts for the federal surplus property. OSS procedures require inventory records of only items with a government acquisition cost* (GAC) of at least \$500. In August 1999, the total GAC of OSS's inventoried federal surplus property was approximately \$2.3 million (23%) of the estimated \$9.7 million total inventory.

* See glossary at end of report for definition.

We noted the following weaknesses related to OSS's federal surplus property inventory control system:

- a. OSS did not include high demand items valued below \$500 in its surplus property inventory record system. Thus, OSS could not readily determine the inventory availability at its three distribution centers.
- b. OSS could not account for all federal surplus property obtained and transported from federal distribution centers to OSS locations. OSS reported 624 items, with an OSS estimated value of \$14,474, as missing during our audit period. Documentation indicated that OSS obtained the surplus property from federal distribution centers, but the property was reported missing upon arrival to OSS. OSS stated that shortages occurred because of inaccuracies between receiving documentation and items obtained. However, this was not indicated at the time that the surplus property was obtained. Proper control procedures require the identification and verification of all inventory differences at the initial receiving location and again at the delivery of the property to its final destination.
- c. OSS procedures did not ensure the timely disposal of undistributed federal surplus property.

OSS can dispose of property through normal distribution activity or through public auction. However, Federal Property Management Regulation 101-44.205(j)(4) allows OSS to retain a portion of the proceeds from public auction only for property held in its possession not more than two years. For property held more than two years, OSS returns all auction proceeds to the federal government.

During our audit, we noted a significant portion of items in the distribution centers that appeared to have been in storage for more than two years. Of items recorded in OSS inventory records, 176 items with a cumulative GAC of \$267,492 were held over two years and 106 of those items for more than 10 years.

OSS should improve its procedures to ensure that undistributed federal surplus property is identified and placed in public auctions within two years of acquisition. This would help ensure OSS's eligibility for proceeds from the sale of the property by public auction and would purge nonmoving inventory from its distribution centers.

RECOMMENDATION

We recommend that OSS establish sufficient procedures to improve inventory records, safeguard federal surplus property, and dispose of surplus property in a timely manner.

AGENCY PRELIMINARY RESPONSE

OSS agrees with the recommendation. OSS informed us that it has begun working on an automated inventory control system as well as implementing internal control procedures for the acquisition and transport of the federal property. Efforts identified in the response to Finding 5 will assist in disposing of property in a timelier manner. OSS will comply by September 30, 2001.

Glossary of Acronyms and Terms

carrying costs	Costs that arise when an agency holds goods for sale or disbursement. These may include storage expense, spoilage and loss, and opportunity cost of the investment tied up in inventory.
CPC	Consolidated Print Center.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
government acquisition cost (GAC)	The original reported cost associated with federal surplus property obtained from the federal government.
mission	The agency's main purpose or the reason the agency was established.
MMS	Materials Management Services.
OSS	Office of Support Services.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

PGS Print and Graphic Services.

reportable condition A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

turnover rate A commonly used inventory performance measure that indicates how often an item is pulled from stock for use. A high turnover rate suggests that inventory staff is effectively managing stock. A low turnover rate indicates idle inventory and possible overstocking and obsolescence. For example, a turnover rate of 1 indicates that all inventory items turned over once during the year.