



Nicole R. Galloway, CPA
Missouri State Auditor

OFFICE OF
ADMINISTRATION

Division of Purchasing and
Materials Management

State Agency for Surplus
Property

July 2015

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Nicole R. Galloway, CPA
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CITIZENS SUMMARY

Findings in the audit of the Office of Administration - Division of Purchasing and Materials Management, State Agency for Surplus Property

Monitoring of Donees	As of March 2015, State Agency for Surplus Property (SASP) personnel have not performed site visits to donees to review federal surplus property utilization requirements since July 2013 and SASP personnel do not follow up on utilization reports that are either incomplete or do not contain sufficient information.
Sale of State Surplus Property	There is no statewide policy to prohibit state employees from purchasing state surplus property disposed of by their agency of employment. As a result, some state employees may receive an unfair advantage when purchasing surplus property.
Federal Surplus Property on Hand	The SASP's supply of some federal surplus property items exceeds the current needs of donees and some property items have been on hand for several years. The SASP has no policy to provide guidelines on maintaining appropriate inventory balances.
Accounts Receivable and Perpetual Inventory	The SASP does not always post property transfers to the accounts receivable ledger or the perpetual inventory system timely.
Capital Assets	The SASP capital asset records are incomplete and lack sufficient information to accurately identify the description or location of some assets. SASP personnel could not easily locate or identify some capital assets tested because the capital asset listing did not include details of the make, model, and location of some assets.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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Division of Purchasing and Materials Management
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NICOLE R. GALLOWAY, CPA
Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Douglas E. Nelson, Commissioner
Office of Administration
and
Karen Boeger, Director
Division of Purchasing and Materials Management
and
Lee Ann Braun, Manager
State Agency for Surplus Property
Jefferson City, Missouri

We have audited certain operations of the Office of Administration, Division of Purchasing and Materials Management, State Agency for Surplus Property, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014, and 2013. The objectives of our audit were to:

1. Evaluate the agency's internal controls over significant management and financial functions.
2. Evaluate the agency's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

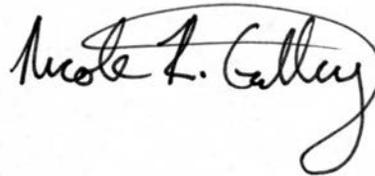
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the agency, as well as certain external parties; performing site visits; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards

require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the agency's management and was not subjected to the procedures applied in our audit of the agency.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Office of Administration, Division of Purchasing and Materials Management, State Agency for Surplus Property.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Office of Administration - Division of Purchasing and Materials Management
State Agency for Surplus Property
Management Advisory Report - State Auditor's Findings

1. Monitoring of Donees

The Missouri State Agency for Surplus Property (SASP) does not adequately monitor donees to ensure compliance with federal program guidelines. As of March 2015, SASP personnel have not performed site visits to donees to review federal surplus property utilization requirements since July 2013 and SASP personnel do not follow up on utilization reports that are either incomplete or do not contain sufficient information.

The SASP maintains a list of concerns identified regarding donees not using federal surplus property for its intended purpose. This list is considered when SASP personnel schedule donees to visit. Our review noted the list includes concerns from May 2013 that have not been investigated. In addition, during our review of utilization reports submitted by 10 donees, we noted reports submitted by 5 donees were not complete or did not contain sufficient information such as the use, condition, or location of the surplus property. The SASP did not obtain the missing information from the donees and did not require the donees to resubmit the utilization reports with complete information.

Federal Management Regulation, 41 CFR Section 102-37.450, requires that surplus property be used only for its authorized purpose, placed in use within one year, and used for one year by the eligible donee. The donee is not allowed to sell, trade, lease, loan, cannibalize, encumber, or otherwise dispose of the property within the restriction period without prior approval from the SASP or the General Services Administration (GSA). If the donee cannot meet these requirements, the donee is required to return the property to the SASP at the donee's expense. In addition, according to the State Plan of Operations, if the item has an original acquisition cost of \$5,000 or more, or is a passenger motor vehicle, the restriction period is 18 months instead of one year. When the restriction period expires, the SASP and the GSA are no longer responsible to monitor donee compliance.

In addition, 41 CFR Section 102-37.480, requires the SASP to conduct utilization reviews, as provided in the State Plan of Operations, to ensure that donees are using surplus property during the period of restriction for the purposes for which it was donated. The State Plan of Operations requires the SASP to perform a physical inspection or requires the donee to submit a written utilization report during the restriction period.

Recommendation

The SASP perform periodic site visits of donees and require donees to submit complete utilization reports to ensure donee compliance with federal regulations.

Auditee's Response

We agree with the recommendation.

- *We have started performing site visits once a month or 12 times a year.*



- *The SASP has written internal procedures in place for handling utilization reports. They have recently been updated to include specific instructions for handling incomplete forms.*
- *We have received a list from the State Auditor's office of the 5 utilization reports that were not complete at the time of the audit. The SASP will follow up on these reports to ensure completion.*

2. Sale of State Surplus Property

There is no statewide policy to prohibit state employees involved with the surplus property process from purchasing state surplus property disposed of by their agency of employment. As a result, some state employees may receive an unfair advantage when purchasing surplus property.

The SASP frequently sells state surplus property using a public auction website. If another state agency or donee shows no interest in the property and the property has been determined to still have value, the SASP will post the property on the public auction website. During the 2 years ended June 30, 2014, the SASP received \$3 million from sales through this website.

During our test of state surplus property dispositions we reviewed 15 lots, consisting of 172 total property items, sold on the public auction website. We noted 2 lots, consisting of 104 total property items, were sold for a total of \$646 to state employees employed by the disposing agencies. Without a policy prohibiting state employees involved with the surplus property process from purchasing surplus property, some state employees may have an unfair advantage over other bidders by having knowledge of the property being sold.

Internal operating procedures of the SASP prohibit SASP employees or any other Office of Administration, Division of Purchasing and Materials Management (DPMM) staff that supervises the SASP, and members of their immediate household, from purchasing, directly or indirectly, any federal surplus property or state surplus property sold or disposed of by the SASP, unless a waiver is given to the SASP employee by the Director of the DPMM or his/her designee. The SASP should work with other state agencies to develop a similar policy statewide to prohibit state employees involved with the surplus property process from purchasing state surplus property disposed of by an employee's agency of employment.

Recommendation

The SASP work with other state agencies to develop a statewide policy to prohibit state agency employees involved with the surplus property process from purchasing state surplus property disposed of by the employee's agency of employment.



Auditee's Response

We agree with the recommendation.

- *State Surplus Forms SS1's and SS2's will require supervisor signature approval with the implementation of the SASP's new inventory software. The initiating person will enter the form into the new system and then a different person with approval authority will have to approve the entry before the form is processed and sent to the SASP. Having a different person approve the form prior to processing provides verification that the initial entry is an accurate assessment of the content and condition of the property listed for disposal.*
- *We will add a provision to State Surplus Property Policies and Procedures to advise agencies not to allow employees to purchase their agency's surplus property items when they are involved with the surplus property process either through direct responsibility, involvement, or approval authority. A notice regarding this policy addition can be shared with the Purchasing Committee, the Financial Management Advisory Committee, and the Office of Administration, Information Technology Services Division to share with the Information Technology agency community.*

3. Federal Surplus Property On Hand

The SASP's supply of some federal surplus property items exceeds the current needs of donees and some items have been on hand for several years. The SASP has no policy to provide guidelines on maintaining appropriate inventory balances.

The GSA requires the SASP maintain adequate inventory procedures and records to account for and control surplus property when received, stored, and distributed. The SASP maintains two types of inventory records, line items and F-items. Line items are accounted for by each item and consist of the larger, more expensive items such as vehicles and heavy equipment. F-items are the less costly items which are accounted for in broad groupings and valued at an average unit cost. There are 40 F-item groupings. Examples of F-items include office supplies, hand tools, furniture, tires, electrical accessories, clothing, and footwear. The inventory records account for property in quantities such as number of items or by weight, and by the federal government's original acquisition cost.

We reviewed the supply of federal surplus property on hand as of June 30, 2014, per the SASP inventory records, and noted property on hand for 35 of the 40 F-item groupings (88 percent) exceeded a 6 month's supply. Examples of these items include the following:



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Description	Issued/Sold		
	Quantity on Hand	During the Year Ended June 30, 2014	Months Supply on Hand
Miscellaneous Cleaning Supplies	15,271	1,292	142
Electrical Accessories	35,385	5,969	71
Hardware and Abrasives	16,375	2,772	71
Brushes, Paints, Sealers, Adhesives	6,338	1,246	61
Clothing	14,088	3,732	45
Footwear	3,797	1,002	45

Even though the F-item examples in the above table indicated excessive quantities on hand, the SASP continued to receive additional inventory items for each of these categories during the fiscal year ended June 30, 2014.

In addition, some line items have been on hand for several years. For example, a generator received in August 2006 is still on hand. The SASP had a total of 1,831 line items on hand as of June 30, 2014, with a total original acquisition value of \$9.3 million. Of these line items, 578 (31%) were received prior to fiscal year 2013. Many of the older items are generators, but also include items such as tool kits, compressors, cargo trucks, and snow blowers.

Excess inventories cause an unnecessary burden on staff to maintain the property and inventory records. A policy to provide guidelines on maintaining appropriate inventory balances would reduce the amount of inventory on hand. The SASP should only acquire items in quantities that donees will purchase in a reasonable time.

Similar conditions were noted in our prior report.

Recommendation

The SASP obtain surplus property in quantities to meet the current needs of donees, reduce inventory levels, and implement a policy providing guidelines on maintaining appropriate inventory balances.

Auditee's Response

We agree with the recommendation.

- We have started placing items on GSA Online Auction again in order to reduce inventory.*
- We are putting approximately 30 older model generators on the next GSA Online Auction and the snow blowers on a later auction.*
- We have transferred most of the tool kits and two of the cargo trucks.*



- *The new inventory system will help track the items to assist in the movement of the property sold. On a semi-annual or quarterly basis, we will look at items to determine if the older property needs to be placed on GSA Online Auction.*

4. Accounts Receivable and Perpetual Inventory

The SASP does not always post property transfers to the accounts receivable ledger or the perpetual inventory system timely.

When property is transferred to a donee, an invoice is created by the SASP. The transaction is then posted to the accounts receivable ledger and the property is removed from the perpetual inventory system. During a test of 25 invoices for transfers of federal surplus property, we noted an invoice dated January 29, 2013, totaling \$2,034, was not posted to the accounts receivable ledger or the perpetual inventory system until March 13, 2013. The payment for this property was received and deposited on February 13, 2013, resulting in an improper credit balance to the donee's account until the invoice was subsequently posted.

All transactions should be posted timely to ensure accounting records for accounts receivable balances and the perpetual inventory system are accurate and reflect current information.

Recommendation

The SASP ensure the accounting records for accounts receivable balances and the perpetual inventory system are updated timely.

Auditee's Response

We agree with the recommendation.

- *The cited invoice was held until the property was checked into inventory. As an additional safeguard going forward, the new software will not allow property to be transferred unless it is already checked into the inventory system.*
- *This was an isolated oversight and is not the SASP's standard practice. Policies and procedures are in place to address this issue and we will be closely monitoring going forward to ensure this issue does not reoccur.*

5. Capital Assets

The SASP capital asset records are incomplete and lack sufficient information to accurately identify the description or location of some assets. In addition, some assets are not properly tagged to identify the assets as state property and, some asset dispositions are not documented in the capital asset records. As of June 30, 2014, the SAM II capital asset system indicated total assets of approximately \$3.6 million for the SASP.

SASP personnel could not easily locate or identify some capital assets we selected during our review because the capital asset listing did not include



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details of the make, model, and location of some assets. In addition, one asset we selected for review had been disposed, but the disposition was not recorded in the capital asset listing until we discussed the issue with SASP personnel.

Some assets selected did not have a state property tag attached. SASP personnel stated all assets are tagged when they are acquired; however, over time some tags are destroyed or fall off. The SASP personnel indicated they do not replace the missing tags, but in some instances they note the tag number on the property by other means, such as paint. However, 2 of the 8 capital assets we reviewed did not have a property tag attached or a painted number.

The Code of State Regulations, 15 CSR 40-2.031, requires each department to account for all acquisitions and dispositions of equipment items with a cost of \$1,000 or more and to maintain adequate capital asset records that contain certain information. Required information includes identification number; description of the item including name, make, model, and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition; physical location in sufficient detail to readily locate the item; and method and date of disposition.

The failure to maintain complete and accurate capital asset records and not properly tagging all capital assets reduces the control and accountability over capital assets and increases the potential that loss, theft, or misuse will go undetected.

Recommendation

The SASP maintain complete and accurate capital asset records and ensure all capital assets are properly tagged to identify the assets as state property.

Auditee's Response

We agree with the recommendation.

- *We will review the SASP's current policy and procedures to see if any updates are needed. Also, we will put in place the necessary steps to follow when tags fall off or property is not clearly marked as agency use.*
- *We will clearly mark these assets, "For SASP Use," and with the tag numbers.*

Office of Administration - Division of Purchasing and Materials Management

State Agency for Surplus Property

Organization and Statistical Information

The Missouri State Agency for Surplus Property (SASP) is authorized by Sections 37.075 through 37.090, RSMo. The SASP is under the Division of Purchasing and Materials Management within the Office of Administration.

The federal General Services Administration oversees the SASP management of the federal surplus property donation program. This program enables certain nonfederal organizations to obtain property the federal government no longer needs. The SASP obtains this surplus property from the federal government and donates it to eligible donees for a service charge. Eligible donees include public agencies, not-for-profit educational and public health activities, agencies that primarily serve the homeless, agencies that provide assistance to the needy, and agencies that receive funds from the Older Americans Act.

In addition to the federal donation program, SASP operates the state surplus property program. This program provides an opportunity for the same donees to obtain surplus property from state agencies. The SASP may also sell state surplus property to the general public using a public auction website.

The SASP is designed to be self-sustaining. Eligible donees pay a nominal service charge to obtain property. In addition, the SASP retains a percentage of the proceeds from sales to the public through the public auction website.

Lee Ann Braun has served as Manager of the SASP since September 1, 2012. As of June 30, 2014, the agency employed 15 full time employees and 4 part-time employees.

Appendix A-1

State Agency for Surplus Property
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
 Year Ended June 30, 2014

	Federal Surplus Property Fund	Proceeds of Surplus Property Fund	Total (Memorandum Only)
RECEIPTS			
Federal surplus property sales	\$ 2,293,949	0	2,293,949
State surplus property sales	0	2,157,524	2,157,524
Recycling program	205,570	0	205,570
Sales tax	0	39,372	39,372
Interest	19,521	0	19,521
Refunds/rebates	15,795	0	15,795
Miscellaneous	0	83	83
Total Receipts	<u>2,534,835</u>	<u>2,196,979</u>	<u>4,731,814</u>
DISBURSEMENTS			
Personal services	613,119	0	613,119
Employee fringe benefits	326,619	0	326,619
Expense and equipment	244,428	1,823	246,251
Professional services	160,179	122,557	282,736
Fixed price vehicle program	1,454,900	0	1,454,900
Program distributions	0	135,588	135,588
Cost allocation	2,196	0	2,196
Other	6,819	38,862	45,681
Total Disbursements	<u>2,808,260</u>	<u>298,830</u>	<u>3,107,090</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(273,425)</u>	<u>1,898,149</u>	<u>1,624,724</u>
TRANSFERS			
Transfers from:			
Proceeds of Surplus Property Fund	144,730	0	144,730
Transfers to:			
Various funds-surplus property sale proceeds	0	(1,724,464)	(1,724,464)
Department of Social Services Federal & Other Sources Fund	(30,000)	0	(30,000)
Total Transfers	<u>114,730</u>	<u>(1,724,464)</u>	<u>(1,609,734)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	<u>(158,695)</u>	<u>173,685</u>	<u>14,990</u>
CASH AND INVESTMENTS, JULY 1, 2013	<u>3,549,540</u>	<u>242,096</u>	<u>3,791,636</u>
CASH AND INVESTMENTS, JUNE 30, 2014	<u>\$ 3,390,845</u>	<u>415,781</u>	<u>3,806,626</u>

Appendix A-2

State Agency for Surplus Property
 Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
 Year Ended June 30, 2013

	Federal Surplus Property Fund	Proceeds of Surplus Property Fund	Total (Memorandum Only)
RECEIPTS			
Federal surplus property sales	\$ 2,988,491	281	2,988,772
State surplus property sales	0	1,635,657	1,635,657
Recycling program	230,908	0	230,908
Sales tax	0	25,154	25,154
Interest	20,384	0	20,384
Refunds/rebates	21,011	0	21,011
Miscellaneous	0	218	218
Total Receipts	<u>3,260,794</u>	<u>1,661,310</u>	<u>4,922,104</u>
DISBURSEMENTS			
Personal services	617,122	0	617,122
Employee fringe benefits	330,316	0	330,316
Expense and equipment	234,860	1,394	236,254
Professional services	262,739	98,229	360,968
Fixed price vehicle program	1,450,300	0	1,450,300
Program distributions	0	145,657	145,657
Cost allocation	1,434	22,585	24,019
Other	5,001	36,671	41,672
Total Disbursements	<u>2,901,772</u>	<u>304,536</u>	<u>3,206,308</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>359,022</u>	<u>1,356,774</u>	<u>1,715,796</u>
TRANSFERS			
Transfers from:			
Proceeds of Surplus Property Fund	136,826	0	136,826
General Revenue Fund	3,767	0	3,767
Transfers to:			
Various funds-surplus property sale proceeds	0	(1,403,704)	(1,403,704)
Department of Social Services Federal & Other Sources Fund	(30,000)	0	(30,000)
Total Transfers	<u>110,593</u>	<u>(1,403,704)</u>	<u>(1,293,111)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	469,615	(46,930)	422,685
CASH AND INVESTMENTS, JULY 1, 2012	3,079,925	289,026	3,368,951
CASH AND INVESTMENTS, JUNE 30, 2013	<u>\$ 3,549,540</u>	<u>242,096</u>	<u>3,791,636</u>

Appendix B

State Agency for Surplus Property
Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2014			2013		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
FEDERAL SURPLUS PROPERTY FUND						
Fixed Price Vehicle Program	\$ 1,495,994	1,493,941	2,053	1,500,000	1,499,208	792
Office of Administration Information Technology						
Consolidation - Expense and Equipment	12,639	495	12,144	12,639	1,209	11,430
Surplus Property - Personal Service	765,994	566,006	199,988	760,371	570,332	190,039
Surplus Property - Expense and Equipment	495,698	321,649	174,049	500,000	401,408	98,592
Surplus Property Recycle - Personal Service	47,153	47,113	40	46,865	46,790	75
Surplus Property Recycle - Expense and Equipment	50,322	50,241	81	51,610	51,075	535
Total Federal Surplus Property Fund	<u>2,867,800</u>	<u>2,479,445</u>	<u>388,355</u>	<u>2,871,485</u>	<u>2,570,022</u>	<u>301,463</u>
PROCEEDS OF SURPLUS PROPERTY FUND						
Surplus Property Sale Proceeds	<u>299,894</u>	<u>298,830</u>	<u>1,064</u>	<u>300,000</u>	<u>281,951</u>	<u>18,049</u>
Total Proceeds Of Surplus Property Fund	<u>299,894</u>	<u>298,830</u>	<u>1,064</u>	<u>300,000</u>	<u>281,951</u>	<u>18,049</u>
Total All Funds	<u>\$ 3,167,694</u>	<u>2,778,275</u>	<u>389,419</u>	<u>3,171,485</u>	<u>2,851,973</u>	<u>319,512</u>

Appendix C

State Agency for Surplus Property
 Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2014	2013	2012	2011	2010
Salaries and wages	\$ 613,119	617,122	603,489	592,596	645,046
Travel, in-state	3,301	2,245	2,487	1,874	1,301
Travel, out-of-state	10,585	10,320	10,692	10,930	7,607
Fuel and utilities	14,276	13,960	9,403	407	900
Supplies	101,248	107,618	114,014	94,944	83,827
Professional development	2,821	4,766	3,040	2,195	2,202
Communication services and supplies	6,443	6,902	7,232	7,281	14,521
Services:					
Professional	282,736	360,968	445,448	402,694	208,808
Housekeeping and janitorial	2,204	2,054	2,275	1,642	5,483
Maintenance and repair	44,474	34,930	52,633	33,121	45,033
Equipment:					
Computer	0	0	958	0	2,596
Motorized	5,500	0	0	0	0
Office	0	30	0	595	4,771
Other	15,660	18,230	29,344	3,143	913
Property and improvements	37,889	32,099	27,549	0	151,132
Building lease payments	1,850	3,100	3,368	2,821	19,212
Equipment rental and leases	0	0	0	209	2,014
Miscellaneous expenses	29,031	28,535	30,790	29,310	21,786
Rebillable expenses	1,454,900	1,450,300	1,928,100	565,169	1,225,254
Refunds	16,650	13,137	7,370	958	7,089
Program distributions	135,588	145,657	148,794	106,703	67,282
Total Expenditures	\$ <u>2,778,275</u>	<u>2,851,973</u>	<u>3,426,986</u>	<u>1,856,592</u>	<u>2,516,777</u>