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BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The President Of The
University Of The District Of Columbia**

**The University Of The District
Of Columbia's Procurement
Policies Are Not Being Followed**

In fiscal year 1982, the University of the District of Columbia's personnel purchased \$1.9 million of goods and services without processing these purchases through the university's Procurement Office. These procurements resulted in purchasing goods and services without assurance that prices paid were reasonable, paying for goods and services without evidence of their receipt, and bypassing UDC's payroll process in compensating employees for services rendered.

GAO made recommendations to improve these conditions. UDC officials agreed with GAO's recommendations and have initiated corrective action.



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GAO/GGD-83-57

JUNE 22, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-208037

Dr. Benjamin Alexander
President of the University of
the District of Columbia

Dear Dr. Alexander:

We have just completed an audit of fiscal year 1982 purchasing activity at the University of the District of Columbia (UDC). The objectives of our audit were to (1) evaluate the adequacy of UDC's procurement policies and procedures and (2) determine whether UDC followed these policies and procedures. We found that UDC's official procurement policies and procedures are adequate and that, in general, the Procurement Office processed procurements in accordance with these policies and procedures. However, we found that university personnel not in the Procurement Office purchased \$1.9 million of goods and services in fiscal year 1982 without processing these purchases through the university Procurement Office. This amount represents one-fourth of UDC's total purchases which were valued at \$7.5 million in fiscal year 1982. (See app. I.)

These decentralized procurements resulted in the university

- purchasing goods and services without assurance that prices paid were reasonable,
- paying for goods and services without assurance that such goods or services had actually been received or that procured equipment had been added to official university personal property records, and
- bypassing its payroll process in compensating employees for services rendered.

Such procurements occurred in fiscal year 1982 because university officials did not enforce existing procurement policies and procedures and improperly authorized the purchase of and payment for goods and services not processed by the Procurement Office. Furthermore, during the first quarter of fiscal year 1983, these officials continued to purchase and pay for goods and services not processed by the Procurement Office.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our review was to evaluate whether UDC's Procurement Office procured goods and services economically, effectively, and efficiently. Our objectives were to

- evaluate the adequacy of UDC's procurement policies and procedures and
- determine whether UDC followed these policies and procedures.

Our review included tests of selected procurements of goods (supplies and equipment) and services in fiscal years 1982 and 1983 which UDC procured with university funds controlled and disbursed by the District of Columbia Treasurer (includes District of Columbia government appropriations, Federal and private grants, and the University Fund comprised of UDC tuition revenue and endowment funds) and by university funds controlled and disbursed directly by the university (the UDC Postsecondary Education Fund). Our review did not include procurements processed for UDC by the Bureau of Materiel Management in the District of Columbia government's Department of General Services.

To accomplish our objectives, we:

- (1) Reviewed and compared UDC and District of Columbia government procurement regulations, policies, and procedures which were in effect during fiscal year 1982 through the first quarter of fiscal year 1983.
- (2) Reviewed selected procurement transactions processed by the Procurement Office during fiscal year 1982 and traced these transactions to supporting documentation in the Accounts Payable Office files and to UDC warehouse receiving and property control files.
- (3) Reviewed disbursement files for all fiscal year 1982 procurement transactions paid for with university funds controlled and disbursed directly by the university and calculated the total value of procured goods and services which

were not processed by the UDC Procurement Office.

- (4) Reviewed disbursement files for selected procurement items which UDC procured outside the Procurement Office during the first quarter of fiscal year 1983 with university funds controlled and disbursed by the D.C. Treasurer and the university.

We also interviewed UDC officials involved in UDC's procurement cycle. These officials were located in the following UDC divisions or offices:

- The Administrative Services Division, including the Procurement Office and the Warehouse Receiving and Property Control Offices.
- The Financial Management Division, including the Budget, Accounts Payable, Accounting, Payroll, and Cashier's Offices.
- The Office of the Director of Personnel.
- The Office of the Director of Internal Audit. During the course of our audit work, we learned that the Office of Internal Audit was conducting an audit of direct payment procurements. However, after discussing the direct payment procurement audit with Internal Audit staff, we concluded that the objectives, scope, and methodology of our audit differed from theirs.

We conducted our review at UDC's Van Ness Campus. We performed our review in accordance with generally accepted Government auditing standards.

UDC'S PROCUREMENT OFFICE POLICIES,
PROCEDURES, AND PRACTICES ARE ADEQUATE

UDC procurement policies and procedures in effect during fiscal year 1982 through the first quarter of fiscal year 1983 designate the UDC Procurement Office as the only university unit authorized to obligate funds for the procurement of goods and services. This authority was delegated by the UDC Board of

Trustees and the UDC President to the Procurement Office to ensure that the university would be able to obtain whatever goods and services it needed, whenever it needed them, to its best financial and economic advantage and within the scope of all legal and administrative requirements.

To accomplish this, the UDC Procurement Office developed procurement regulations which the UDC Board of Trustees adopted in October 1981. To supplement these regulations, the UDC Procurement Office published procurement standard operating procedures. Both the UDC procurement regulations and the standard operating procedures require that university personnel process all requests for goods and services through the UDC Procurement Office which is the focal point for internal controls over the acquisition, receipt, and inventory of purchases.

The UDC procurement process begins when an official in any requesting department identifies a need for goods or services, prepares a purchase requisition, and requests fund availability approval. If the requested items are to be paid with university funds controlled by the D.C. Treasurer, the fund availability approval is requested from the UDC Accounts Payable Office. If the items are to be paid with university funds controlled directly by the university, the fund availability approval is requested from the UDC Budget Office. If funds are available, Accounts Payable or the Budget Office notes this on the requisition and pre-encumbers (reserves) funds for the estimated amount shown on the requisition.

After the funds have been reserved, the requisition is submitted to the UDC Procurement Office and assigned to a contracting officer. The contracting officer solicits vendors to ensure that UDC purchases the best products at the best possible prices and in accordance with mandatory Equal Employment Opportunity and other purchasing requirements. After selecting a vendor, the contracting officer obligates funds by preparing and approving a purchase order for goods or a service contract for services.

Copies of each purchase order or service contract are sent to the vendor, the Accounts Payable Office, the requesting department, and either the UDC warehouse for goods or the contract administrator for services. Upon receipt of goods or contracted services, a warehouse official or a contract administrator submits a receiving report for goods or a certified vendor's

invoice for services to the Accounts Payable Office. Accounts Payable then compares purchase orders or service contracts with receiving reports and vendors' invoices to justify payment authorization. If an item is to be paid with funds disbursed by the D.C. Treasurer, Accounts Payable submits a disbursement authorization form to the D.C. Treasurer who issues a check to the vendor. If an item is to be paid with funds disbursed by the university, Accounts Payable submits a payment voucher and the vendor's invoice to the UDC Cashier who prepares a check and submits it with supporting documentation for approved payment to the UDC Vice-President for Finance and Budget.

In our test of procurement transactions, we found that UDC's official procurement policies and procedures are adequate and that, in general, goods and services procured by the Procurement Office were processed in accordance with established policies and procedures.

UDC PURCHASED \$1.9 MILLION OF GOODS
AND SERVICES OUTSIDE THE OFFICIAL
PROCUREMENT PROCESS

In fiscal year 1982, UDC personnel outside the Procurement Office did not follow the procurement process and purchased goods and services valued at \$1.9 million, or 25 percent, of the university's total fiscal year 1982 purchases. These purchases represent over 3,000 separate transactions and include such items as flowers; cleaning and office supplies; athletic, video, and office equipment; and catering, printing, word processing, photocopying, and transportation services.

In reviewing supporting documentation for procured items not processed by the Procurement Office, we found no evidence that the university had purchased the goods and services competitively. Further, the university did not subject the procured items to university receiving and personal property management policies and procedures and did not follow university payroll policies and procedures.

We also found that during the first quarter of fiscal year 1983, procurements continued to be made contrary to procurement policies and procedures.

UDC deprived itself and vendors of the benefits of competition

By circumventing its procurement policies and procedures, UDC deprived itself and vendors of the benefits of competition. Purchasing goods and services competitively

- affords all qualified vendors the opportunity to compete for UDC's business,
- enables UDC to contract with vendors offering UDC the most advantageous terms, and
- minimizes the chances for collusion or for awarding contracts on the basis of favoritism.

By not procuring items competitively, UDC has no assurance that it made economical purchases and paid prices which represented reasonable compensation for the goods and services received. Although we could not determine the actual dollars that could have been saved, several studies have indicated that as much as 25 percent can be saved through competition. Thus, UDC may have missed the opportunity to pay lower prices for goods and services.

The university may also be missing the opportunity to reduce costs through purchase discounts. In our review of selected procurement transactions which were not processed by the Procurement Office, we found no evidence that the university either sought or received discount terms. However, for procurements processed through the Procurement Office, we found that UDC contracting officers sought and received purchase discounts such as educational discounts, quantity-buy discounts, and prompt-payment discounts (price reductions in exchange for early payments). Additionally, these contracting officers maintain lists of U.S. General Services Administration-approved vendors and D.C. Bureau of Materiel Management-approved vendors who offer cost reductions for their goods and services.

Goods and services paid for without evidence of receipt

UDC paid for some goods (supplies and equipment) and services without evidence of having received them as prescribed

by official UDC procurement policies and procedures. Also, UDC did not follow official personal property management policies and procedures for certain procured equipment and did not award or administer service contracts according to procurement policies and procedures.

Goods

We reviewed disbursement files for goods procured outside the procurement process and found that they did not contain either official receiving reports or purchase orders. The files only contained purchase requisitions and invoices. In order to determine whether UDC had actually received any of the goods, we provided a UDC warehouse receiving official with a list of purchase requisitions for supplies and equipment valued at \$23,235, which we had selected from the disbursement files. The warehouse official could not determine whether he had received the goods on the list because he maintains his records by purchase order number and not by purchase requisition number.

To determine if any of the equipment on the above list had been issued property control numbers and entered onto the UDC Property Control Register, we provided a UDC property control official with a list of the purchase requisitions for the equipment valued at \$15,568. The official could not verify whether the equipment had been added to official university property records since his records are also organized by purchase order number and not purchase requisition number. While meeting with a second property control official, we noticed a \$1,109 video camera in his custody which had been one of the items on our list. He explained that another UDC official, aware that the camera had been purchased outside the procurement process, had brought the camera to his attention to be tagged as UDC property. Otherwise, he would not have known of the camera, and it would not have been tagged.

Services

In the disbursement files for services procured outside the procurement process, we found no evidence of contracts between vendors and the UDC Procurement Office. Consequently, we were unable to determine the details of services to be performed or who had been designated as contract administrators. Instead, we found vendors' invoices and purchase requisitions approved by officials not in the Procurement Office.

In one instance, UDC paid \$3,922 to a caterer on the basis of an invoice which lacked the date, location, and purpose of the catered function. The invoice only listed the number of people served, the price per meal, charges for missing dishes, and overtime for the caterer's employees. Since there was no written contract stating the exact services the caterer was to perform, we could not determine the propriety of the charges shown on the invoice.

In another instance, UDC paid a total of \$19,685 for security services throughout fiscal year 1982 solely on the basis of invoices and purchase requisitions approved for payment by officials who lacked the authority to obligate funds.

UDC bypassed its payroll process
in compensating employees for
services rendered

The disbursement files for services procured outside the procurement process during fiscal year 1982 included payments to UDC employees for extra-duty services rendered. In reviewing the supporting documentation for such payments, we found that the university bypassed its Payroll Office in processing them. According to the UDC Personnel Director, who had been unaware that the payments had not been processed through the Payroll Office, all compensation to UDC employees must be processed by the UDC Payroll Office.

In a 2-month sample of transactions not processed by the Procurement Office, we found 37 procurements totaling \$7,305 in which UDC paid employees for extra-duty services rendered. Payments were made to employees who served as athletic equipment room assistants, a cheerleader advisor, and interpreters. Employees were also paid for printing, word processing, transportation, and photographic services. None of these transactions, however, was processed through the Payroll Office. UDC therefore did not withhold Federal income or Social Security taxes from these employees.

To determine the magnitude of this problem, we requested a list of all employees UDC had paid for extra-duty services in fiscal year 1982 with funds controlled and disbursed directly by the university. According to the list, UDC paid a total of \$52,000 to 56 of its employees for extra-duty services rendered.

UDC officials did not enforce existing
procurement policies and procedures

Officials in UDC's Financial Management Division with the authority to approve fund disbursements did not enforce existing UDC procurement policies and procedures pertaining to the expenditure of funds for the procurement of goods and services. According to these policies and procedures, without an official investigation, the Financial Management Division may not authorize payments for goods and services bypassing the Procurement Office. During fiscal year 1982, the Financial Management Division received and paid invoices or other requests for payment for over 3,000 separate purchases of goods or services valued at \$1.9 million which were not processed by the Procurement Office.

According to UDC procurement policies and procedures, prior to approving payment for goods and services not processed by the Procurement Office, the Financial Management Division should forward such invoices or requests for payment to the Procurement Office which must conduct investigations to determine why the procurements had been processed outside the Procurement Office and what corrective actions are required to prevent future recurrences. Upon completion of its investigation, the Procurement Office must make a final determination as to whether or not the purchases were for legitimate university use and whether the Financial Management Division should authorize the payments. Only upon receipt of favorable determinations from the Procurement Office may the Financial Management Division then authorize payments. If the Procurement Office renders an unfavorable determination, the individual who initiated the purchase is to be held personally liable for payment.

In our review of UDC fiscal year 1982 disbursement files for selected purchases not processed by the Procurement Office, we found no evidence that Financial Management Division officials had requested Procurement Office investigations prior to authorizing payments.

Improperly authorized
purchases continue to
be made in fiscal year 1983

While we focused most of our efforts on UDC's fiscal year 1982 purchasing activity, we also reviewed selected procurement

transactions for the first quarter of fiscal year 1983 and found that some procurements continue to be made contrary to procurement policies and procedures.

In an attempt to halt improperly authorized procurements, you issued a memorandum dated October 19, 1982, entitled "Centralized Authority to Obligate University Funds" in which you reaffirmed the policy that UDC must process all procurements of goods and services through the Procurement Office. To determine if UDC officials had been following your memorandum, we conducted a test of fiscal year 1983 procurement transactions processed after the memorandum was issued. We found that Financial Management Division officials continue to improperly authorize disbursements for procurements of goods and services which have not been processed by the Procurement Office.

According to these officials, they authorized disbursements because the procurements had qualified as emergency procurements. Yet, we did not find statements in any of the supporting documentation that these were emergency procurements. Furthermore, even if these had been emergency procurements, UDC procurement procedures require that they be processed through the Procurement Office, which has special procedures for expediting them.

We believe that as long as UDC's Financial Management Division officials continue to improperly authorize payments for procurements which are not processed through the Procurement Office, any UDC attempts to halt this practice will be ineffective.

CONCLUSIONS

As a result of our audit of UDC's fiscal year 1982 procurement activity, we found that UDC's procurement policies and procedures are adequate and that, in general, the UDC Procurement Office processed procurements in accordance with these policies and procedures. However, we found that for \$1.9 million of improperly authorized procurements during fiscal year 1982, certain UDC Financial Management Division officials did not follow these procurement policies and procedures. This problem continues in fiscal year 1983 despite your October 19, 1982, memorandum concerning procurement policies and procedures.

Until all UDC officials enforce university procurement regulations, policies, and procedures, the university cannot

fully achieve its fundamental procurement objective: to procure goods and services to the university's best economic advantage and within legal and administrative requirements.

RECOMMENDATIONS

We recommend the President of the University of the District of Columbia:

- Direct the Financial Management Division not to authorize the disbursement of funds for procurements of goods and services bypassing the Procurement Office until the Procurement Office has investigated the procurements in accordance with UDC procurement policies and procedures and has rendered a favorable determination.
- Direct the UDC Office of Internal Audit to (1) conduct a review of UDC's fiscal year 1983 procurement activity to ensure that UDC officials are enforcing procurement policies and procedures and that the university is not bypassing its Payroll Office in compensating employees for services rendered and (2) submit a report to the President on the results of that review.

AGENCY COMMENTS AND OUR EVALUATION

The Director of Internal Audit, commenting on our draft report on your behalf, concurred with our recommendations and stated that you have taken action to implement them. On April 20, 1983, you issued memoranda to the Vice President for Financial Management and the Director of Internal Audit instructing them to comply with our recommendations. We would like to address one of the Director of Internal Audit's comments in response to our report.

The Director of Internal Audit stated that our report did not address the need for the Procurement Office and the various UDC offices which initiate purchase requisitions to comply with procurement policies and procedures. During our audit, we analyzed the Procurement Office's compliance with procurement policies and procedures and reviewed selected procurements purchased by the Procurement Office in fiscal year 1982. On the basis of our review, we found that the Procurement Office generally procured goods and services in compliance with its

B-208037

established policies and procedures. In our report, we also recognized that university personnel outside the Procurement Office who initiate purchase requisitions must comply with established procurement policies and procedures. We in fact found that despite the university's attempts to control procurement activity through these established policies and procedures, such personnel purchased \$1.9 million of goods and services in fiscal year 1982 without processing them through the university Procurement Office. In view of the prevalent and persistent nature of the problem, we concluded that the most practical way to halt improperly authorized procurements was to control them at the point of payment rather than through those offices which initiate purchase requisitions. For this reason, we directed our recommendation to the university's Financial Management Division.

The university's comments are included as appendix II.

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Copies of this report are being sent to the Mayor of the District of Columbia; the Council of the District of Columbia; the University Board of Trustees; the District of Columbia Auditor; the Inspector General of the District of Columbia; and interested congressional committees.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

UDC PURCHASING
ACTIVITY DURING
FISCAL YEAR 1982 (note a)

<u>Description</u>	<u>Number of transactions</u>	<u>Value</u>	<u>Percentage of total</u>
		—(thousands)—	
(A) Purchases processed by the Procurement Office:			
1. University funds controlled and disbursed by the D.C. Treasurer			
(a) Small purchases (under \$10,000)	1,683	\$1,461	
(b) Formally advertised purchases (\$10,000 or more)	67	2,866	
(c) Negotiated services	9	1,126	
(d) Purchases from GSA	10	13	
	<u>1,769</u>	<u>\$5,466</u>	<u>98</u>
2. University funds controlled and disbursed directly by the university (Postsecondary Education Fund)	92	132	2
	<u>1,861</u>	<u>\$5,598</u>	<u>100</u>
(B) Purchases not processed through the Procurement Office:			
1. University funds controlled and disbursed by the D.C. Treasurer	1,717	\$ 812	43
2. University funds controlled and disbursed directly by the university (Postsecondary Education Fund)	1,756	1,091	57
	<u>3,473</u>	<u>\$1,903</u>	<u>100</u>
(A) Total through the Procurement Office	1,861	\$5,598	75
(B) Total not processed through the Procurement Office	<u>3,473</u>	<u>1,903</u>	<u>25</u>
Total FY 82 purchasing activity	<u>5,334</u>	<u>\$7,501</u>	<u>100</u>

a/Excludes procurements processed for UDC by the Bureau of Materiel Management in the District of Columbia government's Department of General Services and expenditures for such items as emergency repairs, travel, financial aid, and postage.

University of the District of Columbia

Office of the President
4200 Connecticut Avenue, N.W.
Washington, D.C. 20008

Telephone 202/282-7550



May 10, 1983

Mr. William J. Anderson
Director
Government Division
United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

In response to your letter of April 13, 1983, We have enclosed the University's comments.

As the Internal Auditor advised, I became aware of the "direct payment" procurement practices in September 1982 and requested an audit. In addition, I established an interim procedure to facilitate an orderly and systematic implementation of procurement policies and procedures.

We appreciate your timely comments and recommendations.

Best wishes.

Sincerely,

A handwritten signature in cursive script that reads "Benjamin H. Alexander".

Benjamin H. Alexander
President

Enclosure

University of the District of Columbia

4200 CONNECTICUT AVENUE, N.W.,
WASHINGTON, D.C. 20008
202-282-7077

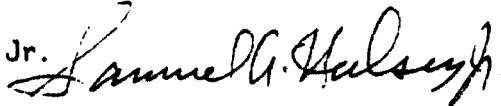
OFFICE OF INTERNAL AUDIT

MEMORANDUM

DATE: May 10, 1983

TO: Dr. Benjamin H. Alexander
President

FROM: Samuel A. Halsey Jr.
Director



RE: Report of Audit 83-213-017 : The University of the District of
Columbia's Policies and Procedures for the Purchase of Goods and
Services Are Not Being Followed (GAO/GGD-83-57)

INTRODUCTION

The General Accounting Office (GAO) has completed an audit of purchasing activity for fiscal year 1982. The objectives of the audit were:

- To evaluate the adequacy of UDC's procurement policies and procedures.
- To determine whether the University followed the policies and procedures.

The GAO draft report is attached.

SUMMARY OF FINDINGS, RECOMMENDATIONS, AND UNIVERSITY COMMENTS

In general, GAO found that the official procurement policies and procedures are adequate and that the Procurement Office processed procurements in accordance with the policies and procedures. The auditors found, however, that personnel not in the Procurement Office purchased \$1.9 million of goods and services in fiscal year 1982 without processing these purchases through the University Procurement Office. The amount represents one-fourth of total purchases

which were valued at \$7.5 million in fiscal year 1982. For convenience we have restated the GAO recommendations below and the related University comments.

GAO RECOMMENDATIONS

" We recommend the President of the University of the District of Columbia:

- Direct the Financial Management Division not to authorize the disbursement of funds for procurements of goods and services bypassing the Procurement Office, until the Procurement Office has investigated the procurements in accordance with UDC procurement policies and procedures and rendered a favorable determination.
- Direct the UDC Office of Internal Audit to (1) conduct a review of UDC's fiscal year 1983 procurement activity to ensure that UDC officials are enforcing procurement policies and procedures and that the University is not bypassing its Payroll Office in compensating employees for services rendered, and (2) submit a report to the President on the results of that review."

UNIVERSITY COMMENTS

CONCUR:

By separate memorandums on April 20, 1983 to the Vice President for Financial Management and Director of Internal Audit the President complied with the recommended direction. Comments on the substance of the recommendations follow:

Comments - Vice President for Financial Management*

CONCUR:

The University's customary practice of allowing certain officials to procure goods and services, and directly compensate

*GAO note: Currently Vice President for Finance and Budget.

employees for nonjob related extra duty services will no longer be accommodated by Direct Payment Certification through Financial Management's Accounts Payable Office and the Comptroller Office which disburses Postsecondary Education funds.

The Financial Management Division will adhere to the UDC Procurement Policies and Procedures pertaining to the expenditures of funds for the procurement of goods and services, effective June 13, 1983. We will follow the UDC Procurement Regulations with Board approval when necessary.

UDC's procurement policies and procedures require the Financial Management Division to forward invoices or requests for payment, that are not supported by procurement authority, to the Procurement Office which will conduct an investigation of determinations and findings. Upon completion of its findings, the Procurement Office will make a final determination as to whether the purchases were for legitimate University use, and whether the Financial Management Division should authorize the payments. Only upon receipt of favorable determinations from the Procurement Office or the General Counsel may the Financial Management Division then authorize payments.

If there is an adverse finding, the matter will be referred to the UDC General Counsel for appropriate follow-up action.

Comments - Director of Internal Audit

CONCUR:

An audit will be initiated. The results will be reported to the President and to the Board of Trustees. However, we must advise that the GAO auditors were aware, from a review of our audit files, that we were conducting an audit of the "direct payment" procurement problem. The President directed the audit in September 1982 and the report was released April 27, 1983.

In our opinion, the contemplated action by the Vice President for Financial Management will adequately satisfy compliance by that Division. Although the GAO auditors did not address the problem

there is also a need for the Procurement Office and purchase requisition initiating offices to comply with procurement policies and procedures. For example, the President's memorandum of December 21, 1982 is merely an interim procedure because the Procurement Office is not organized and staffed to handle the volume of purchase requisitions. The forthcoming audit by the Office of Internal Audit will address these issues with a goal of permanent resolution of the problem.

DISCUSSION OF AUDIT RESULTS

On May 9, 1983, we discussed the results of this audit with Dr. Benjamin H. Alexander, President.

SAH:vmhb

Attachment:
GAO Draft Report

cc: Chairperson, Finance and Audit
Committee, Board of Trustees
Vice President for Administrative Services
Vice President for Finance
Director of Personnel

(428110)

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