



Office of Audits
Office of Inspector General
U.S. General Services Administration

GSA Lacks Controls to Effectively Administer the Computers for Learning Website

Report Number A160118/Q/3/P17003
July 13, 2017

Executive Summary

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Why We Performed This Audit

Over the past 2 years, two separate GSA Office of Inspector General investigations culminated in the arrest and conviction of individuals who fraudulently acquired computers and other information technology (IT) equipment donations through the Computers for Learning (CFL) program using GSA's CFL website. We performed this audit to determine whether GSA has adequate controls in place to prevent ineligible organizations from accessing its CFL website and receiving IT equipment intended for eligible schools and educational nonprofit organizations.

What We Found

In administering the CFL website, GSA does not have adequate controls to prevent ineligible organizations from registering and receiving donations of IT equipment. GSA does not perform any eligibility verifications before or after an organization registers on the website as an educational nonprofit. It is solely reliant on donating agencies to ensure eligibility; however, some agencies are not aware of this responsibility. As a result, the CFL program is susceptible to fraud and misuse. During the year ended June 30, 2016, ineligible organizations registered as educational nonprofits received approximately \$2.5 million in federally owned computer equipment intended to educate children. This represented over 22 percent of the total IT equipment donated to recipients registered as educational nonprofit organizations.

What We Recommend

We recommend that the FAS Commissioner:

1. Design and implement controls that prevent ineligible organizations from being granted access to GSA's CFL website and receiving donated IT equipment intended for eligible schools and educational nonprofit organizations.
2. Establish a requirement that federal agencies be informed of their responsibility to validate an organization's eligibility prior to making donations using GSA's CFL website.

The FAS Commissioner agreed with our audit finding and recommendations. GSA's comments are included in their entirety in ***Appendix B***.

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Introduction

We performed an audit of the controls used in administering GSA's Computers for Learning (CFL) website, which is designed to facilitate donations through the CFL program.

Purpose

Over the past 2 years, two separate GSA Office of Inspector General (OIG) investigations led to the arrest and conviction of two individuals who fraudulently acquired computers and other information technology (IT) equipment donated through the CFL program using GSA's CFL website. The value of the equipment fraudulently received equated to over \$31 million in original acquisition cost.

Objective

Our objective was to determine if GSA has adequate controls on its CFL website to prevent ineligible organizations from receiving donated property through the CFL program.

See **Appendix A** – Scope and Methodology for additional details.

Background

The CFL program was established in 1996 in response to Executive Order 12999 (Executive Order) to ensure that American children have the skills needed to succeed in the 21st century. The Executive Order streamlined the transfer of excess and surplus federal computer equipment to schools and educational nonprofits. Based in part on the Stevenson-Wydler Technology Innovation Act of 1980 (Stevenson-Wydler Act)¹ and the Federal Property and Administrative Services Act of 1949 (Federal Property Act),² the Executive Order requires the efficient transfer of educationally useful federal equipment, with priority given to schools and educational nonprofit organizations.

Under the Executive Order, each federal agency is required to identify educationally useful federal equipment that it no longer needs and transfer it to a school or educational nonprofit by one of two methods:

¹ The Stevenson-Wydler Technology Innovation Act of 1980, 15 U.S.C. 3710(i) authorizes the transfer of federally owned technology to state and local governments and to the private sector in order to ensure the full use of the nation's federal investment in research and development. Under the Act, each agency is tasked with cooperating and participating with programs to facilitate the transfer of technology for the benefit of state, local, or regional jurisdictions. The head of any federal agency can loan, lease, or give research equipment that is excess to the needs of the department to an educational institution or nonprofit organization for the conduct of technical and scientific education and research activities.

² The Federal Property and Administrative Services Act of 1949, 40 U.S.C. 484(j) governs equipment transfers under the CFL program made to the different State Agencies for Surplus Property. This Act was recodified in 2002 as the Federal Surplus Personal Property Donations Program, 40 U.S.C. 549.

- (1) Transferring equipment directly to the school or educational nonprofit organization pursuant to the Stevenson-Wydler Act; or
- (2) Reporting excess equipment to GSA for donation when declared surplus in accordance with section 203(j) of the Federal Property Act.

According to GSA, during fiscal year 2015, approximately 97 percent of surplus IT equipment transfers were made under the Stevenson-Wydler Act. Donations made through the CFL website are made under the authority of the Stevenson-Wydler Act, with title of ownership transferring as a gift to the recipient organization. Just 3 percent of surplus IT equipment was transferred using the Federal Property Act, which allows for donation recipients other than schools and educational nonprofit organizations.

The Department of Energy created the CFL website as a way to facilitate the directives of the Executive Order. However, since GSA is largely responsible for federal property disposal through the Federal Property Act, the responsibility of administering the website was transferred to GSA in 2000.

The CFL website identifies available excess federal IT equipment and allows eligible schools and educational nonprofit organizations to request the property based on need. In order to use the CFL website, prospective schools and educational nonprofits must first register on the website and provide general identifying and demographic information about their organization and points of contact.

In particular, registering schools must provide a valid U.S. Department of Education National Center for Educational Statistics (NCES) number, while educational nonprofit organizations must provide a valid federal Employer Identification Number (EIN) and upload their 501(c) approval letter.³ In addition to providing this information, an educational nonprofit must certify to the following in order to register on the CFL website:

- (1) The nonprofit educational institution or organization is exempt from taxation under section 501;
- (2) The organization is established strictly for educational purposes; and
- (3) The organization supports students within the range of prekindergarten through 12th grade.

The registering party certifies that these responses are true under penalty of the false statements statute, 18 U.S.C. 1001.

According to GSA, it provides the platform, training, and guidance necessary for federal agencies to successfully comply with the Executive Order through the CFL program, but it is not responsible for screening nonprofits for eligibility. GSA officials informed us the responsibility to screen nonprofit organizations and schools for eligibility rests with the

³ A 501(c) organization is a tax-exempt nonprofit organization in the United States approved by Section 501(c) of the United States Internal Revenue Code (26 U.S.C. 501).

donating federal agencies. In addition, GSA does not take possession of the donated equipment from other agencies made through the CFL. The donated equipment is directly transferred from the donating agencies to the recipient organizations.

As noted above, the Stevenson-Wydler Act grants agencies the authority to donate directly to schools and educational nonprofit organizations. Federal agencies are not required to use the GSA-maintained CFL website to make donations in accordance with the Executive Order. According to GSA, in fiscal year 2015, approximately 60 percent, or \$75.2 million, of surplus IT equipment donated in accordance with the Stevenson-Wydler Act was donated directly from federal agencies to schools or nonprofit organizations outside of GSA's CFL website.

For the 1-year period of our examination, ending June 30, 2016, federal agency donations through the CFL website were as follows:

Figure 1 – Federal Agency CFL Donations

Recipient Type	Acquisition Cost	Percentage
Schools	\$52,969,060	83%
Educational Nonprofits	\$11,053,361	17%
Total	\$64,022,421	100%

Results

In administering the CFL website, GSA does not have adequate controls to prevent ineligible organizations from registering and receiving donations of IT equipment. GSA does not perform any eligibility verifications before or after an organization registers on the website as an educational nonprofit. It is solely reliant on donating agencies to ensure eligibility; however, some agencies are not aware of this responsibility. As a result, the CFL program is susceptible to fraud and misuse. During the year ended June 30, 2016, ineligible organizations registered as educational nonprofits, received approximately \$2.5 million in federally owned computer equipment intended to educate children. This represented over 22 percent of the total IT equipment donated to recipients registered as educational nonprofit organizations.

Finding – The CFL program is susceptible to fraud and misuse because GSA’s administration of the CFL website lacks controls regarding the eligibility of nonprofit organizations.

According to the Executive Order, only schools and educational nonprofit organizations can receive donations of government IT equipment through the CFL program. To facilitate the exchange of surplus federal IT equipment from federal agencies to eligible schools and nonprofit organizations, GSA manages a CFL website that allows schools and nonprofits to register for the program and claim surplus equipment from donating agencies. However, GSA lacks adequate controls to ensure the eligibility of nonprofit organizations that register on the CFL website.

GSA requires schools and educational nonprofit organizations to provide specific information regarding their eligibility in order to register on the CFL website for IT equipment donations. In particular, schools are required to submit a valid NCES number. Likewise, nonprofit organizations are required to submit a valid EIN and a 501(c) Internal Revenue Service (IRS) approval letter. In addition, nonprofit organizations must also certify that they are established strictly for educational purposes and primarily serve prekindergarten through grade 12 students.

GSA verifies schools’ NCES numbers through a Department of Education database to ensure that the schools registering are valid and eligible to receive property. As a result, we did not find eligibility issues with registered schools. However, GSA does not verify any information provided by organizations registering as educational nonprofits before providing those organizations access to the CFL website. In fact, GSA personnel perform no active role in monitoring the eligibility of nonprofit organizations. Furthermore, GSA has no written policies or procedures for ensuring and monitoring that only eligible recipients are provided access to donated equipment through the CFL website.

GSA also does not take any proactive steps to deactivate ineligible organizations’ registration. For example, GSA has a module in the CFL website that allows donating federal agencies to “flag” organizations that they suspect as being ineligible. A donating

agency can attach a note (flag) to a nonprofit organization's profile explaining why they believe an organization is ineligible and the flag remains attached to the organization's profile visible to all donating agencies. However, despite donating agencies citing eligibility concerns with flagged organizations, GSA's CFL program does not assess the eligibility of these organizations. As a result, these organizations continue to have full access to the CFL website and can still receive property through the CFL program. GSA informed us that it will only deactivate organizations wishing to receive property from the CFL website if contacted directly by another government agency regarding their eligibility.

GSA also informed us that it does not actively monitor the CFL recipient database for ineligible recipients because it is the donating agency's responsibility to check for eligibility prior to donation. However, we found 6 out of 16 sampled federal agency donors that responded to our survey were unaware that it is the donating agency's responsibility to ensure nonprofit organizations registered in GSA's CFL website met the eligibility requirements. These donating agencies presumed that if GSA allowed the organizations to register as educational nonprofits on the CFL website, GSA verified that the nonprofit organization met the eligibility requirements.

As a result, there is no assurance that organizations registered on the CFL website as educational nonprofits are actually eligible to receive IT equipment donations from federal agencies through the CFL program. We analyzed the registration information for a sample of 108 organizations registered as educational nonprofits and found that many had not met the basic requirements for registering for the program. Specifically, we found:

- 54 of 108 registered organizations failed to upload a valid 501(c) approval letter; and
- 26 of 108 registered organizations provided EINs that could not be verified through an IRS exempt organization search.

In addition, upon further analysis we identified the following:

- 9 of 43 organizations registered as educational nonprofits that received equipment during the audited timeframe did not operate with the primary purpose of educating students prekindergarten through grade 12 as required by the CFL program; and
- 137 different EINs were used multiple times to register on the CFL website, with the sequential EIN of 12-3456789 used 14 separate times by different organizations.

GSA has not established an effective control structure over the CFL website. The lack of controls, coupled with donating agencies' limited awareness of their responsibilities for verification of recipient eligibility, has left the CFL program susceptible to fraud and misuse. Specifically, over the past 2 years, GSA OIG investigations have led to the arrest and conviction of two individuals who fraudulently acquired computers and other IT equipment through the program. In addition, for the year ended June 30, 2016, alone, ineligible organizations received over \$2.5 million in surplus federal IT equipment. Accordingly, GSA should implement controls to ensure that the CFL

website assists in fulfilling the program's mission to provide surplus federal IT equipment to schools and educational nonprofits.

Other Observations

Department of Defense CFL Administration

To facilitate compliance with the requirements of the Executive Order, the Defense Logistics Agency (DLA) Disposition Services operates the CFL program for the Department of Defense. The DLA has a significantly more stringent registration process for organizations wishing to receive donated IT equipment from the Department of Defense. Specifically, the DLA requires each organization to provide the following:

- (1) Memorandum of Agreement which identifies the roles and responsibilities of the government and the school or nonprofit organization;
- (2) Articles of incorporation;
- (3) 501(c) approval letter; and
- (4) Form of identification including a driver's license or U.S. Passport in order to verify the identity of the applicants.

All of this information must be provided before an organization is granted access to the CFL program. In addition, the DLA staff may conduct a follow-up telephone interview to discuss the organizations' bylaws or request additional information. As a result of these requirements, the DLA rejects approximately four out of every ten nonprofit organization applications because they are determined to be ineligible.

Property Valuation

The value of IT equipment donated through the CFL program is based on its original acquisition cost and not the fair market value of the equipment at the time of the donation. Valuation of the donated property at the original acquisition cost does not take into account the substantial depreciation of used IT equipment. As a result, the valuation of the equipment donated through the CFL website can significantly overstate the current value of the donated equipment.

To align donated values of IT equipment with the actual value of the equipment at the time of the donation, GSA should consider instructing donating agencies to include current valuations of surplus property or develop a market-based metric that would reduce acquisition cost amounts to an estimated fair market value. This could assist GSA in more accurately assessing the actual value of donation transactions through the CFL program.

Conclusion

In administering the CFL website, GSA does not have adequate controls to prevent ineligible organizations from registering and receiving donations of IT equipment. GSA does not perform any eligibility verifications before or after an organization registers on the website as an educational nonprofit. It is solely reliant on donating agencies to ensure eligibility; however, some agencies are not aware of this responsibility. As a result, the CFL program is susceptible to fraud and misuse. During the year ended June 30, 2016, ineligible organizations registered as educational nonprofits, received approximately \$2.5 million in federally owned computer equipment intended to educate children. This represented over 22 percent of the total IT equipment donated to recipients registered as educational nonprofit organizations.

Recommendations

We recommend that the FAS Commissioner:

1. Design and implement controls that prevent ineligible organizations from being granted access to GSA's CFL website and receiving donated IT equipment intended for eligible schools and educational nonprofit organizations.
2. Establish a requirement that federal agencies be informed of their responsibility to validate an organization's eligibility prior to making donations using GSA's CFL website.

GSA Comments

The FAS Commissioner agreed with our audit finding and recommendations. GSA's comments are included in their entirety in **Appendix B**.

Audit Team

This audit was managed out of the Mid-Atlantic Regional Office and conducted by the individuals listed below:

Thomas Tripple
Michael Sinclair
Kevin Clancey

Regional Inspector General for Auditing
Audit Manager
Auditor-In-Charge

Appendix A – Scope and Methodology

Our audit scope consisted of all CFL donations made from July 1, 2015, through June 30, 2016. We judgmentally sampled 108 nonprofit organizations registered to receive equipment and specific donation transactions in order to determine if GSA has effective controls on its CFL website to prevent ineligible organizations from receiving donated property through the CFL program.

To accomplish our objective, we:

- Reviewed Executive Order 12999, *Education Technology: Ensuring Opportunity for All Children in the Next Century*, the Federal Property Act, and the Stevenson-Wydler Act for policies concerning the CFL program;
- Reviewed GSA CFL program information including registration requirements and other GSA policies;
- Interviewed FAS officials to gain an understanding of their role in the administration of the CFL program;
- Obtained and analyzed the universe of CFL donations made from July 2015 through June 2016;
- Analyzed the CFL recipient registration database for repeated usage of similar registration numbers and data;
- Judgmentally sampled 108 registered nonprofit organizations on the CFL website to determine if they met the registration eligibility requirements;
- Evaluated the top 43 nonprofit organizations receiving the most property (comprising of 84.4 percent of donated property to nonprofits from the July 2015 through June 2016 timeframe) for compliance with the rules of the CFL program;
- Performed internet research to determine the eligibility for nonprofit organizations to receive federal property under the CFL program;
- Reviewed IRS documentation concerning nonprofit eligibility and 501(c) document compliance;
- E-mailed nonprofit recipients of CFL donations to discuss how they are using the IT equipment and what educational aspects they are engaged in;
- Registered as a nonprofit on the CFL website to test the registration controls in place;
- Interviewed GSA OIG investigators to understand fraud with regards to the CFL program;
- Surveyed 30 federal agency personnel who donated equipment and summarized the 16 survey responses received to understand their knowledge of the CFL program; and
- Reviewed the Department of Defense's procedure for administering its CFL program.

We conducted the audit between July 2016 and February 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objectives of the audit. Identified internal control issues are discussed in the Results section of this report.

Appendix B – GSA Comments



GSA Federal Acquisition Service

June 30, 2017

MEMORANDUM FOR THOMAS TRIPPLE
REGIONAL INSPECTOR GENERAL FOR AUDITING, MID-ATLANTIC
REGION AUDIT OFFICE (JA-3)

FROM: ALAN B. THOMAS, JR. 
COMMISSIONER, FEDERAL ACQUISITION SERVICE (Q)

SUBJECT: Response to Draft Report: "GSA Lacks Controls to Effectively Administer
the Computers for Learning Website" Report Number A160118

The Federal Acquisition Service (FAS) has reviewed the draft report A160118 and appreciates the opportunity to comment. FAS agrees with the report's findings that controls on GSA's Computers for Learning (CFL) website should be strengthened specifically for educational non-profits, and that agencies using the website should be informed of their eligibility determination responsibilities pertaining to CFL.

Ensuring the CFL website has robust and appropriate controls and that agencies are aware of their CFL responsibilities is of paramount importance to FAS. FAS is leading an interagency effort to improve the CFL program in support of Presidential Memorandum, "Expanding Broadband Deployment and Adoption by Addressing Regulatory Barriers and Encouraging Investment and Training," dated March 23, 2015, and will ensure OIG's recommendations are fully implemented in this initiative.

The FAS point of contact for this matter is Susanne Combs, Acting Director, Office of Personal Property Management, at susanne.combs@gsa.gov or 703-605-1829.

U.S. General Services Administration
1800 F Street, NW
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Appendix C – Report Distribution

Acting GSA Administrator (A)

Commissioner (Q)

Acting Deputy Commissioner (Q1)

Chief of Staff (Q1)

Acting Assistant Commissioner, Office of Acquisition Management (QV)

Program Management Officer (QV0EB)

Financial Management Officer, FAS Financial Services Division (BGF)

Acting Director, Office of Personal Property Management (QS0D)

Chief Administrative Services Officer (H)

GAO/IG Audit Management Division (H1G)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)