

OFFICE OF THE STATE AUDITOR

PERFORMANCE AUDIT

OF THE

STATE SURPLUS PROPERTY AGENCY

Within

THE DEPARTMENT OF ADMINISTRATION

AUGUST 2001



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AUDITOR'S TRANSMITTAL

August 2, 2001

The Honorable Michael F. Easley, Governor
Secretary Gwynn T. Swinson
Department of Administration
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of *the State Surplus Property Agency within the Department of Administration*.

This report consists of an executive summary and operational findings and recommendations that contain program overview information. The objectives of the audit were to: 1) assess warehouse operations for effectiveness and efficiency, 2) assess inventory and cash management procedures, 3) review current organizational structure and staffing levels, and 4) review and assess the adequacy of existing space. The Secretary of the Department of Administration has reviewed a draft copy of this report. Her written comments are included as Appendix D, page 43.

We wish to express our appreciation to Secretary Swinson and her staff for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor



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EXECUTIVE SUMMARY

Program Description

The State Surplus Property Agency, within the Department of Administration, is charged with administering the transfer or sale of all surplus property among State agencies, universities, and other State institutions. State Surplus handles disposal of State assets that are surplus, obsolete, or used such as vehicles, furniture, equipment, computers, etc. Surplus carries out its duties through use of sealed bid sales, negotiated sales, or public auctions, and receives a 5% fee from the agency for handling the surplus property. The other 95% of the sales price is returned to the agency and reverts back to the State's General Fund at the end of the fiscal year. For Fiscal Year 2000-01, State Surplus realized revenues in excess of \$26 million for the State.

Audit Scope and Methodology

This performance audit of the State Surplus Property Agency was undertaken by the State Auditor under the authority granted by General Statute 147-64. The scope of the audit encompassed all operations of State Surplus. Audit efforts included interviews with knowledgeable individuals both within and outside State Surplus, examination and review of records, testing of samples for compliance with regulations and rules, and observation of daily operations.

Conclusions in Brief

OBJECTIVE 1: WAREHOUSE OPERATIONS

In addition to handling "normal" surplus State agency property, Surplus also operates several special or new programs: "Computers for Kids," sales of property sized for non-payment of taxes, sales of Hurricane Floyd temporary housing units, and is negotiating with the State Treasurer to handle sales of unclaimed property. Generally, State Surplus operations are completed timely and normally adhere to State rules and regulations. While the "Computers for Kids" program has supplied 3,600 reconditioned computers at a minimal cost of \$20 each to schools, 53% of the public schools systems said they were not aware of the program. There are opportunities to increase the number of computers reconditioned by expanding the number of correctional facilities allowing inmates to learn this trade. Customers for the reconditioned computers include not only school systems, but any tax supported or non-profit organization. To comply with statutes, State Surplus should require all non-profits to provide proof of their non-profit status prior to any sales. Lastly, State Surplus needs to develop formal operational policies and procedures to improve receiving, handling, storing, monitoring, and disposing of surplus State assets.

EXECUTIVE SUMMARY

OBJECTIVE 2:
INVENTORY
AND CASH
MANAGEMENT

Many of the surplused items are sold through "negotiated" sales requiring an invoice to the buyer or as cash sales in State Surplus' retail sales store. Examination of inventory and financial records and observation of daily operations raised questions as to the adequacy of Surplus' internal control and inventory procedures. Lack of staff negatively affects Surplus' ability to process invoices in a timely manner, to actively collect past due accounts, and to effectively monitor recycling contracts for compliance. Staff shortages also result in poor cash handling procedures, with the same individual responsible for collecting cash, recording sales, counting the cash, generating daily reports, and reconciling totals to cash collected. Preparing and making deposits of daily receipts is not given a high priority. Lastly, inventory data contained in the current computerized inventory control system is not accurate. A complete physical inventory needs to be conducted and reconciled to the data in the system.

OBJECTIVE 3:
ORGANIZATION
AND STAFFING

The State's surplus property operation is handled by a full time staff of 17, with assistance from temporary employees and a few inmates on work release status. While total sales of surplused property have increased over the past four fiscal years, Surplus does not maintain records at the detailed level to show the increase in the volume of property handled. However, Surplus has assumed responsibility for a number of new programs during the past two years. Based on our observations and examination of records, State Surplus lacks sufficient staff for efficient operations and cannot provide adequate supervision for inmates working in the warehouse. Additionally, the current sealed bid procedures are labor intensive, offering opportunities for e-business applications to improve operations.

OBJECTIVE 4:
SPACE
NEEDS

State Surplus processes and stores surplused State assets in three different locations in Raleigh. The main warehouse and the Central Prison storage location are both filled to capacity. There is little vehicle storage area at the warehouse location and customer parking is inadequate. Lack of storage space hampers efficient operations and creates safety concerns. Department officials have begun exploring options, considering co-locating the State and federal surplus operations at the current State-supplied federal site. While co-locating the two surplus operations is worthy of consideration, the current federal site is not a feasible alternative given significant problems with the site itself. A detailed space needs study should be conducted for the State Surplus operation considering all options including co-locating State and federal surplus. Space needs could be reduced through expansion of the pilot program allowing large State entities such as universities to dispose of their own surplus property. This option would require strong controls and procedures to protect State assets.

EXECUTIVE SUMMARY

Page

Specific Findings

Objective 1: Warehouse Operations

- ❑ Most school systems are not aware of the “Computers for Kids” program.9
- ❑ State Surplus could expand the computer reconditioning program.10
- ❑ State Surplus is not obtaining exempt certifications from non-profit organizations.11
- ❑ Lack of formal policies and procedures adversely affects State Surplus operations.12

Objective 2: Inventory and Cash Management

- ❑ State Surplus is not actively collecting its accounts receivable or outstanding invoices.15
- ❑ State Surplus does not prepare invoices in a consistent and timely manner.16
- ❑ State Surplus does not have adequate internal controls over its retail sales function.17
- ❑ State Surplus is not consistently making deposits in accordance with the *State Cash Management Plan*.18
- ❑ State Surplus is not accurately accounting for all surplused property.18
- ❑ State Surplus is not effectively monitoring the recycling contracts.20

Objective 3: Organization and Staffing

- ❑ Transport and handling of surplus property is poorly coordinated.25
- ❑ State Surplus is not adequately supervising inmate labor.26
- ❑ State Surplus lacks sufficient staff for efficient operations.27
- ❑ State Surplus can improve operations through e-business opportunities.28

Objective 4: Space Needs

- ❑ Lack of storage space hampers efficient operations and creates safety concerns.31
- ❑ Co-locating State and federal surplus operations at the current federal site is not feasible.31
- ❑ State Surplus space needs could be reduced through expanding the NCSU pilot project to other locations.32

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AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

North Carolina General Statutes (GS) 147-64 empowers the State Auditor to conduct performance audits of any State agency or program, as well as local entities receiving State and federal funds. Performance audits are reviews of activities and operations to determine whether resources are being used economically, efficiently, and effectively.

This audit of the **State Surplus Property Agency**, within the Department of Administration, was undertaken at the discretion of the State Auditor. Specific objectives of the audit were to:

- Assess warehouse operations for effectiveness and efficiency, including "Computers for Kids", use of inmates for refurbishing surplus property, and policies and procedures.
- Assess inventory and cash management procedures for compliance with regulations.
- Review the current organizational structure and staffing levels and identify functions and responsibilities.
- Review and assess adequacy of existing space.

During the period February through June, we conducted the fieldwork for the audit. The scope of the audit encompassed all operations of the State Surplus Property Agency. To achieve the audit objectives, we employed various auditing techniques which adhere to generally accepted auditing standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States. These techniques included:

- Review of existing General Statutes, federal laws, and North Carolina Administrative Code;
- Review of internal policies and procedures established by the State Surplus Property Agency;
- Review of existing reports and documentation at State Surplus;
- Examination of financial and inventory information;
- Interviews with key personnel within State Surplus, the Department of Administration, other state agencies, and members of the General Assembly;
- Surveys of local school systems;
- Interviews with program recipients and local government personnel;
- Site visits to State Surplus Property storage locations; and
- Survey of surplus property agencies in other states.

This report contains the results of the audit including conclusions and recommendations. Specific recommendations aimed at improving the operations of the program in terms of economy, efficiency, and effectiveness are reported. Because of the test nature and other inherent limitations of an audit, together with the limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the systems or lack of compliance. Also, projections of any of the results contained in this report to future periods is subject to the risk that procedures may become inadequate due to changes in conditions and/or personnel, or that the effectiveness of the design and operation of the procedures may deteriorate.

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FINDINGS AND RECOMMENDATIONS

This section of the report details the individual findings and recommendations for each of the major objectives of the audit. Performance audits, by nature, focus on areas where improvements can be made to increase the effectiveness and efficiency of the operation under audit. The identification of areas for improvement should not be taken to mean that the staff has not performed its duties or provided the State with needed services within the existing resource constraints. Many of the findings and recommendations contained in this report can be directly attributed to the lack of adequate staff to perform the agency's functions. (See page 27 for a discussion of staffing needs.) The findings and recommendations contained in this report should be viewed in that light.

Objective 1: To assess warehouse operations for effectiveness and efficiency, including "Computers for Kids", use of inmates for refurbishing surplus property, and policies and procedures.

To achieve this objective, we reviewed relevant North Carolina General Statutes, federal regulations, and applicable regulations contained in the North Carolina Administrative Code. We examined the "Computers for Kids" program, including documented usage by local schools systems and surveying North Carolina's 117 school systems. (See Appendix A, page 35 for results of survey.) We also reviewed in detail the existing policies and procedures in use by State Surplus, identified "standard practices" not contained in policies and procedures, and observed Surplus Warehouse operations.

Conclusions: The State Surplus Property Agency is a \$26 million dollar a year operation, handling the disposition and sale of State agency assets that are obsolete, used, or no longer needed by the agency. Surplus also operates several special or new programs: "Computers for Kids," sales of property seized for non-payment of taxes, and sales of Hurricane Floyd temporary housing units, and is negotiating with the State Treasurer to handle sales of unclaimed property. While the "Computers for Kids" program has supplied 3,600 reconditioned computers at a minimal cost of \$20 each to schools, 53% of the public school systems surveyed said they were not aware of the program. There are opportunities to increase the number of computers reconditioned by expanding the number of correctional facilities allowing inmates to learn this trade. Customers for the reconditioned computers include not only school systems, but any tax supported or non-profit organization. To comply with statutes, State Surplus should require all non-profits to provide proof of their non-profit status prior to any sales. Lastly, State Surplus needs to develop formal operational policies and procedures to improve receiving, handling, storing, monitoring, and disposing of surplus State assets.

FINDINGS AND RECOMMENDATIONS

Overview: The State Surplus Property Agency (State Surplus) is a section within the Division of Purchase and Contract, Department of Administration. The mission of State Surplus is to administer the transfer or sale of all surplus property among State agencies, universities, and other State institutions. North Carolina General Statute 143-64.03 authorizes State Surplus to sell all State-agency ". . . supplies, materials, and equipment that are surplus, obsolete, or used. . . ." State Surplus is also given authority to store and distribute such property to other State agencies, as well as tax-supported and non-profit organizations. The main facility is located on Chapel Hill Road in Raleigh, with an additional site at Blue Ridge Road (old Polk Youth Center) and storage space at the Central Prison facility. State Surplus carries out its duties through the use of sealed bid sales, negotiated sales, or public auctions. State Surplus handles disposal of such items as vehicles, furniture, equipment, and computers. Table 1 shows a breakdown of sales for fiscal years June 30, 1998 through June 30, 2001.

Fiscal Year	Negotiated Sales		Sealed Bid		Total Sales
	Vehicles	Misc.	Vehicles	Misc.	
FY97-98	\$5,038,973	\$1,841,598	\$6,078,979	\$3,997,121	\$16,956,671
FY98-99	5,419,658	1,744,496	7,203,666	5,346,767	19,714,587
FY99-00	4,783,055	2,483,039	5,637,684	3,698,852	16,602,630
FY00-01	5,224,176	2,595,908	6,554,045	12,358,712	26,732,841

Source: Sales Reports

In addition to its mandated functions, State Surplus operates several special programs: "Computers for Kids," sales of property seized for non-payment of taxes, sales of temporary housing units used by Hurricane Floyd victims, and sales of forfeited assets for the Department of Insurance. Surplus is negotiating with the State Treasurer's Office to handle sales of unclaimed property.

The "Computers for Kids" program was initiated by the Department of Administration in January 1997. The program is intended as an inexpensive way to increase the number of computers and computer equipment available to children in public and charter schools by reusing State agencies' surplused computers. State Surplus computer technicians recondition the best of the surplused computers from agencies, universities, and community colleges to ensure that they are functioning properly. All software and files are removed, the memory is upgraded¹, and other features that will make these computers more useful to schools are added. They are made available to public and charter schools for \$20 each.

The Department of Revenue is authorized to seize property to offset taxes assessed on individuals in possession of unauthorized substances. To convert this seized property into funds to discharge the tax liability, Revenue has entered into a contract with State Surplus to coordinate the collection, storage, and sale of the seized property.

State Surplus is negotiating with the Department of State Treasurer to coordinate the sale of unclaimed property held by the Treasurer. Property that is abandoned by its owner is

¹ The specifications for these computers include 32 MB of random access memory and 1.0 GB hard drives.

FINDINGS AND RECOMMENDATIONS

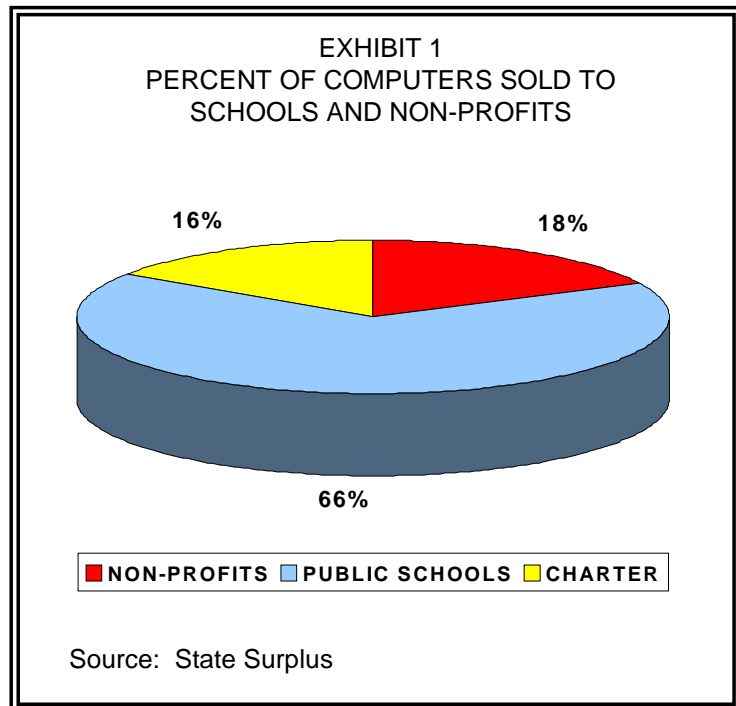
turned over to the State Treasurer to be held for the rightful owner to claim. Periodically, real property is sold to the public to convert into cash to be held in an account for the owner.

After Hurricane Floyd, the federal and State governments purchased travel trailers and mobile homes to provide temporary housing to victims left homeless. Surplus was engaged by the State Emergency Management Division to sell these units once they were no longer needed.

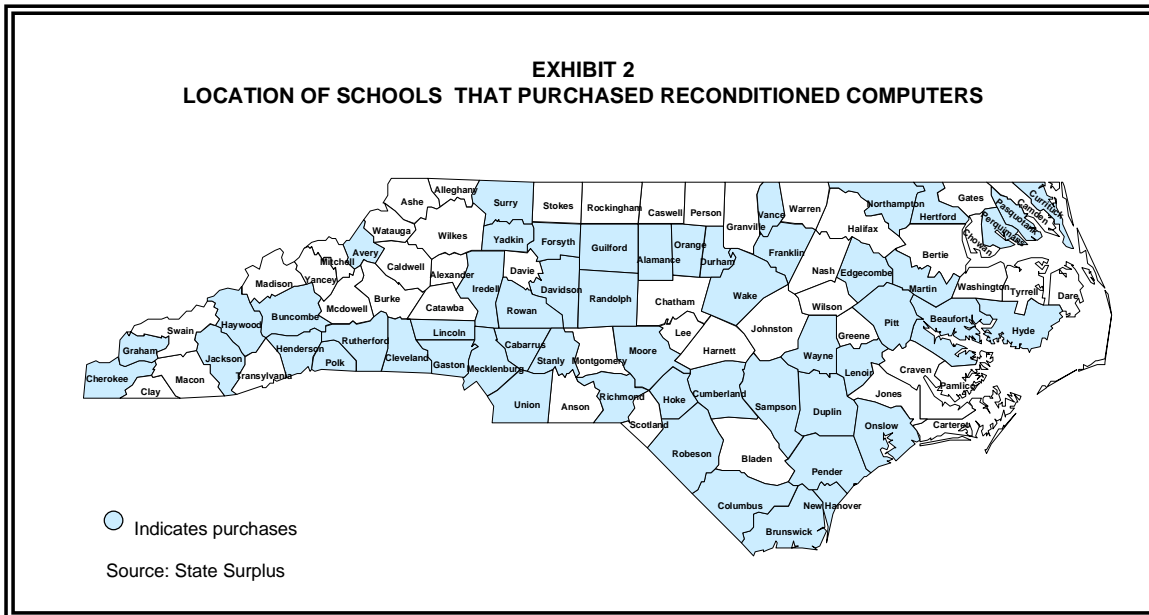
State Surplus has also agreed to sell property forfeited by insurance companies that have filed for bankruptcy but still have outstanding obligations in the State. The Department of Insurance is responsible for managing these forfeited assets.

MOST SCHOOL SYSTEMS ARE NOT AWARE OF THE “COMPUTERS FOR KIDS” PROGRAM.

State Surplus reconditioned and sold 4,389 computers between March 1997 and March 2001, about 3,600 of those to schools. Exhibit 1 shows the percent of computers sold to schools and non-profits. Exhibit 2, page 10 shows the location of the public school systems that have participated in the program thus far. However, the lack of staff and resources has limited State Surplus’ ability to fill orders for the reconditioned computers. State Surplus has only two technicians dedicated to reconditioning the computers, with the warehouse manager, among his numerous duties, performing the final quality assurance check of the computers and other equipment. State Surplus is also utilizing Department of Correction inmates from two facilities to assist in reconditioning some computers. (See page 10). As of March 2001, the "Computers for Kids" program had a backlog of outstanding orders (approximately 24 orders for 496 computers) from school systems.



FINDINGS AND RECOMMENDATIONS



State Surplus uses several methods for promoting the "Computers for Kids" program to school systems, including its Internet web site, distributing information through the Department of Public Instruction, and "word-of-mouth". State Surplus staff has not been aggressive in promoting the program because of its limited capacity for reconditioning the computers. State Surplus relies primarily upon the word-of-mouth among school systems to promote the program. A survey of school systems showed that 53% of the respondents were not aware of the program. (See Appendix A, page 35.) Seventy-one percent indicated that they would be interested in receiving more information about the program. We also noted that the web site has outdated information about the specifications of available equipment.

RECOMMENDATION

State Surplus should expand its capacity for reconditioning surplus computers. State Surplus should also work with the Department of Public Instruction to promote the program to public and charter schools in North Carolina. Lastly, the Internet web site should be updated to reflect the current specifications of the computers available through the "Computers for Kids" program.

STATE SURPLUS COULD EXPAND THE COMPUTER RECONDITIONING PROGRAM.

State Surplus is utilizing Department of Correction inmates from two facilities to assist in reconditioning some computers. This program not only benefits State Surplus, but benefits the inmates by providing job skills that can be used when they are released. Surplused computers are reconditioned by inmates enrolled in computer repair and

FINDINGS AND RECOMMENDATIONS

maintenance classes offered by the community college system at Harnett and Albemarle Correctional Institutions. Additionally, State Surplus uses three inmates who have completed the computer curriculum to recondition computers as part of the work program² at the Harnett facility. Approximately 1,075 computers have been reconditioned at the two facilities. Additionally, 90 printers have been reconditioned since the summer of 2000.

Limited space to store the surplus computers at the facilities and inadequate workspace for the reconditioning activities limit the number of computers reconditioned. These limitations have also hampered efforts to increase the number of inmates in the program. The Department of Correction has expressed interest in having other facilities participate in this program and has approached a number of facilities to determine their level of interest. The Avery County Correctional Institution has expressed interest in participating in the program. However, State Surplus management has reservations about using this facility because of the nearly 500 mile round trip between Raleigh and the facility. The agreement with Correction requires State Surplus personnel to transport the computers to and from the facilities.

RECOMMENDATION

State Surplus should work with the Department of Correction to identify other facilities that are willing to participate in the program. State Surplus should continue to work with Corrections to arrange for inmates to be placed on work release at the State Surplus computer warehouse to supplement the reconditioning efforts of the State staff.

STATE SURPLUS IS NOT OBTAINING EXEMPT CERTIFICATIONS FROM NON-PROFIT ORGANIZATIONS.

The Internal Revenue Service and the North Carolina Department of Revenue provide organizations that have documented their non-profit status letters stating that they are exempt from paying income taxes. The letters from the Internal Revenue Service are generally referred to as “501(c) certificates”. It is State Surplus policy to require all non-profit organizations to provide a copy of their 501(c) certificates before they are allowed to purchase surplus property.³

We selected sales transactions for 60 non-profit organizations and asked staff to provide copies of the 501(c)’s. State Surplus had certificates on file for only four of the 60 (7%) non-profit organizations. Surplus obtained certificates for three others after our inquiry.

² State Surplus has requested the Department of Corrections reassign these inmates to the Wake Correctional Institution so they could perform work release at the State Surplus computer reconditioning warehouse. However, security restrictions—the length of the inmates’ sentences and the lower security level of the Wake institution—have hampered efforts to get the inmates reassigned.

³ The only exceptions to this policy are purchases made through State Surplus’ retail store and sealed bids, which are open to the general public.

FINDINGS AND RECOMMENDATIONS

State Surplus has been unable to obtain the 501(c) certificates for 53 of the organizations. Table 2, page 13, shows the results of our sample. While the names of many of these organizations infer their non-profit status, State Surplus cannot be assured that they are actually non-profit organizations without the documented proof that a 501(c) certificate provides.

RECOMMENDATION

State Surplus should require all non-profit organizations to provide copies of their 501(c) certificates before allowing them to purchase surplus property.

LACK OF FORMAL POLICIES AND PROCEDURES ADVERSELY AFFECTS STATE SURPLUS OPERATIONS.

Reasonable business practice requires that State Surplus exercise uniform and impartial standards in properly storing and disposing of surplus property. State Surplus does not have a formal policies and procedures manual; rather, it relies upon memos and verbal instructions. We found that staff was receiving, storing, and monitoring surplus property inconsistently. For example:

- On some deliveries property identification labels had been applied by the agency declaring the property surplus.
- On other deliveries State Surplus staff had to apply the identification labels after the property was delivered.
- On some deliveries staff processed and stored items in an orderly manner, confirming the data in the inventory control system.
- On others the property was placed in any available open space without confirming inventory control information.
- Standard invoicing procedures were circumvented by Surplus management for certain sales.
- Non-profit status of organizations was not confirmed for all organizations.

In our opinion, the inconsistent practices observed result from not having a formal policies and procedures manual.

RECOMMENDATION

State Surplus should develop and maintain a comprehensive, formal manual of written policies and procedures. Management should train all employees on current polices and procedures and provide staff updates on a continuing basis.

FINDINGS AND RECOMMENDATIONS

TABLE 2 RESULTS OF SAMPLE FOR 501(c) CERTIFICATES				
	Organization	501(a) on File		
		Yes	Obtained after OSA Request	Could not Obtain
1	Alpha Academy			X
2	Antioch United Holy Church			X
3	Arapahoe Charter School			X
4	Ashe County Christian Academy			X
5	Association for the Advancement of Education			X
6	Bethany Community Middle School			X
7	Bethesda, Inc.		X	
8	Beulaville After School Program			X
9	Blount Day Care			X
10	Bonner Academy			X
11	Calvary Church of Our Lord Jesus Christ AF			X
12	Center for Peace Education			X
13	Church of Durham Operations Center			X
14	DOP Headstart (Duplin, Onslow, and Pender Counties)			X
15	Faith Christian School			X
16	Faith Tabernacle United Holy			X
17	Family Wellness & Recovery		X	
18	First Cosmopolitan Baptist			X
19	GAP Ministries			X
20	Gospel Light Baptist Church			X
21	Head Injury Prgm (JCN)			X
22	Heritage Baptist Church			X
23	Hobgood Academy	X		
24	Interfaith Refugee Ministry			X
25	Kiddie Kare of Albemarle, Inc.			X
26	Kids Korner Child Development Center, Inc.			X
27	Lee County Partnership for Children			X
28	Lej Academy			X
29	Lighthouse Ministries			X
30	Mt. Zion Developmental Center			X
31	National Pan Hellenic Council			X
32	NC United Methodist Commission			X
33	NC Voters for Clean Selections	X		
34	North Wadesboro Baptist Church			X
35	Oak Grove Missionary Baptist Church			X
36	Oasis Bible Fellowship			X
37	One Way Baptist Church			X
38	Onslow County Refugee Council			X
39	Open Door Ministries		X	
40	Pentecostal Free Will Baptist Church			X
41	Pinetops Presbyterian Church			X
42	Precious Ones Day Care Center			X
43	Resources for Seniors	X		
44	Saxapahaw Evangelical Friends			X
45	Scientific and Economic Assistance for Africa		X	
46	Shiloh Baptist Church			X
47	Special Blessings Preschool			X
48	St. Delight Church of God in Christ			X
49	St. Francis of Asisi School			X
50	St. Mark Catholic Church			X
51	Strengthening the Black Family			X
52	The Church of God			X
53	The Lake Norman Day School			X
54	The Thomas School			X
55	Trueway Baptist Church			X
56	Vance Charter School, Inc.			X
57	Vital Link School			X
58	Welfare Liaison Project	X		
59	West Albemarle Baptist Church			X
60	Woodland Baptist Church			X
	Total	4	3	53

Source: Compiled by Office of the State Auditor.

FINDINGS AND RECOMMENDATIONS

Objective 2: To assess inventory and cash management procedures for compliance with regulations.

To achieve this objective, we reviewed inventory records, observed operational procedures for storage and maintenance of surplus property, and traced a sample of selected items from the inventory. Additionally, we examined the financial records and procedures used by State Surplus staff in the daily operations. Lastly, we observed operations in the retail sales store, examined records of other negotiated sales, and observed a number of sealed bid procedures.

Conclusions: Much of the surplused property is sold through "negotiated" sales requiring an invoice to the buyer or as cash sales in State Surplus' retail sales store. Examination of inventory and financial records and observation of daily operations raised questions as to the adequacy of Surplus' internal control and inventory procedures. The lack of staff negatively affects Surplus' ability to process invoices in a timely manner, to actively collect past due accounts, and to effectively monitor recycling contracts for compliance. Staff shortages also result in poor cash handling procedures, with the same individual responsible for collecting cash, recording sales, counting the cash, generating daily reports, and reconciling totals to cash collected. Preparing and making deposits of receipts is not given a high priority. Lastly, inventory data contained in the current computerized inventory control system is not accurate. A complete physical inventory needs to be conducted and reconciled to the data in the system.

Overview: To achieve its mission, State Surplus uses sealed bids, negotiated sales, and public auctions. Additionally, it has recently tested selling items through the Internet. Staff stock and maintain a "retail sales" store at the Chapel Hill Road main warehouse location where the public can make cash purchases Monday through Friday. Staff hold a public sale of computer equipment at that same location on Wednesdays. Throughout the year, State Surplus conducts sealed bid sales of various surplused items generally valued at more than \$100. While most surplused items are located at the Raleigh location, staff works cooperatively with agencies such as the State Highway Patrol and North Carolina State University to set up sales of items at their locations. State Surplus also handles disposal of special surplused State property like the temporary housing units used by Hurricane Floyd victims, and negotiates and manages various contracts to recycle surplused property that is no longer usable.

FINDINGS AND RECOMMENDATIONS

State Surplus is a receipts-supported agency, receiving a handling fee from each agency for all items sold. Table 3 shows the revenues and expenditures for State Surplus for the last three fiscal years. The standard fee is 5% of the total sales price. However, for property seized by the Department of Revenue for non-payment of drug taxes, Surplus receives a 6% handling fee. Surplus also receives a 6% fee for disposal of items from the Department of Insurance forfeiture sales and will receive 6% from the Office of the State Treasurer for disposal of unclaimed property. Additionally, State Surplus retains the entire sales amount for all computer and computer related equipment to fund the "Computers for Kids" program.

Table 3					
REVENUES AND EXPENDITURES					
Fiscal Years Ending June 30, 1997 through June 30, 2001					
	06/30/1997	06/30/1998	06/30/1999	06/30/2000	06/30/2001
Beginning Balance	\$ 869,208	\$1,092,300	\$1,294,763	\$1,436,726	\$1,356,892
Revenues	929,845	956,901	1,039,726	971,662	1,382,023
Expenditures	706,753	754,438	897,763	1,051,496	1,370,147
Operating Profit/(Loss)	223,092	202,463	141,963	(79,834)	11,876
Ending Fund Balance	\$1,092,300	\$1,294,763	\$1,436,726	\$1,356,892	\$1,368,768

Source: Department of Administration

STATE SURPLUS IS NOT ACTIVELY COLLECTING ITS ACCOUNTS RECEIVABLE OR OUTSTANDING INVOICES.

State Surplus, as well as other state agencies with the approval of State Surplus, can sell surplus property through negotiated sales. After a negotiated sale is finalized, the buying agency is invoiced by State Surplus. This is a manual process, with no system in place to ensure that invoices are reviewed in a timely or systematic manner. As time permits, staff are assigned to follow up on unpaid invoices.

We conducted a review of the unpaid invoice file on May 31, 2001. We found no evidence of collection attempts since August 2000. We subsequently obtained a printout of unpaid invoices from the Department's Management Information Systems division. Invoices for amounts from \$1.00 to \$257,777, dated October 1, 1996 through April 30, 2001, were listed. In total, there were 264 unpaid invoices amounting to \$682,265 owed to the State. (See Appendix B, page 37.)

RECOMMENDATION

State Surplus should work with the Department's Management Information Systems to ensure that its computerized system can effectively track and work accounts receivable. The system should automatically flag accounts when they become overdue. A list of flagged accounts should be printed and distributed to the appropriate staff for collections. Management should more closely monitor collection efforts. Lastly, management should seek additional staff to work the backlog of past due accounts.

FINDINGS AND RECOMMENDATIONS

STATE SURPLUS DOES NOT PREPARE INVOICES IN A CONSISTENT AND TIMELY MANNER.

Orders for computers and other electronic equipment can be received through telephone calls, written correspondence, and faxes. When the orders are completed and delivered, the computer warehouse manager notifies the administrative staff so that the invoices can be prepared and mailed. An analysis of negotiated computer sales showed that 781 units were sold to non-profit organizations for which State Surplus should have prepared an invoice. We selected 29 transactions and requested staff provide copies of the invoices. For two of the 29 transactions (7%) in the sample, more than eight months elapsed between the sales date and the invoice date. Staff was unable to locate invoices for ten of the 29 transactions (34%). For seven of these ten transactions, the lack of invoices resulted from inconsistent handling of the sales and invoicing function. We believe this problem can be traced to the absence of written policies and procedures for operations. Table 4 shows the invoice status for the selected transactions.

RECOMMENDATION

State Surplus should ensure that the sales and invoicing function for the computer warehouse is incorporated into the new inventory control system being developed by the Department's Management Information Systems division. Policies and procedures should be developed to ensure consistent handling of all sales and invoicing.

TABLE 4 STATUS OF INVOICES FOR SELECTED TRANSACTIONS				
	Organization	Sales Date	Invoice Date	Comments or Elapsed Days
1.	Ashe County Christian Academy	10/29/97	none	No invoice found
2.	Bethesda, Inc.	11/18/99	11/18/99	0 days
3.	Beulaville After School Program	02/11/00	none	Donated to Floyd victims
4.	Bonner Academy	05/21/99	05/21/99	0 days
5.	Clarkton Fire Department	11/02/00	11/27/00	25 days
6.	Cumberland County Speech (Ashley Speech Center)	04/11/00	06/13/00	63 days
7.	DOP Headstart (Duplin, Onslow, & Pender Counties)	10/23/97	none	No invoice found
8.	Faith Christian School	09/08/97	03/11/98	184 days
9.	Head Injury Program—JCN	02/11/00	02/21/00	10 days
10.	Hobgood Academy	11/02/00	12/13/00	41 days
11.	Hoke County Sheriff's Office	05/20/99	05/20/99	0 days
12.	State Highway Patrol (Morgan)	03/22/00	none	Special purchase handled through retail store.
13.	Lej Academy	11/16/99	12/20/99	34 days
14.	Meris Foundation	09/20/00	none	Computer picked up at main warehouse.
15.	Mt. Zion Developmental Center	06/26/98	06/02/98	24 days
16.	National Pan Hellenic Council	07/03/00	08/01/00	29 days
17.	Open Door Ministries of High Point	06/07/00	06/15/00	8 days
18.	Paisley Math & Science	12/12/00	03/30/01	108 days
19.	Parkton Police Department	12/29/99	09/0600	252 days

FINDINGS AND RECOMMENDATIONS

TABLE 4 (continued)				
STATUS OF INVOICES FOR SELECTED TRANSACTIONS				
	Organization	Sales Date	Invoice Date	Comments or Elapsed Days
20.	Parkton Police Department	12/29/99	09/06/00	252 days
21.	Parkton Police Department	04/28/00	07/25/00	88 days
22.	Parkton Police Department	08/31/00	09/06/00	6 days
23.	Precious Ones Day Care Center	10/04/00	none	Special purchase handled through retail store.
24.	Project in Africa	03/21/00	none	Sale handled by State Surplus Property Officer
25.	State Highway Patrol (Mumford)	05/23/00	06/23/00	31 days
26.	Special Blessings Preschool	05/23/00	none	Computer picked up at main warehouse
27.	St. Delight Church of God in Christ	03/17/00	03/17/00	0 days
28.	Transfer to Property Officer	06/27/00	none	Sale handled by State Surplus Property Officer
29.	Vital Link School	03/21/97	none	No invoice found

Source: State Surplus Property Agency files.

STATE SURPLUS DOES NOT HAVE ADEQUATE INTERNAL CONTROLS OVER ITS RETAIL SALES FUNCTION.

During the review of the weekly retail computer sales held each Wednesday, we found that State Surplus is not using duplicate copy, pre-numbered receipts. Rather, customers are given a hand-written "receipt" showing only the amount of cash received with no other information. Therefore, there is no record of the sales to customers for these transactions. At the end of the day, the cash is counted and rung into the retail store's cash register as one sale. Having no detailed record of individual sales increases the possibility of losing funds.

Another key internal control is maintaining segregation of duties. Examination and observation of the daily retail sales functions revealed serious breaches of segregation of duties. While the inventory control system does generate duplicate receipts, the same individual who collects cash and records retail sales is also responsible for counting the cash, generating the daily sales report and cash register totals, and reconciling these totals to the cash collected. The cash and supporting sales records are then submitted to another employee to prepare the deposit. No monitoring mechanisms, such as cameras or supervisory oversight, are in place for the retail store sales window. The lack of strong internal controls increases the risk of misappropriation or misdirection of State assets.

RECOMMENDATION

State Surplus should immediately implement the use of pre-numbered duplicate receipts for the Wednesday computer sales. All receipts should be accounted for and agree to the amount of cash collected. Additionally, management should segregate the various functions involved with the retail sales operation to eliminate the possibility of

FINDINGS AND RECOMMENDATIONS

misappropriation of State assets. Consideration should also be given to installing cameras or implementing other monitoring procedures.

STATE SURPLUS IS NOT CONSISTENTLY MAKING DEPOSITS IN ACCORDANCE WITH THE STATE CASH MANAGEMENT PLAN.

In keeping with General Statute 147-86.11 (e) (2), the State's Cash Management Plan calls for State agencies to make daily deposits of receipts. A review of 64 deposits over a three-month period showed that two deposits totaling \$82,498 had not been deposited the next day. On March 23, 2001 an examination of files revealed 37 checks dating from November 28, 2000 through March 13, 2001 that had not been deposited. These checks totaled \$27,237. The agency does not date stamp checks when received. Not processing and depositing checks timely results in lost interest revenue to the State and increases the possibility that the check will not be honored. We are unable to estimate the total yearly interest lost due to the absence of detailed records at State Surplus.

RECOMMENDATION

Management should comply with the State Cash Management Plan and deposit all receipts within 24 hours. Procedures should be put in place to date stamp all checks as soon as they are received.

STATE SURPLUS IS NOT ACCURATELY ACCOUNTING FOR ALL SURPLUSSED PROPERTY.

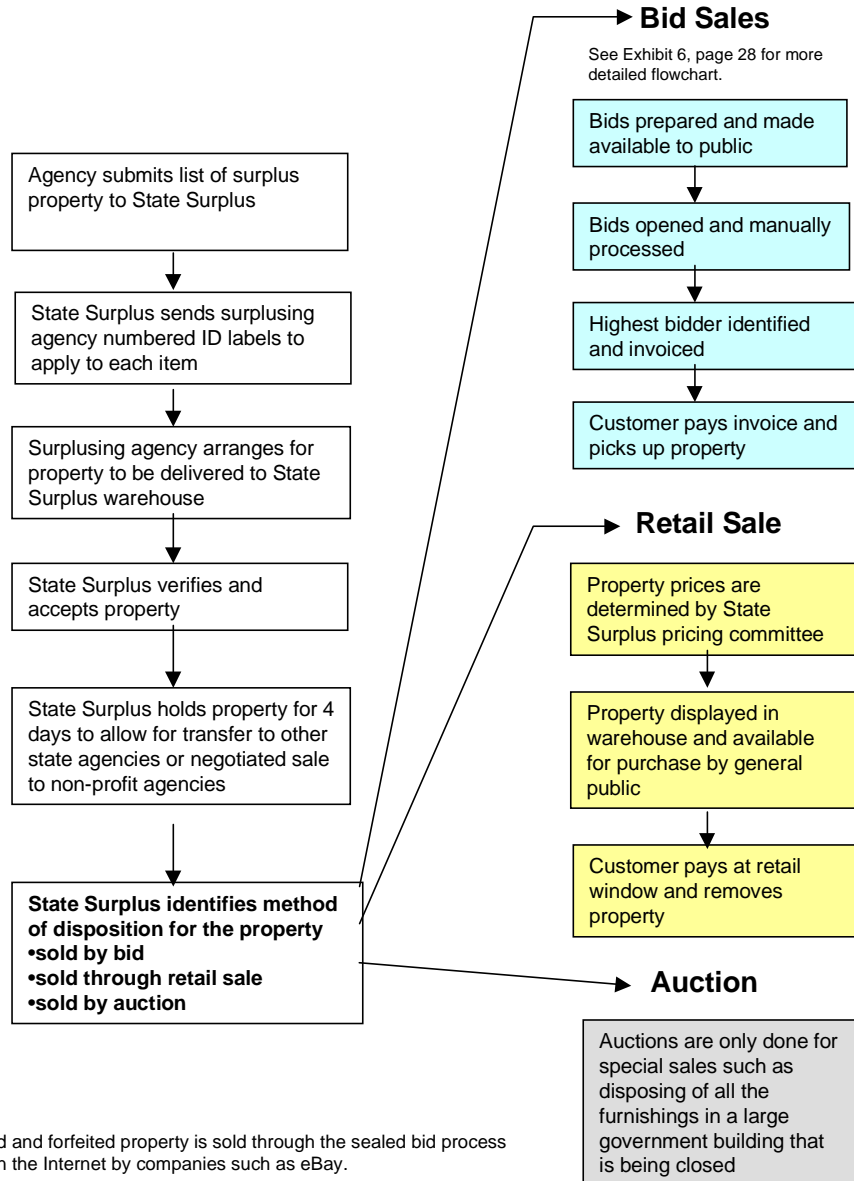
State Surplus, as the clearinghouse for disposing of State surplused property, is accountable for all State assets in its possession. To this end, State Surplus utilizes a computerized inventory control system. As property is surplused by State entities, Surplus staff enter relevant data for each item into the system. In order to generate inventory control labels, staff must enter data relevant to surplused property into the system BEFORE the items are received. Exhibit 3, page 19, shows the steps in the disposal process.

Currently, State Surplus maintains separate files within the inventory database for computer-related items, retail sales items, items for sealed bids, and vehicles. Examination of inventory practices and records revealed:

- 3 of 10 (30%) randomly selected surplus items had no identification labels and could not be tracked to the automated property inventory system.
- 3 of 37 (8%) items transferred to other agencies were not designated as transferred in the automated inventory system.
- 2,116 of 3,871 (55%) computer related items for two agencies were listed in the retail sales inventory.

FINDINGS AND RECOMMENDATIONS

EXHIBIT 3 SURPLUS PROPERTY DISPOSAL PROCESS



Seized and forfeited property is sold through the sealed bid process and on the Internet by companies such as eBay.

Source: State Surplus

FINDINGS AND RECOMMENDATIONS

- 25 of 373 (6.7%) vehicles were incorrectly listed:
 - ❑ 15 DWI seizure vehicles listed were either sold or returned to the Department of Public Instruction.
 - ❑ 1 vehicle was never delivered to State Surplus.
 - ❑ 2 vehicles were not physically on the lot nor does State Surplus have paperwork for them.
 - ❑ 7 vehicles have been sold but are still in inventory.

Therefore, the inventory data for the warehouse is inaccurate and does not reflect a true accounting of State assets.

The Department's Management Information Systems division is developing a new inventory management system for State Surplus that will utilize bar code scanning technology. This system is scheduled for implementation by November 1, 2001, and should help alleviate many of the problems discussed above. However, there is no policy requiring State Surplus to conduct a routine inventory of property stored in the warehouse, nor is one planned. Unless an inventory is conducted and the data in the current database corrected prior to transfer to the new system, these problems will continue.

RECOMMENDATION

State Surplus should conduct a full inventory of all surplus property, reconcile it with the current inventory system listing, and update the system as necessary prior to transferring inventory data into the planned bar code inventory system.

STATE SURPLUS IS NOT EFFECTIVELY MONITORING THE RECYCLING CONTRACTS.

State Surplus is responsible for managing the sale of recyclable materials⁴, that is, surplused items that have little or no marketable value except as recycled products. By recycling these materials, the State realizes some revenues and also keeps many of the materials from being deposited in landfills. The contracts for selling the recyclable materials are generally awarded through the sealed bid process for a year, with one- to two-year renewal options. State agencies have the option of negotiating their own recycling contracts; however, State Surplus is responsible for administering the contracts and managing the revenue collections. The contracts generally require contractors to pay for the recyclable materials by the tenth of the month for the previous month's pickups.

A review of eight recycling contracts showed State Surplus staff is not monitoring the contracts to ensure the monthly payments are being made. For example, one contractor did not submit any payments between December 12, 2000 and May 2, 2001 for 14 lots of recycle material. A payment of \$11,516 for these lots was received on May 2, 2001. We noted that several other contractors were also not submitting monthly payments. Table 5, page 22, shows the results of sample reviewed.

⁴ Recyclable materials are items such as paper, cardboard, computer monitors, computers, peripheral computer equipment, and waste motor oil.

FINDINGS AND RECOMMENDATIONS

We also noted that State Surplus is not enforcing the terms of the computer monitor contract. Surplus staff determines the quality of surplus monitors, with those deemed lower quality being recycled. This process takes time; therefore, it is considered more cost effective to sell lower quality monitors "as is" in pallets through the retail store rather than examine each individually. Examination of a sample of four pallets sold showed that the State could have realized approximately \$429 additional revenue if these monitors had been recycled. Further, analysis of documentation for recycled monitors showed that the contractor is required to pay \$8.50 per monitor; however, 98 monitors were purchased for only \$1-2 each for a total purchase price of \$165. Per terms of the contract, the contractor should have paid the State \$833. Therefore, the State is due \$668. According to Surplus staff, the contractor has been reluctant to take older, low-end monitors that were manufactured before 1993, claiming that these items have little or no recyclable value. The contract calls for all monitors to be sold to the contractor for \$8.50 each. Rather than dispose of these monitors in the landfill, State Surplus has convinced the contractor to take them at no cost to the contractor. State Surplus has not maintained any documentation on the number of older monitors that the contractor has taken since January 2001 when this became an issue. This contract expires at June 30, 2001. In renegotiating the contract, the issue of older monitors should be taken into account.

RECOMMENDATION

State Surplus should better monitor the recycle contracts and enforce all contract terms. Surplus should develop a strategy that ensures the most effective and efficient disposal method for all recycled materials.

FINDINGS AND RECOMMENDATIONS

**TABLE 5
RESULTS OF SAMPLE OF RECYCLING CONTRACTS**

MATERIAL TYPE	DATE OF PICK UP (N/A=Not Available)	NUMBER PICKED UP	TOTAL DUE	DATE OF INVOICE	DATE OF PAYMENT
Computer Monitors	10/09/00	244	\$2,074.00	12/12/00	12/12/00
	10/17/00	151	1,283.50	12/12/00	12/12/00
	10/24/00	172	1,462.00	12/12/00	12/12/00
	10/30/00	196	1,666.00	12/12/00	12/12/00
	11/07/00	48	408.00	12/12/00	12/12/00
	11/12/00	191	1,623.50	12/12/00	12/12/00
	NA	26	221.00	12/12/00	12/12/00
	NA	26	221.00	10/02/00	10/18/00
	11/14/00	168	1,428.00	12/13/00	05/21/01
	11/16/00	171	1,453.50	12/13/00	05/21/01
	NA	82	181.00	10/02/00	10/18/00
	NA	22	35.01	10/31/00	12/12/00
	NA	22	187.00	10/31/00	12/12/00
	NA	53	450.50	12/12/00	12/12/00
	NA	165	1,402.50	12/12/00	12/12/00
	NA	39	331.50	08/14/00	12/12/00
	NA	63	535.50	12/12/00	12/12/00
	NA	63	535.50	12/12/00	12/12/00
	11/09/00	36	306.00	06/01/01	05/02/01
	12/04/00	94	1,342.15	06/01/01	05/02/01
	NA	98	833.00	06/01/01	05/02/01
	01/11/01	317	2,939.30	06/01/01	05/02/01
	02/06/01	68	578.00	06/01/01	05/02/01
	02/07/01	26	221.00	06/01/01	05/02/01
	02/15/01	36	306.00	06/01/01	05/02/01
	03/01/01	24	204.00	06/01/01	05/02/01
	03/07/01	26	221.00	06/01/01	05/02/01
	03/12/01	11	93.50	06/01/01	05/02/01
	03/14/01	32	272.00	06/01/01	05/02/01
	03/20/01	154	1,309.00	06/01/01	05/02/01
		SUB TOTAL	\$24,123.96		
Computers, Peripheral Equipment	04/99	1 lot	419.00	05/18/99	05/18/99
	NA	1 lot	1,305.40	06/14/99	06/14/99
	NA	1 lot	214.67	07/23/99	07/23/99
	NA	1 lot	802.56	08/23/99	08/23/99
	NA	1 lot	322.43	09/14/99	09/14/99
	NA	1 lot	815.82	10/15/99	10/15/99
	NA	1 lot	757.82	11/12/99	11/12/99
	NA	1 lot	1,062.02	12/10/99	12/10/99
	NA	2 lot	2,455.87	03/09/00	03/09/00
	NA	1 lot	923.40	05/01/00	05/01/00
	NA	2 lot	2,577.97	06/16/00	06/16/00
	NA	1 lot	972.49	08/22/00	08/22/00
	NA	1 lot	864.09	09/13/00	09/13/00
	NA	1 lot	1,156.26	10/18/00	10/18/00
	NA	1 lot	1,496.82	12/11/00	12/11/00
	NA	1 lot	515.12	02/16/01	02/16/01
	NA	1 lot	901.19	05/11/01	05/11/01
			SUB TOTAL	\$17,562.93	
Wet Cell Batteries	NA	839	897.73	12/11/00	12/11/00
	NA	286	214.50	01/11/01	01/11/01
	NA	873	654.75	02/06/01	02/06/01
	NA	922	691.50	03/30/01	03/30/01
	03/01	828	621.00	05/09/01	05/09/01
	04/01	847	635.25	05/09/01	05/09/01
		SUB TOTAL	\$3,714.73		

FINDINGS AND RECOMMENDATIONS

**TABLE 5 (continued)
RESULTS OF SAMPLE OF RECYCLING CONTRACTS**

MATERIAL TYPE	DATE OF PICK UP (NA=Not Available)	NUMBER PICKED UP	TOTAL DUE	DATE OF INVOICE	DATE OF PAYMENT
Waste Oil and Antifreeze	4 pick ups 10/03 – 10/25/00	2,092 gals.	215.48	02/15/01	11/09/00
	24 pick ups 12/04 – 12/13/00	11,062 gals.	1,139.41	02/15/01	01/11/01
	17 pick ups 11/01 – 11/28/00	7,975 gals.	821.44	02/15/01	12/07/00
	22 pick ups 12/14 – 12/22/00	8,461 gals.	871.52	02/15/01	01/25/01
	70 pick ups 1/2 -- 01/31/01	24,724 gals.	2,546.58	02/15/01	02/08/01
		SUB TOTAL	\$5,594.43		
Ink Jet Cartridges	NA	260	98.80	03/21/01	03/21/01
		SUB TOTAL	\$ 98.80		
Waste, Computer & Corrugated Paper Contractor A	13 pick ups	141.6 tons	6,162.60	12/14/98	12/14/98
	NA	NA	10,452.52	08/27/99	08/27/99
	NA	NA	319.51	12/13/00	12/13/00
	NA	NA	72.75	04/10/00	04/10/00
	NA	NA	83.03	06/14/00	06/03/00
	NA	NA	157.12	09/13/00	09/13/00
	NA	NA	6,535.00	08/01/00	08/01/00
	NA	NA	5,792.38	08/01/00	08/01/00
	NA	NA	5,200.76	08/01/00	08/01/00
			SUB TOTAL	\$34,775.67	
Contractor B	NA	NA	6,656.48	08/01/00	08/01/00
	NA	NA	2,367.33	08/01/00	08/01/00
	NA	NA	580.58	08/02/00	08/02/00
	NA	NA	5.25	08/02/00	08/02/00
	NA	NA	938.87	08/02/00	08/02/00
	NA	NA	42.15	08/02/00	08/02/00
	NA	NA	97.45	08/11/00	08/11/00
	NA	NA	74.60	08/11/00	08/11/00
	NA	NA	59.35	08/11/00	08/11/00
	NA	NA	47.30	08/11/00	08/11/00
	NA	NA	86.57	08/11/00	08/11/00
	NA	NA	800.57	11/07/00	11/07/00
	NA	NA	19.13	12/20/00	12/20/00
	NA	NA	425.25	12/20/00	12/20/00
	NA	NA	13,290.48	12/28/00	12/28/00
	NA	NA	1,725.66	12/28/00	12/28/00
	NA	NA	735.94	01/12/01	01/12/00
	NA	NA	209.99	01/29/01	01/29/01
	NA	NA	102.10	01/29/01	01/29/01
	NA	NA	76.15	01/30/01	01/30/01
	NA	NA	321.06	03/15/01	03/15/01
	NA	NA	276.84	03/15/01	03/15/01
	NA	NA	97.90	03/15/01	03/15/01
	NA	NA	174.42	03/15/01	03/15/01
	NA	NA	311.20	03/19/01	03/19/01
	NA	NA	67.65	03/21/01	03/21/01
	NA	NA	17.40	03/21/01	03/21/01
	NA	NA	22.70	03/22/01	03/22/01
	NA	NA	212.62	04/25/01	03/25/01
	NA	NA	24.60	04/27/01	04/27/01
NA	NA	19.60	04/27/01	04/27/01	
NA	NA	104.45	04/27/01	04/27/01	
NA	NA	38.90	05/11/01	05/11/01	
		SUB TOTAL	\$30,030.54		
White Ledger Paper	NA	20.07 tons	2,348.19	01/04/99	01/04/99
		SUB TOTAL	\$2,348.19		
GRAND TOTAL			\$118,249.25		

^a Includes 12,070 pounds of non-functional monitors at \$.045 per pound.

^b Includes 5236 pounds of CPUs at \$.045 per pound and 612 pounds of printers at \$.015 per pound.

^c Includes 2502 pounds of non-functional monitors at \$.045 per pound and 310 pounds of printers at \$.015 per pound.

Source: State Surplus Property Records

FINDINGS AND RECOMMENDATIONS

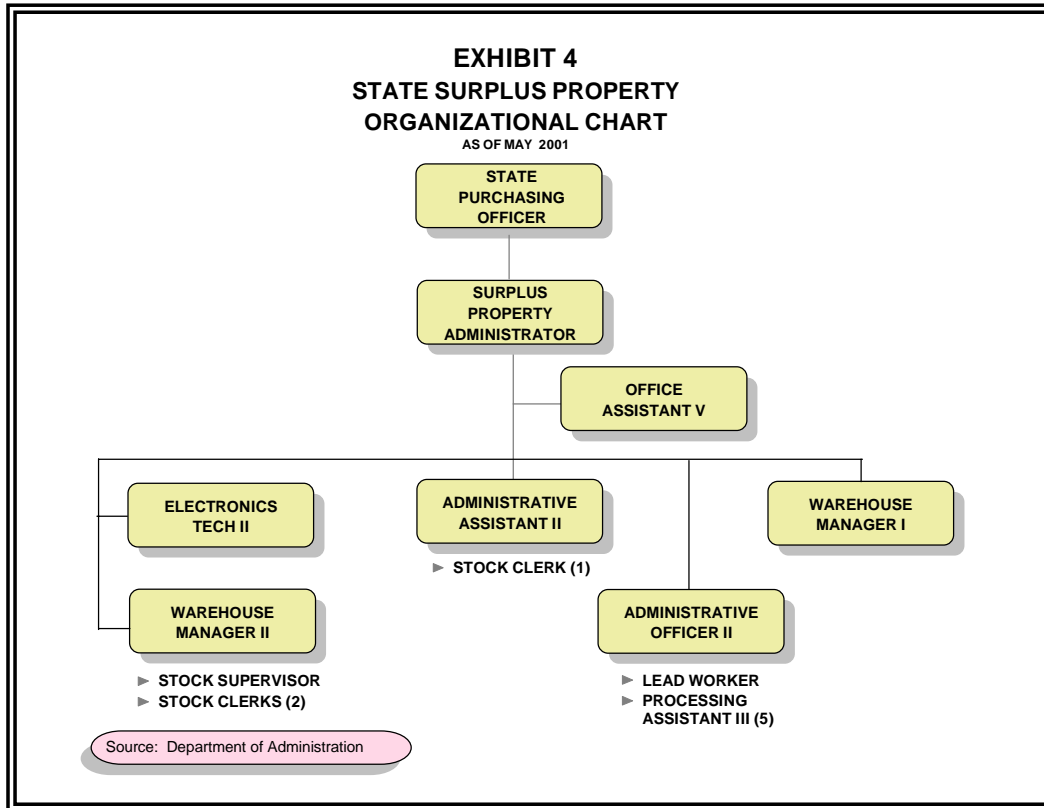
Objective 3: To review the current organizational structure and staffing levels, and identify functions and responsibilities.

To achieve this objective we examined organizational charts, job descriptions, and workplans. Additionally, we examined workload data for sealed bid sales over a three-year period and documented full-time positions for the past three fiscal years. Lastly, we interviewed staff to determine job duties and reviewed timesheets.

Conclusions: The State's surplus property operation is handled by a full time staff of 17, with assistance from temporary employees and a few inmates on work release status. While total sales of surplus property have increased over the past four fiscal years, Surplus does not maintain records at the detailed level to show the increase in the volume of property handled. However, Surplus has assumed responsibility for a number of new programs during the past two years. Based on our observations and examination of records, State Surplus lacks sufficient staff for efficient operations and cannot provide adequate supervision for inmates working in the warehouse. Additionally, the current sealed bid procedures are labor intensive, offering opportunities for e-business applications to improve operations.

Overview: The State Surplus Property Agency is a section within the Purchase and Contract division of the Department of Administration. State Surplus is headed by a Director who oversees 16 permanent positions and a number of temporary positions as needed. Exhibit 4, page 25 depicts the organizational structure in place during the audit. To supplement staff, State Surplus uses temporary state staff and inmates from the Wake County Correctional Institute, under a memorandum of agreement, in several areas of operations: warehouse operations and pick up and delivery of property. In all, State Surplus uses three inmates full time. Additionally, the Facility Maintenance division within the Department handles the transport of most surplus property from an agency to the State Surplus location.

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TRANSPORT AND HANDLING OF SURPLUS PROPERTY IS POORLY COORDINATED.

When an agency declares property surplus, it is supposed to call State Surplus to complete the paperwork and obtain the necessary inventory control labels. The agency has the option of delivering the property itself or arranging for the transport of the property to the Surplus Property Warehouse. In most cases, the agency calls the Facility Management division within the Department of Administration to schedule transport to the warehouse. At times there is a lack of communication and coordination between Facility Management and State Surplus on these deliveries.

Generally, if the agency is delivering the property itself, State Surplus schedules the delivery for a certain day and time. However, if the Facility Management moving crew is transporting the surplus property, State Surplus may not be notified in advance that it will be delivering property. We also learned that at times when Facility Management does notify State Surplus, the moving crew is told that Surplus does not have room for the property. Since Facility Management has no storage space other than the transport trucks, it must deliver the property as soon as possible. Therefore, when the moving crew arrives, State Surplus staff is often unprepared to accept deliveries. When this happens, State Surplus staff may fail to validate that all items received are approved for disposal and may not assure that the items are tracked in the inventory management system.

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Lastly, observations of deliveries made by Facility Management moving crews raised concerns about the proper handling of surplus property. The moving crew is generally composed of a State employee and two inmates. While we did not audit the complete transport process, on several occasions, we observed surplus property that arrived unsecured in the moving truck and appeared to have been damaged during transport.

RECOMMENDATION

To improve the coordination of the transport and handling of surplus property, the Secretary of the Department of Administration should assign the responsibility for the pick up and delivery of property to State Surplus. (Survey of other states shows 48% of the respondents offered state pick up services for surplus property.) Additional positions and equipment will be needed to accomplish this. At present, Facility Management uses two drivers and four inmates for this function approximately one day a week.

STATE SURPLUS IS NOT ADEQUATELY SUPERVISING INMATE LABOR.

As shown in Appendix C, page 39, 40% of the states surveyed used inmates for warehouse operations. State Surplus uses inmate labor for a variety of purposes: assisting the public, loading and unloading property, processing paperwork, preparing items for sale, and providing “security” over property seized in drug raids. In many cases, the inmates are not closely supervised by Surplus staff. We observed inmates freely moving about the warehouse, using the telephone, dismantling a stereo speaker without instruction, and providing “security” during public viewing of the drug-seized property. We learned of one inmate who had placed bids on property in violation of Department of Correction policy. The lack of supervision and the opportunity for contact with the public creates a potential for inappropriate or illegal activities and violates the terms of the agreement between State Surplus and Correction.

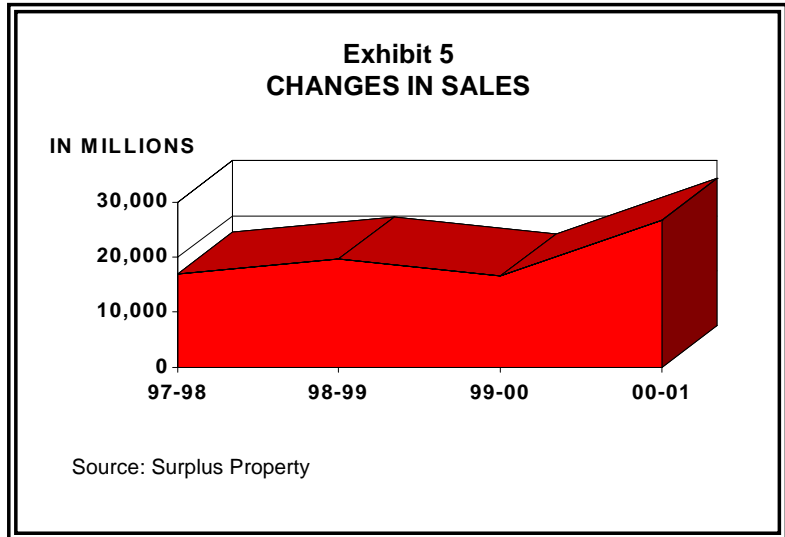
RECOMMENDATION

State Surplus should coordinate with Department of Correction personnel to assure proper levels of supervision for inmates and adherence to Correction's policies. State Surplus should review current inmate assignments for appropriateness and limit the contact inmates have with the public.

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STATE SURPLUS LACKS SUFFICIENT STAFF FOR EFFICIENT OPERATIONS.

Examination of the records for State Surplus shows a significant increase in total sales during fiscal years 1997-98 through 2000-01. Exhibit 5 show these changes. However, State Surplus has limited documentation showing the increase in the workload or volume of items handled. We were able to determine that during 2001, State Surplus assumed additional responsibilities for



disposing of property seized for unpaid drug taxes, insurance company forfeitures, and sale of temporary housing used for Hurricane Floyd victims. By the end of the year, State Surplus may begin disposing of unclaimed property held by the State Treasurer. To offset the additional workload, Department management has requested permission from the Office of State Personnel for changing four temporary positions to permanent positions.

During the audit, we observed a lack of staff to handle current workload levels, even with the temporary positions filled. Many times there was no one on the warehouse floor to load/unload surplus property or provide oversight of the inmates. To adequately staff the various functions, State Surplus management estimates that 12 additional positions are needed, as shown in Table 6. Based on data obtained from other

Table 6 ADDITIONAL PERSONNEL NEEDED						
Area	Current Staff			Proposed Additional Permanent Staff	Grade	Salary + Benefits*
	Perm.	Temp.	Inmate			
Front Office		1		Accountant I	72	61,657
Computer	1	4		Stock Clerk II	55	30,282
				Stock Clerk II	55	30,282
				Electronics Tech I	65	45,260
				Electronics Tech I	65	45,260
Motor Fleet	1	2		Stock Clerk II	55	30,282
Warehouse	4	2	1	Processing Asst. III	57	32,644
				Stock Clerk II	55	30,282
				Stock Clerk II	55	30,282
Drug Seizure	2	1	2	Stock Clerk II	55	30,282
				Stock Clerk I	52	27,994
				Stock Clerk I	52	27,994
TOTALS	17	10	3			\$422,501

*Computed at mid-point in range, with 43% for benefits.
Source: Compiled by OSA with assistance of State Surplus

states, the average number of employees for the states surveyed was 8.1 who handle average annual sales of \$2.70 million. This compares to North Carolina's 17 employees handling \$26 million in sales of surplus property.

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RECOMMENDATION

State Surplus should work with Department management and the Office of State Personnel to review the need for additional positions. To support staffing requests, State Surplus should develop meaningful performance measures and implement an inventory control system that would provide accurate data on the increased workload.

STATE SURPLUS CAN IMPROVE OPERATIONS THROUGH E-BUSINESS OPPORTUNITIES.

State Surplus now expends considerable time and effort to manually process sealed bid sales. The current practice is to conduct, on average, two sealed bid sales each week. Exhibit 6, page 29 shows the bid process, from receipt of surplus property to award of the bid, normally takes between six to eight weeks to complete. The review of the bids received is now done manually, requiring an estimated 1,367 hours of staff time annually. Each bid review takes approximately three to four hours and requires one employee to review each page of the bid. Bids range from four to nine pages normally. The employee must manually determine the highest bid for each of approximately 30 items on the bid page. Table 7 contains an analysis of the time required to process sealed bids conducted from July 1999 to March 2001. The new inventory control system under development for State Surplus is being designed to allow Surplus to utilize electronic avenues in the future.

Month	FYE 6/30/99	FYE 6/30/00	FYE 6/30/01	Average Hours per Month
July	101.5	101.5	80.5	94.5
August	108.5	108.5	164.5	127.2
September	147	87.5	136.5	123.7
October	122.5	101.5	147	123.7
November	112	87.5	136.5	112.0
December	122.5	52.5	94.5	89.8
January	115.5	84	112	103.8
February	105	77	87.5	89.8
March	133	21	108.5	87.5
April	112	101.5	150.5	121.3
May	77	147	224	149.3
June	136.5	94.5	203	144.7
TOTAL	1,393.0	1,064.0	1,645.0	1,367.3

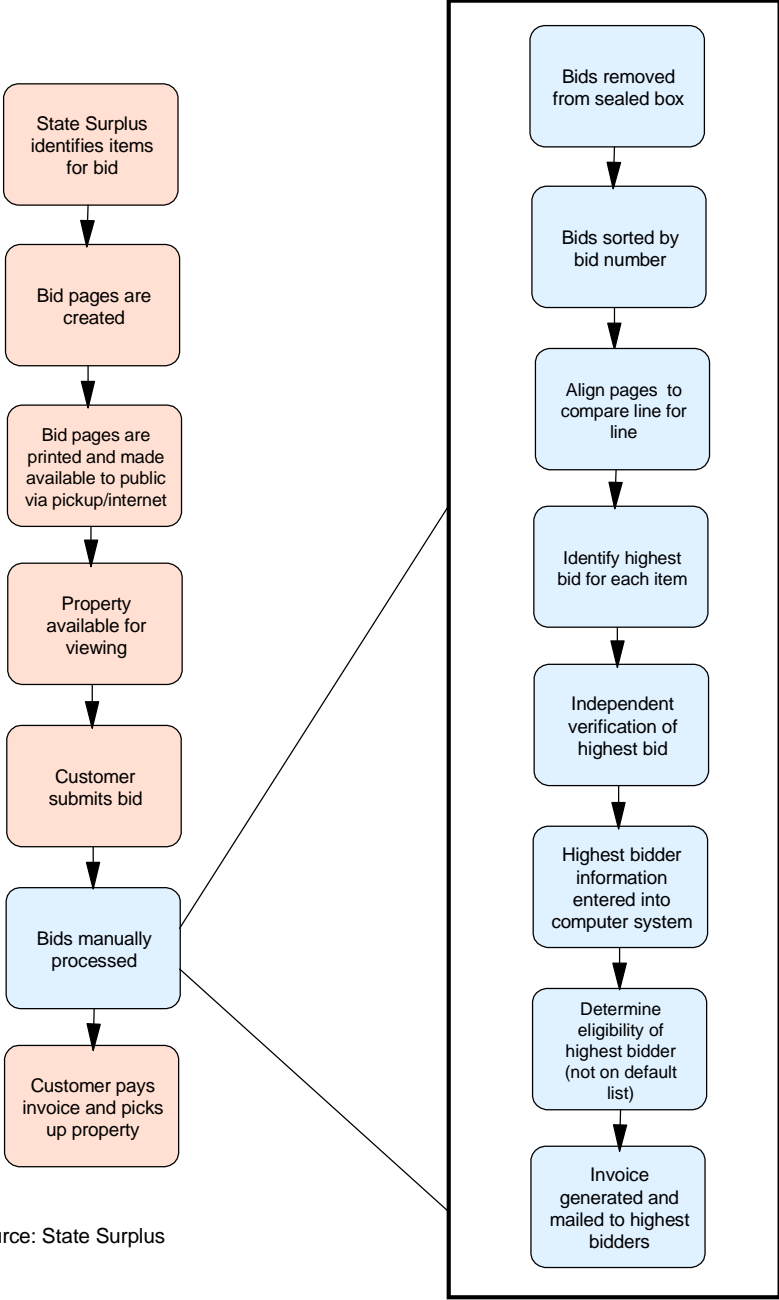
Source: Compiled by OSA using SSPA's data

RECOMMENDATION

State Surplus personnel and personnel from the Department's Management Information Systems division should work with personnel from the State's Information Technology Services office to develop e-business applications for the surplus operation. Surplus should explore how to effectively set up and conduct sealed bid sales via the Internet, using approved methods for electronic signatures and procedures needed to accept credit card payments. Surplus should also explore the possibility of obtaining an e-grant through the e-business committee of the Information Resource Management Commission.

FINDINGS AND RECOMMENDATIONS

EXHIBIT 6
CURRENT SEALED BID PROCESS



Source: State Surplus

FINDINGS AND RECOMMENDATIONS

Objective 4: To review and assess adequacy of existing space.

To achieve this objective we reviewed available studies, toured both the federal and State surplus property facilities, interviewed agency personnel, and interviewed local officials. We also surveyed other states to determine how they handle the surplus property function.

Conclusions: State Surplus processes and stores surplus State assets in three different locations in Raleigh. The main warehouse and the Central Prison storage locations are both filled to capacity. There is limited vehicle storage area at the warehouse location and customer parking is inadequate. Lack of storage space hampers efficient operations and creates safety concerns. Department officials have begun exploring options, considering co-locating the State and federal surplus operations at the current State-supplied federal site. While co-locating the two surplus operations is worthy of consideration, the current federal site is not a feasible alternative given significant problems with the site itself. A detailed space needs study should be conducted for the State Surplus operation considering all options including co-locating State and federal surplus. Space needs could be reduced through expansion of the pilot program allowing large State entities such as universities to dispose of their own surplus property. This option would require strong controls and procedures to protect State assets.

Overview: State Surplus Property operations are currently fragmented, with property stored and handled at three different sites. The main warehouse is only open to the public during normal working hours Monday through Friday. Lack of space for storage has resulted in State agencies having to hold surplus property until space becomes available at the Surplus warehouse. In an effort to handle the increased volume of property, State Surplus has initiated a pilot project with North Carolina State University that allows the university to dispose of some of its own property. Surplus receives a check for its standard 5% handling fee, with the remainder of the sales amount retained by the university. Additionally, State Surplus has approved the State Highway Patrol to hold vehicle sales on the Patrol lot on Blue Ridge Road. This is being done because of limited space at the Surplus warehouse and the fact that the public can view the vehicles seven days a week at the Patrol location.

In June 2000 at the request of the Secretary of Administration, the Office of the State Budget, Planning and Management conducted a study to examine the feasibility of co-locating State and federal Surplus property operations.⁵ The State has provided approximately 20 acres of land on Old Garner Road in Raleigh for the federal surplus property operation.

⁵ The study determined a one-time saving of \$1.3 to \$2.0 million dollars if the State sold the State Surplus site and co-located at the existing Federal Surplus property site.

FINDINGS AND RECOMMENDATIONS

Due to space limitations at the current State site, the Director of State Surplus has requested that consideration be given to expanding the current site by 40,000 square feet.

LACK OF STORAGE SPACE HAMPERS EFFICIENT OPERATIONS AND CREATES SAFETY CONCERNS.

State Surplus is housed in a one-story building, with approximately 40,000 square feet of storage area, located on 9.71 acres of land. It has additional sites on Blue Ridge Road for computer equipment (20,000 square feet) and at Central Prison for seized property (20,000 square feet). Both the main warehouse floor space and the Central Prison location are filled to capacity. The vehicle storage area at the main warehouse is close to capacity and customer parking is inadequate. Some warehouse areas are so crowded that safe movement of both personnel and equipment is inhibited. Because of the lack of storage space, State agencies must hold surplus property until space is available at the warehouse. Records show that the approximate turn-around time on "regular" surplus property is six to eight weeks. The turn-around time on the approximately 1,300 seized property items is six to 12 weeks. State Surplus expects to receive more unclaimed property from the Office of the State Treasurer that will also have to be stored until disposal. Additionally, the computer warehouse will have to relinquish its space on Blue Ridge Road before the end of the year. No study has been performed to determine the actual space and land needs of State Surplus. (For the states surveyed, the average warehouse space was 62,000 sq. ft. - Appendix C, page 39.)

RECOMMENDATION

Department management should authorize a space needs study for the State Surplus operations. The study should determine whether a new building, an expansion of the current building, or co-locating federal and State Surplus property is needed. Consideration should be given to factors such as operation efficiency, cost-effectiveness, and safety precautions.

CO-LOCATING STATE AND FEDERAL SURPLUS OPERATIONS AT THE CURRENT FEDERAL SITE IS NOT FEASIBLE.

One option that has been discussed is co-locating State Surplus operations with those of federal surplus. While the federal surplus warehouse site appears to have space available, in our opinion, other considerations make this an undesirable location. We learned that the federal site is surrounded by property that has been contaminated by hazardous wastes. Additionally, a tour of the site shows that much of the 20 acres is wetlands, with the actual structures built on an area that is solid rock. These factors mean the land would not be suitable for building. Lastly, the accessibility of the site and the traffic impact on the community of co-locating State and federal surplus operations at this site has not been fully explored. Therefore, if State and federal surplus operations are to be co-located, we believe that an entirely new site would have to be identified. A survey of

FINDINGS AND RECOMMENDATIONS

25 other state surplus property operations shows that 64% were co-located with federal surplus property. (See Appendix C, page 39 for results of survey.)

RECOMMENDATION

The Department of Administration should sanction a full feasibility study for co-locating State and federal surplus operations. The State Property Office should be contacted for possible sites for consideration.

STATE SURPLUS SPACE NEEDS COULD BE REDUCED THROUGH EXPANDING THE NCSU PILOT PROJECT TO OTHER LOCATIONS.

State Surplus, working with North Carolina State University (NCSU), has authorized a retail sales operation at NCSU. University staff conducts a sale of pre-priced surplus items valued at less than \$100 (desks, chairs, and small equipment) each Friday. This pilot project has increased efficiency of Surplus operations by eliminating the need to transport or store the property at the State Surplus warehouse, created a quicker method of disposal for the University, and gets the cash from the sales into the State treasury sooner. Under terms of the agreement, NCSU still pays State Surplus 5% of the sales price as a handling fee, depositing 95% of the sales price into the NCSU account.

RECOMMENDATION

Department management should explore the feasibility of authorizing other large State universities and institutions, especially those located outside Raleigh, to set up local surplus retail sale operations under the auspices of State Surplus. The approved university or institution would be responsible for operating its own local retail sales store, with advice and oversight supplied by State Surplus. For these operations, the General Statutes should be amended to allow the approved universities and institutions to pay State Surplus a reduced fee for any surplus property disposed of through the local operation.

APPENDICES

	TITLE	PAGE
A	School Systems' Survey Results Summary	35
B	Listing of Unpaid Invoices	37
C	Survey of Other States	39
D	Response from the Secretary of the Department of Administration	43

APPENDICES

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APPENDICES

APPENDIX A			
SCHOOL SYSTEMS' SURVEY RESULTS SUMMARY			
Question	Answer Choices	Number of Responses	Percent
1. Does your school system have a "central technology group" that is responsible for purchase and maintenance of computers and other technology? (61 responses)	a) Yes	54	88.5
	b) No	7	11.5
2. If no, who is responsible for the purchase and maintenance of computers and other technology equipment in your school system? (8 responses)	a) Principal - Individual schools	3	37.5
	b) Assistant Superintendent for Instruction	2	25.0
	c) Computer Coordinator - school	0	0.0
	d) Other (specify)	3	37.5
3. Is your school system aware of the "Computers for Kids" program which is managed by the State Surplus Property Agency in Raleigh? (61 responses)	a) Yes	29	47.5
	b) No	32	52.5
4. If yes, how did you become aware of the program? (35 respondents may have checked more than 1 response)	a) Publicity by State Surplus Property	4	11.4
	b) Internet	5	14.3
	c) State Department of Public Instruction	17	48.6
	d) Word of mouth – another school system	7	20.0
	e) Other (specify)	2	5.7
5. Has your school system (or individual schools) purchased computers and other equipment through this program? (28 responses)	a) Yes	8	28.6
	b) No	20	71.4
6. How many computers and computer-related equipment did your school system (or individual schools) purchase from State Surplus during calendar years 1997-2000?	Year	Number of Computers	Value
	1997	42	\$1,650
	1998	19	350
	1999	47	1,615
	2000	82	1,670
	Total	149	\$4,135
7. How satisfied has your school system (or individual schools) been with the <u>condition</u> of the computers and computer-related equipment purchased through the program? (8 responses)		Number of Responses	Percent
	1) Very dissatisfied	0	0.0
	2) Somewhat dissatisfied	1	12.5
	3) Reasonably satisfied	3	37.5
	4) Satisfied	3	37.5
	5) Very Satisfied	1	12.5

APPENDICES

APPENDIX A (continued)			
SCHOOL SYSTEMS' SURVEY RESULTS SUMMARY			
Question	Answer Choices	Number of Responses	Percent
8. How satisfied has your school system (or individual schools) been with the prices of the computers and computer-related equipment purchased through the program? (8 responses)	1) Very dissatisfied	0	0.0
	2) Somewhat dissatisfied	0	0.0
	3) Reasonably satisfied	1	12.5
	4) Satisfied	3	37.5
	5) Very Satisfied	4	50.0
9. Have you been able to obtain software for the computers purchased from State Surplus? (8 responses)	a) Yes	6	75.0
	b) No (please explain)	2	25.0
10. How is the necessary software installed on the computers purchased from State Surplus. (check all that apply) (10 responses)	a) State Surplus Property technician	0	0.0
	b) School system central technology group	5	50.0
	c) Contractor	0	0.0
	d) Staff at individual school	5	50.0
	e) Other (specify)	0	0.0
11. How are the computers that are purchased from State Surplus maintained? (check all that apply) (10 responses)	a) State Surplus Property technician	0	0.0
	b) School system central technology group	4	40.0
	c) Contractor	0	0.0
	d) Staff at individual school	4	40.0
	e) Other (specify)	2	20.0
12. For what purposes are computers purchased from State Surplus used by your school system? (check all that apply) (15 responses)	a) Regular class instruction	6	40.0
	b) Media center	0	0.0
	c) Vocational classes	2	13.3
	d) School administrative staff	1	6.7
	e) Teachers	5	33.3
	f) Other (specify)	1	6.7
13. Would your school system be interested in obtaining more information about purchasing refurbished computers and other equipment through this program? (61 responses)	a) Yes	43	70.5
	b) No (please explain)	18	29.5
Source: Compiled by OSA			

APPENDICES

Appendix B STATE SURPLUS PROPERTY AGING OF ACCOUNTS RECEIVABLE as of 4/30/01	
360+	\$384,329.96
181-360	109,054.12
91-180	21,478.30
61-90	38,030.00
31-60	36,225.00
Current	93,147.35
TOTAL	\$682,264.73
Source: DOA Management Information Systems	

APPENDICES

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APPENDICES

APPENDIX C SURVEY OF OTHER STATES

State	Ways Property Sold	Primary Types of Property Sold	Contractor Used	Type of Contract Work	State & Federal Combined	\$ Amount of Sales FY99-00	No. of Employees	Formal Computer Recycle Program	Who Utilizes Program	Warehouse Space	Types of Security	Type of Inventory System	State Agency Pick Up Service	Inmates Used
North Carolina	Sealed Bid, Auctions, Internet, Negotiated, Retail	Vehicles, computers, equipment, office furniture	No	N/A	No	\$17 million	30	Yes	Public schools, local government, Non profit organizations	80,000 sq ft	fenced area	Manual	Yes	Loading/ Unloading, Security, Picking up and preparing property
Alabama	Sealed bid, Auctions Internet	Office furniture, computers	Yes	Public Auction	Yes	\$695,000	10	Yes	Public Schools	150,000 sq ft	Alarm system, 10 foot electric fence	Manual	Yes	Receiving, loading & unloading items
Arkansas	Sealed Bid, Retail, Internet	Computers, office supplies, agriculture and medical equipment	No	N/A	No	\$2.5 million	14	No	N/A	8,000 sq ft on 1 acre of land	Camera surveillance	Bar code	Yes	No
California	Retail, Internet	Office equipment & furniture	No	N/A	Yes	Not given	18	No	N/A	35,000 sq ft 1/2 acre of land	Fenced area, 24-hr video surveillance	Bar code	No	N/A
Colorado	Sealed bid, negotiated, retail, auction, Internet	Computers, office equipment, furniture	No	N/A	Yes	Not given	6	Yes	Public schools, Local governments, non profit organizations	30,000 sq ft	Alarm system, lights, fenced areas	Bar code	Yes	Receiving, loading and unloading
Connecticut	Public Auction	Vehicles and Personal Property	Yes	Public Auction	Yes	\$4.5 million	4	No	N/A	None	Not necessary	N/A	No	N/A
Florida	Decentralized agencies responsible for surplus property	N/A	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Georgia	Sealed bid, Auctions, Negotiated, and Internet	Generators, equipment, vehicles, office furniture	Yes	Public Auction	Yes	\$1.3 million	18	Yes	Public Schools, Local Governments	120,000 sq ft 4 acres of land	alarm system, 24 hr security	Bar code	No	N/A

APPENDICES

APPENDIX C (continued) SURVEY OF OTHER STATES

Indiana	Sealed bid	Computers, office furniture and equipment	No	N/A	Yes	\$3.1 million	6	Yes	Public schools, Local governments, non profit organizations	80,000 sq ft	Barbed wire fence, alarm system	Manual	Yes	N/A
Kansas	Sealed bid, auctions, Retail, negotiated	Vehicles, computers, Equipment Office furniture	No	N/A	No	\$6.6 million	17	Yes	Public schools, non profit organizations, local governments, public	8,500 sq ft	Dead bolts, fence, padlocks, airport police, watch tiger	Custom programs	Yes	Cleaning, loading, Unloading, moving equipment
Kentucky	Sealed bid, retail, public auctions	Furniture, vehicles, clothing, tools	Yes	Public Auction	No	\$275,000	7	No	N/A	85,000 sq ft	Fenced lot, Roving State Police	Manual/ Computerized	No	Office work, Unloading items
Massachusetts	Sealed Bid	Vehicles, computers, office furniture	Yes	Public auction, computer recycle	Yes	\$1.3 million	1.5	No	N/A	No warehouse	N/A	Manual/ Computerized	No	N/A
Michigan	Auctions, Internet	Vehicles, computers, equipment, office furniture	No	N/A	Yes	\$1.1 million	6.5	No	N/A	50,000 sq ft	Motion detectors, lock sensors	None	No	N/A
Mississippi	Auctions	Computers, Heavy equipment, office furniture	No	N/A	No	\$152,185	4	No	N/A	95,000 sq ft	Locked gates, security lights	Manual	No	Janitorial services, loading property
Missouri	Sealed bid, auctions	Vehicles, Heavy equipment, office furniture	No	N/A	Yes	\$2 million	5	No	N/A	100,000 sq ft	Video surveillance cameras, Fenced area	Computer	No	Maintenance, repair, building and grounds maintenance, loading/unloading
Nebraska	Sealed Bid, Auctions	Office furniture, vehicles, Heavy equipment	Yes	Public Auction	No	\$3 million	4	No	N/A	9,000 sq ft	Automatic gates, roving State police	Manual	No	General warehouse work
New York	Sealed Bid, Auctions	Vehicles, heavy equipment, furniture	Yes	Public auction	No	\$5 million	10	No	N/A	40,000 sq ft	State police and campus security	Manual	No	N/A
North Dakota	Retail, Internet	Office equipment & computers	No	N/A	Yes	\$82,204	8	No	N/A	19,000 sq ft	Barbed wire Fenced area	Manual	Yes	Cleaning, loading/unloading

APPENDICES

APPENDIX C (continued) SURVEY OF OTHER STATES

Ohio	Sealed bid, negotiated, auction	Computers, office equipment, furniture, clothing	Yes	Public auction	Yes	Not given	8	Yes	Public schools	35,000 sq ft	Alarm system, lights, fenced areas	Manual	Yes	Cleaning, loading & unloading
Oregon	Sealed bid, retail, negotiated	Vehicles, office furniture, computers	No	N/A	Yes	\$4.5 million	12	No	N/A	84,000 sq ft	Alarm system, Fenced area, Electronic security	Manual/Computer	Yes	N/A
South Dakota	Auctions, Internet	Office and heavy construction Equipment	Yes	Public Auctions	No	\$1 million	4	No	N/A	6,000 sq ft	Fenced area	Manual	Yes	Cleaning, key punch
Utah	Sealed bid, retail, Internet negotiated	Computers, office furniture, vehicles, recreational equipment	Yes	Public Auction	Yes	\$4 million	4	Yes	Public schools	300,000 sq ft	Alarm system, Fenced, patrolled by State prison security	Manual	Yes	N/A
Virginia	Auctions, Internet	Furniture, vehicles, heavy equipment	No	N/A	Yes	\$6 million	6	No	N/A	15,000 sq ft	Alarm system	Manual	No	N/A
Washington	Sealed Bid, auctions, retail, negotiate, Internet	Vehicles, heavy construction equipment	Yes	Pick up transportation services	Yes	\$4.8 million	6.5	No	N/A	15,000 sq ft	Alarm system, fenced area	Manual	Yes	N/A
West Virginia	Auctions, sealed bid, negotiated	Vehicles, computers, equipment, office furniture	No	N/A	Yes	\$2 million	10	No	N/A	13,000 sq ft	Cameras	Computer	Yes	N/A
Wisconsin	No Surplus Property Agency-Surplus function is decentralized	N/A	N/A	N/A	N/A	N/A	4	N/A	N/A	0	N/A	N/A	N/A	N/A

Source: Compiled by OSA

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APPENDIX D

North Carolina Department of Administration

Michael F. Easley, Governor

Gwynn T. Swinson, Secretary

July 26, 2001

Honorable Ralph Campbell
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

We have reviewed the findings, conclusions, and recommendations that resulted from your audit of the North Carolina State Surplus Property Agency (SSPA). You will find our response attached.

The Department of Administration places great value in the opinions of our customers and stakeholders. Therefore, our management team reviewed the audit report with open minds in a spirit of collaboration between two State agencies. Notwithstanding any differences of opinion, we have declined **to take exception** to any specific findings or conclusions in the report. We have focused instead on how each of your recommendations can help us improve SSPA's overall operation.

We believe our reply demonstrates a high level of action and accountability. In the attached State Surplus Property Agency Response to Performance Audit Recommendations, you will find over 60 individual action items that we believe will address each recommendation in a positive and business oriented manner.

We believe that the ultimate value of an audit is reflected in the audit team's objective review of SSPA's operations and in the future improvement of business practices pursuant to the final report. You and your staff have done a very thorough job of reviewing the **State Surplus Property Agency** with objectivity, professionalism, and expertise. The Department of Administration's management team will now do our part by transforming the audit recommendations into results.

Thank you for the opportunity to work with your agency on improving our customer services and business practices. We look forward to future collaborative efforts between our agencies.

Sincerely,

signed by Secretary Gwynn T. Swinson

Gwynn T. Swinson

GTS/spw

Attachment

Mailing Address:
1301 Mad Service Center
Raleigh, NC 27699-1301

Telephone: (919) 807-2425
Fax (919) 733-9571
State Courier #5 1 -0 1 -00
e-mail: Gwynn.Swinson@ncmail-net
An Equal Opportunity/Affirmative Action Employer

Location Address:
116 West Jones Street
Raleigh, North Carolina

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State Surplus Property Agency Response to Performance Audit Recommendations

Purpose

- To provide a written response to the recommendations contained in the final draft of the Performance Audit Report.

General Comments

- The State Surplus Property Agency (“SSPA”) welcomes the opportunity to improve by using the audit results to increase efficiency and effectiveness of the program.
- Many of the responses are contingent upon the outcome of proposed legislation that would exempt the university system from using surplus property. If adopted, this legislation will have a significant impact on the agency. As such, prudent management dictates that certain options, including increasing staff or transferring location, be delayed until a decision is made concerning university exemption.
- The SSPA will submit a monthly report on accomplishments toward these goals to the Department of Administration's senior management team.

Recommendations and Responses

Objective 1: To assess warehouse operations for effectiveness and efficiency, including "Computers for Kids", use of inmates for refurbishing surplus property, and policies and procedures

MOST SCHOOL SYSTEMS ARE NOT AWARE OF THE "COMPUTER FOR KIDS PROGRAM."

1. Recommendation: State Surplus should expand its capacity for reconditioning surplus computers. State Surplus should also work with the Department of Public Instruction to promote the program to public and charter schools in North Carolina. Lastly, the Internet web site should be updated to reflect the current specifications of the computers available through the "Computers for Kids" program.

Response:

- ✓ On 6/22/01 the SSPA web site was updated.
- ✓ On 6/18/01 the SSPA sent an e-mail to the lead purchasers at all Local Education Agencies (LEA's) informing them about the Computer for Kids Program.
- ✓ On 6/22/01 the SSPA requested that the Department of Public Instruction (DPI) place a "hotlink" on its home page pointing to the Computer for Kids Program page on the SSPA's web site.
 - ⇒ *DPI contact responded and stated that he would discuss the matter with his supervisor and would support placing such a link on their homepage.*

- By 7/31/01 the SSPA will meet with the Division of Non-Public Education to determine if special assistance is needed to promote the program to Charter and home-based schools.
- The SSPA will send information concerning the Computer for Kids Program to all LEA's on a quarterly basis.
 - ⇒ *2nd Quarter - Sent letter dated 6/18/01*
- The SSPA will participate annually in LEA conferences to promote the Computer for Kids Program.
 - ⇒ *Requested information concerning DPI Workforce Development Summer Conference in GBO and asked if SSPA could make 10-minute presentation.*
- Expansion of the Computer for Kids Program will be addressed in the response to recommendation 2.

STATE SURPLUS COULD EXPAND THE COMPUTER RECONDITIONING PROGRAM.

2. Recommendation: State Surplus should work with the Department of Correction to identify other facilities that are willing to participate in the program. State Surplus should continue to work with Corrections to arrange for inmates to be placed on work release at the State Surplus computer warehouse to supplement the reconditioning efforts of the State staff.

Response:

- Due to the supervision and safety concerns raised in Recommendation 12, along with the increased costs of work release for inmate supervision and payment of labor, increased use of work release inmates will not be pursued at this time.
- Due to the potentially negative impact that proposed legislation may have on the supply of computers to this program, expansion plans must be contingent on resolution of the exemption issue.
- ✓ On 6/21/01 SSPA representatives met with Avery County Correctional Facility representatives to explore possible program expansion to that facility.
 - ⇒ *A field trip to the Avery County facility is planned for 7/27/01 for the purpose of setting up procedures for program implementation.*
 - ⇒ *Avery Facility is working with Mayland CC to hire teachers to start a computer program like the one in Harnett County.*
- ✓ On 6/29/01 SSPA representatives met with Department of Corrections (DOC) representatives. They agreed to assist the SSPA in working with Nash County Correctional Facility representatives to explore possible program expansion to that facility.
 - ⇒ *The SSPA will follow up by 8/31/01 to ensure progress.*
- The SSPA has requested a position to assist with expanding the reconditioning program. This receipt-supported position was advertised on 7/3/01 and is expected to be filled by 8/1/01.
- If the proposed legislation exempting the university system from using the SSPA for disposal of goods is not adopted, the SSPA will request that two (2) temporary positions be converted to permanent status.

- If the computer refurbishing capacity is increased, the SSPA will make a request for more computers from the University System.

STATE SURPLUS IS NOT OBTAINING EXEMPT CERTIFICATIONS FROM NON-PROFIT ORGANIZATIONS.

3. Recommendation: State Surplus should require all non-profit organizations to provide copies of their 501(c) certificates before allowing them to purchase surplus property.

Response:

- ✓ Pursuant to SSPA's policy, effective 6/12/01 all 501(c)'s are required to have copies of non-profit status on file for negotiated transactions with the SSPA.
- ✓ On 7/7/01 a letter was sent to all non-profits that have done business with the SSPA within the last year requesting that they submit documentation of their non-profit status. This step has been taken to improve current documentation as well as customer service.

LACK OF FORMAL POLICIES AND PROCEDURES ADVERSELY AFFECTS STATE SURPLUS OPERATIONS.

4. Recommendation: State Surplus should develop and maintain a comprehensive, formal manual of written policies and procedures. Management should train all employees on current policies and procedures and provide staff updates on a continuing basis.

Response:

- On 6/28/01 a team of DOA employees from the SSPA, Purchase and Contract, and the DOA Fiscal Management staff, was charged with developing a procedures manual. The team will do the following:
 - By 8/31/01 flowchart all current processes.
 - ⇒ *Subgroup met on 7/9/01 and started flowchart process (agency procedures for turning in surplus equipment are being flowcharted first).*
 - By 10/31/01 develop written procedural guidelines for all processes.
 - By 10/31/01 the SSPA will complete a review of current policies in the Administrative Code to determine whether any policy changes need to be made.
 - By 12/31/01 will have developed a comprehensive procedures manual for the SSPA. This manual will contain procedures that will govern implementation of the new accounting/inventory system scheduled to be in place by 1/22/02.
- ✓ Effective 7/17/01, a new SSPA employee has been assigned the primary responsibility for the coordination and oversight of policies and procedures.
 - By 1/31/02, all SSPA employees will be trained on new policies and procedures.
 - Once the policies and procedures manual is completed, the State Surplus Property Agency will conduct an annual review of the manual to ensure applicability and reliability of information.

Objective 2: To assess inventory and cash management procedures for compliance with regulations.

STATE SURPLUS IS NOT ACTIVELY COLLECTING ITS ACCOUNTS RECEIVABLE OR OUTSTANDING INVOICES.

5. Recommendation: State Surplus should work with the Department's Management Information Systems to ensure that its computerized system can effectively track and work accounts receivable. The system should automatically flag accounts when they become overdue. A list of flagged accounts should be printed and distributed to the appropriate staff for collections. Management should more closely monitor collection efforts. Lastly, management should seek additional staff to work the backlog of past due accounts.

Response:

- ✓ On 6/19/01 the SSPA submitted a list of past due invoices to DOA Fiscal Management staff who have notified customers that if payment is not received within 30 days the account will be submitted to the Attorney General's office.
- ✓ On 6/25/01 a temporary employee began work to assist with the fiscal operations of the SSPA.
- ✓ Effective 7/1/01 the SSPA began monitoring Accounts Receivables monthly and turning over Past Due accounts to DOA Fiscal Management for action.
- By 8/31/01 the flow charts used to develop internal procedures of the State Surplus Property Agency will be used to identify process gaps and to document the need for additional fiscal procedures or personnel.
- By 9/28/01 a report on additional fiscal procedures or personnel needed by the State Surplus Property Agency will be forwarded to departmental management.
- The State Surplus Property Agency is presently exploring the feasibility of adding an Accounts Receivable component to the new inventory system that is scheduled to be in place by 1/22/02.

STATE SURPLUS DOES NOT PREPARE INVOICES IN A CONSISTENT AND TIMELY MANNER.

6. Recommendation: State Surplus should ensure that the sales and invoicing function for the computer warehouse is incorporated into the new inventory control system being developed by the Department's Management Information Systems division. Policies and procedures should be developed to ensure consistent handling of all sales and invoicing.

Response:

- ✓ On 6/25/01 a temporary employee began work to assist with the fiscal operations of the State Surplus Property Agency.
- By 8/31/01 flow charting will be used to verify the sales and invoicing processes at the SSPA and improvements will be made based on the results of this detailed process.

- By 1/22/02 the new inventory system for the State Surplus Property Agency will be in place to facilitate improving the sales and invoicing processes.

STATE SURPLUS DOES NOT HAVE ADEQUATE INTERNAL CONTROLS OVER ITS RETAIL SALES FUNCTION.

7. Recommendation: State Surplus should immediately implement the use of pre-numbered duplicate receipts for the Wednesday computer sales. All receipts should be accounted for and agree to the amount of cash collected. Additionally, management should segregate the various functions involved with the retail sales operation to eliminate the possibility of misappropriation of State assets. Consideration should also be given to installing cameras or implementing other monitoring procedures.

Response:

- ✓ On 6/19/01 State Surplus Property started using triplicate pre-numbered receipts.
- ✓ 6/20/01, all employees who receive payments became responsible for reconciling their cash to the register and obtaining supervisor confirmation for the reconciliation of funds at the end of their shifts.
 - By 8/17/01 the SSPA will have the State Capitol Police conduct a security audit of the facility and make recommendations concerning the monitoring of cash sales and other areas where loss could occur.
 - By 8/31/01 the SSPA will have determined the feasibility of using cameras within the current facility.

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STATE SURPLUS IS NOT CONSISTENTLY MAKING DEPOSITS IN ACCORDANCE WITH THE STATE CASH MANAGEMENT PLAN.

8. Recommendation: Management should comply with the State Cash Management Plan and deposit all receipts within 24 hours. Procedures should be put in place to date stamp all checks as soon as they are received.

Response:

- ✓ As of 6/19/01 all checks are being deposited no later than the next business day after being received.
- ✓ New procedures developed during the flowcharting process due to be implemented by 12/31/01, will prohibit other agencies from accepting payments to be forwarded to the SSPA. There will be strict enforcement of the procedure requiring that all payments be made directly to the SSPA.
- By 8/31/01 internal controls will be developed and maintained on all incoming checks.
- The State's cash management plan does not require that checks be date stamped. Date stamping checks is not feasible due to concerns about defacing checks and encroaching upon endorsement areas of the checks. However, alternative methods of achieving accountability and date control of checks will be developed and put in place by 8/31/01.

STATE SURPLUS PROPERTY IS NOT ACCURATELY ACCOUNTING FOR ALL SURPLUS PROPERTY.

9. Recommendation: State Surplus should conduct a full inventory of all surplus property, reconcile it with the current inventory system listing, and update the system as necessary prior to transferring inventory data into the planned bar code inventory system.

Response:

- By 01/18/02 a full inventory reconciliation and update will be completed in preparation for State Surplus Property's shift to the new computer inventory system.
- New procedures being developed in the flowcharting process, due to be implemented by 12/31/01, will better segregate and control surplus property.

STATE SURPLUS IS NOT EFFECTIVELY MONITORING THE RECYCLE CONTRACTS.

10. Recommendation: State Surplus should better monitor the recycle contracts and enforce all contract terms. Surplus should develop a strategy that ensures the most effective and efficient disposal method for all recycled materials.

Response:

- ✓ Beginning 6/18/01 all monitors for surplus sale are being reviewed by warehouse personnel prior to consolidation for sale. It is expected that this review will assist in ensuring that monitors are sold at the highest possible price.
- ✓ Effective 7/1/01 all new SSPA contracts are being reviewed and approved by DOA Fiscal Management prior to execution. This review is expected to assist in ensuring that sound contracts are executed.
- ✓ As of 7/17/01 each SSPA recycle contract has a contract administrator assigned to monitor terms and conditions. It is expected that the contract administration will assist in ensuring contract terms and conditions are met.
- ✓ Upon expiration, all SSPA recycle contracts will be rewritten, with input from DOA's General Counsel and Fiscal Management staff to better suit commodities.

Objective 3: To review the current organizational structure and staffing levels and identify functions and responsibilities.

TRANSPORT OF SURPLUS PROPERTY IS POORLY COORDINATED.

11. Recommendation: To improve the coordination of the transport and handling of surplus property, the Secretary of the Department of Administration should assign the responsibility for the pick up and delivery of property to State Surplus. (Survey of other states shows 48% of the respondents offered state pick up services for surplus property)

Additional positions and equipment will be needed to accomplish this. At present, Facility Management uses two drivers and four inmates for this function approximately one day a week.

Response:

- By 9/17/01 two positions will be added and a truck will be assigned to this duty, thus allowing State Surplus Property to start picking up property as of that date.

STATE SURPLUS IS NOT ADEQUATELY SUPERVISING INMATE LABOR

12. Recommendation: State Surplus should coordinate with Department of Correction personnel to assure proper levels of supervision for inmates and adherence to Correction's policies. State Surplus should review current inmate assignments for appropriateness and limit the contact inmates have with the public.

Response:

- ✓ As of 5/1/01 inmates working at the SSPA were supervised in accordance with the Department of Corrections contract.
- ✓ On 7/3/01 the SSPA discontinued the use of inmates and is using temporaries until new employees referenced in #11 above are employed in those positions.

STATE SURPLUS LACKS SUFFICIENT STAFF FOR EFFICIENT OPERATIONS.

13. Recommendation: State Surplus should work with Department management and the Office of State Personnel to review the need for additional positions. To support staffing requests, State Surplus should develop meaningful performance measures and implement an inventory control system that would provide accurate data on the increased workload.

Response:

- By 8/31/01 the flowcharting procedure documenting process will be used to determine if additional personnel are needed.
- By 10/31/01 performance measures will be in place.
- By 11/01/01 State Surplus Property and DOA Human Resources Management will prepare any appropriate paperwork needed to send to OSP for position modifications and additions.
- If additional positions are needed as determined above, the target date for filling these positions will be 2/1/02.
- Certain additional personnel needs have already been discussed in responses to other recommendations.
- Two SSPA staff members will attend a workshop on performance measures and measurement techniques to learn how to define and monitor effective performance measures. Attendance in this workshop will occur as soon as possible.

STATE SURPLUS CAN IMPROVE OPERATIONS THROUGH E-BUSINESS OPPORTUNITIES.

14. Recommendation: State Surplus personnel and personnel from the Department's Management Information Systems division should work with the personnel from the State's Information Technology Services office to develop e-business applications for the surplus operation. Surplus should explore how to effectively set up and conduct sealed bid sales via the Internet, using approved methods for electronic signatures and procedures needed to accept credit card payments. Surplus should also explore the possibility of obtaining an e-grant through the e-business committee of the Information Resource Management Commission.

Response:

- By 12/31/01 the SSPA will have developed an e-business feasibility report.
- The SSPA will continue to work with MIS and ITS to explore e-business opportunities as part of the e-procurement initiative.
- The State Surplus Property Agency will continue to pilot and expand the e-bay pilot and other e-commerce initiatives.
- The State Surplus Property Agency will work with MIS to develop an e-grant proposal by 12/31/01, assuming funding is available through the IRMC for e-grant's during FY2001-02.

Objective 4: To review and assess adequacy of existing space.

LACK OF STORAGE SPACE HAMPERS EFFICIENT OPERATIONS AND CREATES SAFETY CONCERNS.

15. Recommendation: Department management should authorize a space needs study for the State Surplus operations. The study should determine whether a new building, an expansion of the current building, or co-locating federal and State Surplus property is needed. Consideration should be given to factors such as operation efficiency, cost-effectiveness, and safety precautions.

CO-LOCATING STATE AND FEDERAL SURPLUS OPERATIONS AT THE CURRENT FEDERAL SITE IS NOT FEASIBLE.

16. Recommendation: The Department of Administration should sanction a full feasibility study for co-locating State and federal surplus operations. The State Property Office should be contacted for possible sites for consideration.

Combined Response for #15 and #16:

- By 12/31/01 the SSPA, in coordination with the State Property Office and State Construction Office, will develop an RFP to hire a firm to study the feasibility of co-locating State and

Federal Surplus including a space needs analysis. The study will address the following items and will be completed within six months.

- ◆ Current and future space needs of the SSPA.
- ◆ Whether a new building, an expansion of the current building, or co-locating federal and the SSPA is needed.
- ◆ Consideration will be given to operation efficiency, cost-effectiveness, and safety precautions.

SPACE NEEDS COULD BE REDUCED THROUGH EXPANDING THE NCSU PILOT PROJECT TO OTHER LOCATIONS.

17. Recommendation: Department management should explore the feasibility of authorizing other large State universities and institutions, especially those located outside Raleigh, to set up local surplus retail sales operations under the auspices of State Surplus. The approved university or institution would be responsible for operating its own local retail sales store, with advice and oversight supplied by State Surplus. For these operations, the General Statutes should be amended to allow the approved universities and institutions to pay State Surplus a reduced fee for any surplus property disposed of through the local operation.

Response:

- On 7/25/01, SSPA representatives met with officials at UNC-Wilmington to discuss the possibility of establishing a retail sales facility.
- By 9/28/01 the State Surplus Property Agency will have investigated and prepared recommendations for the feasibility of off-site retail stores, regionalization, and other options to reduce space needs (assuming the university system is not exempted by legislation from participation in the SSPA program).
- By 02/01/02 the State Surplus Property Agency will have:
 - Developed a list of services that it will provide off-site retail sales operations.
 - Produced a Policies and Procedures Manual for those sites.
 - Determined, with the assistance of DOA Fiscal Management, an appropriate fee to be charged.
 - Made recommendations to the Secretary of DOA concerning the expansion of such sites.
 - Any changes in fee structure resulting from the above-referenced process will be implemented by the Secretary of the Department of Administration.
 - Prior to implementation, the General Statutes will be amended if necessary.

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August 2, 2001

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