

**Memorandum**

FEB 21 1996

Date

From

June Gibbs Brown
Inspector General

Subject

Report on the Audits of the National Institutes of Health's Trust Funds, the Cooperative Research and Development Agreements, and Royalties for Fiscal Year 1994 (A-17-95-00044)

To

Harold E. Varmus, M.D.
Director, National
Institutes of Health

The attached report presents the results of audits made by the certified public accounting firm Ernst & Young (E&Y) of the consolidated statements of financial position for three funds administered by the National Institutes of Health (NIH). The funds audited were: (1) trust funds, (2) cooperative research and development agreements, and (3) royalties. All three audits were first-year examinations for the Fiscal Year (FY) ended September 30, 1994. The Office of Inspector General exercised technical oversight and quality control of the audits.

Ernst and Young was unable to express an opinion on the consolidated statement of financial position for each of the three funds. In the case of each fund this occurred because the NIH was unable to provide E&Y with the necessary evidence to support account balances that were considered material.

Staffing and training problems were major factors resulting in the findings identified. For example, no single individual was responsible for management of the funds, so centralized oversight was lacking and a comprehensive understanding of the transactions was missing. Also, because of staff turnover, personnel assumed duties for which they were not trained.

Ernst and Young recommended selection of a fund manager to oversee the: (a) maintenance and preparation of financial statements, (b) drafting of an accounting policies and procedures document, (c) preparation of client assistance supporting schedules in response to audits, and (d) timely and accurate recording of fund transactions. The NIH management concurred with the findings made by E&Y, has begun drafting an accounting policies document, and will address recommendations and develop a corrective action plan as considered necessary.

In our oversight of the audit, we found nothing to indicate that E&Y's work on the FY 1994 fund statements of financial position was inappropriate, or that E&Y's reports cannot be relied upon.

Page 2 - Harold E. Varmus, M.D.

We would appreciate being advised within 60 days on the status of corrective actions. Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Acting Assistant Inspector General for Accounting and Financial Management Audits, at (202) 619-1157. Please refer to the Common Identification Number A-17-95-00044 in all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REPORT ON THE AUDITS OF THE
NATIONAL INSTITUTES OF HEALTH'S
TRUST FUNDS, THE COOPERATIVE
RESEARCH AND DEVELOPMENT
AGREEMENTS, AND ROYALTIES FOR
FISCAL YEAR 1994**



JUNE GIBBS BROWN
Inspector General

FEBRUARY 1996
A-17-95-00044

Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL REPORT
NATIONAL INSTITUTES OF HEALTH
FINANCIAL STATEMENTS**

**Trust Funds, Cooperative Research and Development
Agreements, and Royalties**

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Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL REPORT
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FINANCIAL STATEMENTS**

**Independent Auditor's Report on the Financial Statements
of the Trust Funds**

Independent Auditor's Report

To the Office of Inspector General of the Department of Health and Human Services and
the Director of the National Institutes of Health

Executive Summary

We were engaged to audit, in accordance with generally accepted auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," the accompanying consolidated statement of financial position of the Trust Funds (the Fund), a fund within the National Institutes of Health (NIH) as of September 30, 1994. Our reports on the consolidated statement of financial position and our reports and findings regarding the internal control structure and compliance with laws and regulations follow this summary. This report also includes a description of management's responsibilities and our responsibilities under the above standards and guidance.

In summary,

- We are unable to express an opinion on the consolidated statement of financial position as of September 30, 1994 of the Fund because of limitations on the scope of our work.
- We noted certain matters in the internal control structure we consider to be reportable conditions including an item identified as a material weaknesses.
- We are unable to provide assurance on the Fund's compliance with laws and regulations because of the limitations on the scope of our work.

Report on Statement of Financial Position

The scope of our work was not sufficient to enable us to express and we do not express an opinion on the accompanying consolidated statement of financial position because:

- (1) NIH was unable to provide us with the sufficient, competent evidential matter for material account balances on the consolidated statement of financial position.

Because of the matters described in the preceding paragraph, the scope of our work was not sufficient to enable us to express and we do not express an opinion on the Fund's consolidated statement of financial position as of September 30, 1994. The accompanying consolidated statements of operations and changes in net position for fiscal years ended September 30, 1994 and 1993, and the consolidated statement of financial position as of September 30, 1993 were not audited by us and, accordingly, we do not express an opinion on them.

We were engaged to perform an audit for the purpose of forming an opinion on the consolidated statement of financial position as of September 30, 1994 taken as a whole. The information in the Overview is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, "Form and Content of Agency Financial Statements." Because we were unable to express an opinion on the consolidated statement of financial position as of September 30, 1994 and were not engaged to perform an audit of the consolidated statements of operations and changes in net position for fiscal years ended September 30, 1994 and 1993, and the consolidated statement of financial position as of September 30, 1993, we cannot and do not express an opinion on the information in the Overview as it relates to such periods.

Report on the Internal Control Structure

We noted certain matters in the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Certain reportable conditions were also considered to be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

A weakness in the Fund's internal control structure which we have classified as a material weakness is as follows:

Inability to analyze account balances. We were unable to obtain sufficient, competent evidential matter for material account balances on the consolidated statement of financial position. Due to turnover in personnel the Fund did not have an individual person who had a comprehensive knowledge of the processes used to account for the Fund and an understanding of transactions that occurred during the year and of adjusting entries made in the financial statement accumulation process. There was not adequate documentation to support the balances.

The reportable conditions include the following:

Identification and timely resolution of suspense items. NIH utilizes suspense accounts common to multiple entities. Month end reconciliations of these suspense accounts contain items that have not been identified and resolved timely. The impact of these unresolved items to the Fund could not be determined.

Security Control Implementation is needed. The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system. There are over 20,000 users who have access to this system.

Currently there are not adequate controls to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

These reportable conditions, with our recommended corrective actions, are discussed in an attachment to this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We also noted certain matters involving the financial reporting internal control structure and its operation that we reported to management of the Fund in a separate letter dated August 11, 1995.

Compliance with Laws and Regulations

Because the scope of our work was limited as discussed above, we were unable to determine and thus we cannot provide assurance about whether the Fund complied with laws and regulations which could have a direct and material effect on the consolidated statement of financial position.

Management's Responsibilities

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of principal financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and that the Fund complies with applicable laws and regulations.

Auditor Responsibilities

In planning our engagement to audit the Fund's consolidated statement of financial position, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated statement of financial position and not to provide assurance on the internal control structure. Our responsibility is to report the extent that the Fund's financial reporting control structure is inadequately designed or is operated ineffectively, if applicable, and could significantly affect the Fund's consolidated statement of financial position taken as a whole. To fulfill these responsibilities we obtained an understanding of the Fund's financial reporting internal control structure policies and procedures to the extent we considered necessary under the circumstances.

Except for the limitations on the scope of our work on the consolidated statement of financial position, internal control structure and compliance with laws and regulations

This report is intended solely for the use of the Office of Inspector General of the Department of Health and Human Services and the Director of the National Institutes of Health.

Ernst + Young LLP

Washington D.C.
August 11, 1995

Attachment to Report on Internal Control Structure

The following document represents our combined comments for the National Institutes of Health Funds (Royalties, Cooperative Research and Development Agreements and Trust Funds).

- 1) NIH lacked the staff resources to provide us with sufficient competent, evidential matter for material balances on the statement of financial position. This is further explained below:

Overall Responsibility for Each Fund

During the course of our audit, it became apparent that no one single individual is currently responsible for the accounting and overall management of each of the Funds. As a result, we noted that no one individual person had a comprehensive understanding of the transactions that occurred in each Fund or the nature of the different accounts in each Fund. In addition, several individuals who had various responsibilities with the Funds during Fiscal Year 1994 had left NIH before the audit was completed. Due to the turnover in personnel we were unable to obtain supporting documentation for various balances and journal entries or to obtain adequate explanations to our questions.

Recommendations

An individual, who we will refer to as the fund manager, should be selected for each of the Funds. The fund manager should be responsible for overseeing the following:

- Financial Statement Accumulation Process

The fund manager should assign the financial statement accumulation duties to an appropriate level staff. The staff responsible for accumulating the financial statements should be familiar with the accounting for the Fund and should be closely supervised by the fund manager.

- Maintenance of Detailed Documentation of Accounting Policies and Procedures

Written documentation should be prepared and maintained by the fund manager as to all the accounting policies and procedures related to the Funds. This would include such items as the procedures to record cash receipts, procedures to record inventor awards, and procedures to close the books.

- Preparation of Client Assistance Schedules Including Supporting Documentation For the Audit

First the fund manager should obtain an understanding from the auditors of the purpose and use of the client assistance requested. The fund manager should then assign to appropriate staff the client assistance schedules to be prepared for the audit. The fund manager should supervise the preparation and then review the final product. The review, at a minimum, should include verification that supporting schedules tie to the financial statements and that adjustments are adequately explained and supported.

- Timely and Accurate Recording of the Fund's Transactions

During the year, the fund manager should monitor the transactions of the Funds to ensure they are being recorded timely and accurately and preparation of reconciliations to ensure they are being prepared and follow up occurs on a timely basis.

Adjusting Journal Entries

As part of our review of the financial statement accumulation process, we noted several instances of adjusting entries that were required in order to correct erroneous entries made during the year. (Example: For the Royalty Fund, we noted adjustments totaling \$18.1 million were credited to the revenue accounts and debited from the equity accounts in order to correct entries that were made throughout the year to the wrong account).

We also noted adjusting entries that were made with little explanation and/or no supporting documentation attached. (Example: For the CRADA Fund - explanations for adjusting entries included "to correct SGL 5903." This explanation does not give information as to why the other side of the entry is the correct account). This was especially a problem when the person who prepared the entry was no longer employed by NIH.

Recommendations

The fund manager should review, approve and ensure timely performance of the reconciliation of the subsidiary ledgers to the respective general ledger. Also, monthly trial balances should be reviewed for reasonableness and compared to prior periods and budgets. The fund manager should investigate any large or unusual fluctuations in account balances.

The fund manager should routinely review and approve journal entries made to the general ledger ensuring that adequate written explanations, including the basis for determining the accounts affected and supporting documentation, are attached to the journal voucher.

Detailed Documentation of Accounting Responsibilities

During the course of our audit, we noted some instances in which procedures were not being performed or the personnel were not adequately trained or supervised when performing their responsibilities. For example:

- The posting of cash receipts to the general ledger function for the Gift Fund was not being performed because the prior individual who performed that function had left NIH. Although the money was being deposited in the bank, the receipts were not being posted to the General Ledger.
- The person who accumulated the financial statements for the CRADA Fund was not involved with the Fund's accounting. As a result, the individual did not know the nature of several accounts (e.g., Accounts Receivable), was unfamiliar with the reason why certain accounts were affected by the

adjustments made, and made adjustments because they were made in prior years and was unable to fully explain the adjusting entries made.

- The person who accumulated the Gift Fund financial statements had left NIH prior to our starting the audit, and therefore, we were unable to obtain an explanation of how the financial statements were accumulated or explanations for adjusting journal entries.

Recommendation:

We understand that NIH is required to reduce staffing. In light of this requirement, it is even more essential that adequate written documentation for the accounting policies and procedures be developed, maintained and consistently applied. It is important that NIH has sufficient written documentation of their accounting policies and procedures which includes the methodology used to perform a specific procedure. This documentation can be used by the staff as a reference manual which would be helpful in managing staff turnover. Inadequate documentation may result in either responsibilities not being performed at all or being performed improperly.

NIH may also want to consider implementing more consistency in their accounting functions. For example, there should be a requirement for all journal vouchers to have supporting documentation attached and have them filed sequentially in one location. Currently, it appears that each individual is allowed to develop their own system of documentation and filing. Therefore, when they leave, it becomes an enormous task to try to obtain an understanding of the entry or to locate the supporting documentation.

Managing Staff Turnover

During the course of our audit, we experienced difficulty obtaining explanations to some of our questions and/or obtaining supporting documentation. The explanation we were usually given had to do with the fact that a number of people who had worked on the funds during the fiscal year we were auditing were either no longer employed or left during the course of our audit.

Recommendations

NIH does not appear to have a policy regarding the management of staff turnover. A couple of the people who have left NIH during this time period had retired. In these cases there should have been adequate time to train or delegate the retiree's responsibilities before the person retired. When it is known that turnover is going to occur, there should be an effort to have the person leaving meet with and train the person who will be taking over their responsibilities, even if the new person is only temporary.

For those instances when the turnover is not predictable, there needs to be an effort from the time the employee gives notice to the time they leave to have the former employee meet with and train the next person who is going to be responsible for the tasks.

Another suggestion that NIH may want to consider is to have employees in each section on a rotation so that each person over time would learn the responsibilities

and functions of others. While the employees are on the rotation, the previous person would be around to help train them and answer questions. In addition, if consistent policies and procedures regarding documentation and filing were implemented, the only thing the person would need to learn on the "new" assignment is that particular accounting function.

Managing the Accounting Process

Throughout our audit, requests were made for client assistance such as subsidiary ledgers, voucher packages, and supporting invoices. The schedules, reports and other supporting documentation we received were often either incomplete, did not agree with the general ledger balance, or were in a format that we could not use for audit purposes.

Recommendation:

NIH should maintain subsidiary ledgers for all accounts and reconcile these ledgers to the general ledger on a periodic basis (e.g., monthly) throughout the year. These subsidiary ledgers and reconciliations will enable management to be informed of the balances in the individual accounts and provide a substantial audit trail which will make future audits more efficient.

Management Response

Management concurs with the material weakness as discussed above. Management is already in the process of preparing documentation of the accounting policies and procedures. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- 2) NIH was not able to determine the amount of reconciling items in its suspense accounts that are attributed to the Fund

Reconciliation of the Suspense Accounts to the Treasury's 6653 Report

As stipulated by OMB and Treasury, NIH has the following three accounting points: 31 (intragovernmental transactions), 40 (extramural transactions), and 99 (investment transactions). Each of these accounting points is responsible for reconciling their general ledger cash balances to the Treasury's 6653 Report ("6653") for the CRADA, Gift, and Royalty Fund appropriations. We made the following observations when testing the September 30, 1994 reconciliations. First, the suspense accounts and the CRADA Fund had material differences of \$9.2 million and \$133,000, respectively, which were not claimed by any accounting point and therefore, were unidentified reconciling items. Some of these items were also over one year old. (We noted other appropriations that we were not auditing also had unidentified reconciling items). Second, accounting point 99 could not provide adequate information or documentation on a \$623,000 reconciling item for the Unconditional Gift Fund.

Because of the above mentioned items, there was not sufficient audit evidence to support the cash balances at September 30, 1994.

In addition, we reviewed cash reconciliations for each accounting point from October 1993 through September 1994 and noted the following:

- Some reconciliations were not completed until several months after the month-end (for example several month's reconciliations were performed during the same month).
- No evidence was available to show that the reconciliations had been reviewed.
- All reconciling items were resolved as of our testing date; however, not all items were resolved in a timely manner during the fiscal year (for example, items relating to October 1993 were not resolved until after September 1994).
- For those months for which we could not find a reconciliation, the accounting point was unsure as to whether it was due to the fact that there were no reconciling items or that a reconciliation was not prepared.

Recommendation:

We recommend that NIH strengthen controls and implement additional procedures related to the cash reconciliation process. Specifically, NIH should do the following:

- A review of the reconciliation process should be performed to determine the nature and cause of the unidentified reconciling items. A plan should be implemented to reduce the amount of unidentified items and a policy should be implemented to require timely resolution.

and functions of others. While the employees are on the rotation, the previous person would be around to help train them and answer questions. In addition, if consistent policies and procedures regarding documentation and filing were implemented, the only thing the person would need to learn on the "new" assignment is that particular accounting function.

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- No evidence was available to show that the reconciliations had been reviewed.
- All reconciling items were resolved as of our testing date; however, not all items were resolved in a timely manner during the fiscal year (for example, items relating to October 1993 were not resolved until after September 1994).
- For those months for which we could not find a reconciliation, the accounting point was unsure as to whether it was due to the fact that there were no reconciling items or that a reconciliation was not prepared.

Recommendation:

We recommend that NIH strengthen controls and implement additional procedures related to the cash reconciliation process. Specifically, NIH should do the following:

- A review of the reconciliation process should be performed to determine the nature and cause of the unidentified reconciling items. A plan should be implemented to reduce the amount of unidentified items and a policy should be implemented to require timely resolution.

- Maintain supporting documentation with each reconciliation in order to provide easily accessible information regarding reconciling items (for example, the nature and resolution of the item).
- Require reconciliations to be performed on a monthly basis with all reconciling differences researched and resolved promptly.
- Require supervisors to sign the reconciliations and related adjustments that are made by the preparer of the reconciliation to evidence review and concurrence.
- Prepare reconciliations for all appropriations even if there is no difference for the current month.
- At year-end, reconciling items should be researched and adjusted on a timely basis to clear the reconciliations and ensure that the appropriate accounts are adjusted to prepare complete and timely financial statements.

Suspense Accounts

Each accounting point receives a report from Treasury (6652) which shows the difference between the amounts reported to Treasury by NIH on the Statement of Transactions (224) and the cash actually received and disbursed by Treasury. The accounting points are required to reconcile the information received on the 6652.

We made several observations when reviewing the September 30, 1994 reconciliations. First, accounting point 31 estimates the total difference and transfers the amount to an NIH suspense account. They do this by obtaining on-line receipt and disbursement information from Treasury prior to submitting their 224. This suspense account is used by all the funds and appropriations which makes it difficult to track individual reconciling items (e.g., we were unable to identify which items related to the Funds). Second, an item that becomes greater than six months old on the 6652 is transferred to one of two suspense accounts by Treasury. These accounts are also used by each fund and appropriation which again makes it difficult to track individual reconciling items. Third, many reconciliations were not completed until several months after the month-end. Last, no evidence was available to show that the reconciliations had been reviewed.

Based on the system in place, it is difficult to determine how the amounts recorded in the suspense accounts affect the September 30, 1994 cash balance in each fund.

Recommendation:

We recommend that NIH implement additional procedures and strengthen controls related to the use of suspense accounts. Specifically, NIH should:

- Provide a detailed listing of the items in the suspense accounts to each accounting point monthly, so that they can identify, research, and resolve reconciling items promptly. This will also help the accounting points to see any unidentified differences.
- Require reconciliations to be performed on a monthly basis for all suspense accounts with all reconciling items researched and resolved promptly.

- Require supervisors to sign the reconciliations and related adjustments to evidence review and concurrence.

We concur with management's plan to study the system and process that give rise to suspense account entries and to reduce the number of overall items which enter the suspense accounts.

Management Response

Management concurs with the reportable condition as discussed above. A task order has been written to have E&Y review the suspense accounts and related reconciliation process. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- 3) The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Multiple Virtual Storage (MVS) operating system and the Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system.

At the time of our review, there were over 20,000 users who were provided with access to this system. In our review of the RACF implementation and overall security controls on this system, the following weaknesses were observed:

- All users were provided with the ability to read the primary and backup RACF databases. These files contain user IDs and passwords for all of the users on this system and can potentially be used to obtain unauthorized access to data on this system.
- Several authorized system software libraries were not adequately protected allowing all users of this system to make unauthorized and unapproved changes to these libraries.
- Insufficient protection and controls existed over sensitive authorized programs which could allow circumvention of existing security controls.
- Insufficient audit trail for activities of privileged users, i.e., activities of users with ability to bypass RACF security controls were not being recorded.

As a result of the weaknesses described above, the potential exists for unauthorized individuals to obtain undetected access to this system and the resources which are maintained on this system.

Recommendation:

We recommend that NIH perform a complete and thorough review of the current operating environment to ensure that adequate controls are in place to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

Management Response

Each recommendation has been addressed as follows:

- DCRT has now protected these RACF databases to prevent access from non-authorized individuals.
- This oversight was immediately rectified. Additionally, the procedures and processes that permitted this to occur were reviewed and modified so that new system libraries would be automatically protected at the time they are created.
- There were several applications included in the eligible (authorized) program list. This list has been re-examined and DCRT found that one of the programs no longer required this level of authorization. That program has now been removed. Additionally, we have reviewed our procedures for including programs in this list to ensure that only those required by systems facilities are included in the future.
- The RACF parameters have been set so that this information is now being recorded.

Department of Health and Human Services

**NATIONAL INSTITUTES OF HEALTH
OFFICE OF INSPECTOR GENERAL REPORT
FINANCIAL STATEMENTS**

**Independent Auditor's Report on the Financial Statements
of the Cooperative Research and Development Agreements
(CRDA)**

Independent Auditor's Report

To the Office of Inspector General of the Department of Health and Human Services and
the Director of the National Institutes of Health

Executive Summary

We were engaged to audit, in accordance with generally accepted auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," the accompanying statement of financial position of the Cooperative Research and Development Agreements (the Fund), a fund within the National Institutes of Health (NIH) as of September 30, 1994. Our reports on the statement of financial position and our reports and findings regarding the internal control structure and compliance with laws and regulations follow this summary. This report also includes a description of management's responsibilities and our responsibilities under the above standards and guidance.

In summary,

- We are unable to express an opinion on the statement of financial position as of September 30, 1994 of the Fund because of limitations on the scope of our work.
- We noted certain matters in the internal control structure we consider to be reportable conditions including an item identified as a material weaknesses.
- We are unable to provide assurance on the Fund's compliance with laws and regulations because of the limitations on the scope of our work.

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The scope of our work was not sufficient to enable us to express and we do not express an opinion on the accompanying statement of financial position because:

- (1) NIH was unable to provide us with the sufficient, competent evidential matter for material account balances on the statement of financial position.

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information in the Overview is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, "Form and Content of Agency Financial Statements." Because we were unable to express an opinion on the statement of financial position as of September 30, 1994 and were not engaged to perform an audit of the statements of operations and changes in net position for fiscal years ended September 30, 1994 and 1993, and the statement of financial position as of September 30, 1993, we cannot and do not express an opinion on the information in the Overview as it relates to such periods.

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A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

A weakness in the Fund's internal control structure which we have classified as a material weakness is as follows:

Inability to analyze account balances. We were unable to obtain sufficient, competent evidential matter for material account balances on the statement of financial position. Due to turnover in personnel the Fund did not have an individual person who had a comprehensive knowledge of the processes used to account for the Fund and an understanding of transactions that occurred during the year and of adjusting entries made in the financial statement accumulation process. There was not adequate documentation to support the balances.

The reportable conditions include the following:

Identification and timely resolution of suspense items. NIH utilizes suspense accounts common to multiple entities. Month end reconciliations of these suspense accounts contain items that have not been identified and resolved timely. The impact of these unresolved items to the Fund could not be determined.

Security Control Implementation is needed. The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system. There are over 20,000 users who have access to this system. Currently there are not adequate controls to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

These reportable conditions, with our recommended corrective actions, are discussed in an attachment to this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We also noted certain matters involving the financial reporting internal control structure and its operation that we reported to management of the Fund in a separate letter dated August 11, 1995.

Compliance with Laws and Regulations

Because the scope of our work was limited as discussed above, we were unable to determine and thus we cannot provide assurance about whether the Fund complied with laws and regulations which could have a direct and material effect on the statement of financial position.

Management's Responsibilities

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of principal financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and that the Fund complies with applicable laws and regulations.

Auditor Responsibilities

In planning our engagement to audit the Fund's statement of financial position, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the statement of financial position and not to provide assurance on the internal control structure. Our responsibility is to report the extent that the Fund's financial reporting control structure is inadequately designed or is operated ineffectively, if applicable, and could significantly affect the Fund's statement of financial position taken as a whole. To fulfill these responsibilities we obtained an understanding of the Fund's financial reporting internal control structure policies and procedures to the extent we considered necessary under the circumstances.

Except for the limitations on the scope of our work on the statement of financial position, internal control structure and compliance with laws and regulations described above, we performed our procedures in accordance with generally accepted auditing standards, and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

This report is intended solely for the use of the Office of Inspector General of the Department of Health and Human Services and the Director of the National Institutes of Health.

Ernst + Young LLP

Washington D.C.
August 11, 1995

Attachment to Report on Internal Control Structure

The following document represents our combined comments for the National Institutes of Health Funds (Royalties, Cooperative Research and Development Agreements and Trust Funds).

- 1) NIH lacked the staff resources to provide us with sufficient competent, evidential matter for material balances on the statement of financial position. This is further explained below:

Overall Responsibility for Each Fund

During the course of our audit, it became apparent that no one single individual is currently responsible for the accounting and overall management of each of the Funds. As a result, we noted that no one individual person had a comprehensive understanding of the transactions that occurred in each Fund or the nature of the different accounts in each Fund. In addition, several individuals who had various responsibilities with the Funds during Fiscal Year 1994 had left NIH before the audit was completed. Due to the turnover in personnel we were unable to obtain supporting documentation for various balances and journal entries or to obtain adequate explanations to our questions.

Recommendations

An individual, who we will refer to as the fund manager, should be selected for each of the Funds. The fund manager should be responsible for overseeing the following:

- Financial Statement Accumulation Process

The fund manager should assign the financial statement accumulation duties to an appropriate level staff. The staff responsible for accumulating the financial statements should be familiar with the accounting for the Fund and should be closely supervised by the fund manager.

- Maintenance of Detailed Documentation of Accounting Policies and Procedures

Written documentation should be prepared and maintained by the fund manager as to all the accounting policies and procedures related to the Funds. This would include such items as the procedures to record cash receipts, procedures to record inventor awards, and procedures to close the books.

- Preparation of Client Assistance Schedules Including Supporting Documentation For the Audit

First the fund manager should obtain an understanding from the auditors of the purpose and use of the client assistance requested. The fund manager should then assign to appropriate staff the client assistance schedules to be prepared for the audit. The fund manager should supervise the preparation and then review the final product. The review, at a minimum, should include verification that supporting schedules tie to the financial statements and that adjustments are adequately explained and supported.

- Timely and Accurate Recording of the Fund's Transactions

During the year, the fund manager should monitor the transactions of the Funds to ensure they are being recorded timely and accurately and preparation of reconciliations to ensure they are being prepared and follow up occurs on a timely basis.

Adjusting Journal Entries

As part of our review of the financial statement accumulation process, we noted several instances of adjusting entries that were required in order to correct erroneous entries made during the year. (Example: For the Royalty Fund, we noted adjustments totaling \$18.1 million were credited to the revenue accounts and debited from the equity accounts in order to correct entries that were made throughout the year to the wrong account).

We also noted adjusting entries that were made with little explanation and/or no supporting documentation attached. (Example: For the CRADA Fund - explanations for adjusting entries included "to correct SGL 5903." This explanation does not give information as to why the other side of the entry is the correct account). This was especially a problem when the person who prepared the entry was no longer employed by NIH.

Recommendations

The fund manager should review, approve and ensure timely performance of the reconciliation of the subsidiary ledgers to the respective general ledger. Also, monthly trial balances should be reviewed for reasonableness and compared to prior periods and budgets. The fund manager should investigate any large or unusual fluctuations in account balances.

The fund manager should routinely review and approve journal entries made to the general ledger ensuring that adequate written explanations, including the basis for determining the accounts affected and supporting documentation, are attached to the journal voucher.

Detailed Documentation of Accounting Responsibilities

During the course of our audit, we noted some instances in which procedures were not being performed or the personnel were not adequately trained or supervised when performing their responsibilities. For example:

- The posting of cash receipts to the general ledger function for the Gift Fund was not being performed because the prior individual who performed that function had left NIH. Although the money was being deposited in the bank, the receipts were not being posted to the General Ledger.
- The person who accumulated the financial statements for the CRADA Fund was not involved with the Fund's accounting. As a result, the individual did not know the nature of several accounts (e.g., Accounts Receivable), was unfamiliar with the reason why certain accounts were affected by the

adjustments made, and made adjustments because they were made in prior years and was unable to fully explain the adjusting entries made.

- The person who accumulated the Gift Fund financial statements had left NIH prior to our starting the audit, and therefore, we were unable to obtain an explanation of how the financial statements were accumulated or explanations for adjusting journal entries.

Recommendation:

We understand that NIH is required to reduce staffing. In light of this requirement, it is even more essential that adequate written documentation for the accounting policies and procedures be developed, maintained and consistently applied. It is important that NIH has sufficient written documentation of their accounting policies and procedures which includes the methodology used to perform a specific procedure. This documentation can be used by the staff as a reference manual which would be helpful in managing staff turnover. Inadequate documentation may result in either responsibilities not being performed at all or being performed improperly.

NIH may also want to consider implementing more consistency in their accounting functions. For example, there should be a requirement for all journal vouchers to have supporting documentation attached and have them filed sequentially in one location. Currently, it appears that each individual is allowed to develop their own system of documentation and filing. Therefore, when they leave, it becomes an enormous task to try to obtain an understanding of the entry or to locate the supporting documentation.

Managing Staff Turnover

During the course of our audit, we experienced difficulty obtaining explanations to some of our questions and/or obtaining supporting documentation. The explanation we were usually given had to do with the fact that a number of people who had worked on the funds during the fiscal year we were auditing were either no longer employed or left during the course of our audit.

Recommendations

NIH does not appear to have a policy regarding the management of staff turnover. A couple of the people who have left NIH during this time period had retired. In these cases there should have been adequate time to train or delegate the retiree's responsibilities before the person retired. When it is known that turnover is going to occur, there should be an effort to have the person leaving meet with and train the person who will be taking over their responsibilities, even if the new person is only temporary.

For those instances when the turnover is not predictable, there needs to be an effort from the time the employee gives notice to the time they leave to have the former employee meet with and train the next person who is going to be responsible for the tasks.

Another suggestion that NIH may want to consider is to have employees in each section on a rotation so that each person over time would learn the responsibilities

and functions of others. While the employees are on the rotation, the previous person would be around to help train them and answer questions. In addition, if consistent policies and procedures regarding documentation and filing were implemented, the only thing the person would need to learn on the "new" assignment is that particular accounting function.

Managing the Accounting Process

Throughout our audit, requests were made for client assistance such as subsidiary ledgers, voucher packages, and supporting invoices. The schedules, reports and other supporting documentation we received were often either incomplete, did not agree with the general ledger balance, or were in a format that we could not use for audit purposes.

Recommendation:

NIH should maintain subsidiary ledgers for all accounts and reconcile these ledgers to the general ledger on a periodic basis (e.g., monthly) throughout the year. These subsidiary ledgers and reconciliations will enable management to be informed of the balances in the individual accounts and provide a substantial audit trail which will make future audits more efficient.

Management Response

Management concurs with the material weakness as discussed above. Management is already in the process of preparing documentation of the accounting policies and procedures. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- Maintain supporting documentation with each reconciliation in order to provide easily accessible information regarding reconciling items (for example, the nature and resolution of the item).
- Require reconciliations to be performed on a monthly basis with all reconciling differences researched and resolved promptly.
- Require supervisors to sign the reconciliations and related adjustments that are made by the preparer of the reconciliation to evidence review and concurrence.
- Prepare reconciliations for all appropriations even if there is no difference for the current month.
- At year-end, reconciling items should be researched and adjusted on a timely basis to clear the reconciliations and ensure that the appropriate accounts are adjusted to prepare complete and timely financial statements.

Suspense Accounts

Each accounting point receives a report from Treasury (6652) which shows the difference between the amounts reported to Treasury by NIH on the Statement of Transactions (224) and the cash actually received and disbursed by Treasury. The accounting points are required to reconcile the information received on the 6652.

We made several observations when reviewing the September 30, 1994 reconciliations. First, accounting point 31 estimates the total difference and transfers the amount to an NIH suspense account. They do this by obtaining on-line receipt and disbursement information from Treasury prior to submitting their 224. This suspense account is used by all the funds and appropriations which makes it difficult to track individual reconciling items (e.g., we were unable to identify which items related to the Funds). Second, an item that becomes greater than six months old on the 6652 is transferred to one of two suspense accounts by Treasury. These accounts are also used by each fund and appropriation which again makes it difficult to track individual reconciling items. Third, many reconciliations were not completed until several months after the month-end. Last, no evidence was available to show that the reconciliations had been reviewed.

Based on the system in place, it is difficult to determine how the amounts recorded in the suspense accounts affect the September 30, 1994 cash balance in each fund.

Recommendation:

We recommend that NIH implement additional procedures and strengthen controls related to the use of suspense accounts. Specifically, NIH should:

- Provide a detailed listing of the items in the suspense accounts to each accounting point monthly, so that they can identify, research, and resolve reconciling items promptly. This will also help the accounting points to see any unidentified differences.
- Require reconciliations to be performed on a monthly basis for all suspense accounts with all reconciling items researched and resolved promptly.

- 2) NIH was not able to determine the amount of reconciling items in its suspense accounts that are attributed to the Fund

Reconciliation of the Suspense Accounts to the Treasury's 6653 Report

As stipulated by OMB and Treasury, NIH has the following three accounting points: 31 (intragovernmental transactions), 40 (extramural transactions), and 99 (investment transactions). Each of these accounting points is responsible for reconciling their general ledger cash balances to the Treasury's 6653 Report ("6653") for the CRADA, Gift, and Royalty Fund appropriations. We made the following observations when testing the September 30, 1994 reconciliations. First, the suspense accounts and the CRADA Fund had material differences of \$9.2 million and \$133,000, respectively, which were not claimed by any accounting point and therefore, were unidentified reconciling items. Some of these items were also over one year old. (We noted other appropriations that we were not auditing also had unidentified reconciling items). Second, accounting point 99 could not provide adequate information or documentation on a \$623,000 reconciling item for the Unconditional Gift Fund.

Because of the above mentioned items, there was not sufficient audit evidence to support the cash balances at September 30, 1994.

In addition, we reviewed cash reconciliations for each accounting point from October 1993 through September 1994 and noted the following:

- Some reconciliations were not completed until several months after the month-end (for example several month's reconciliations were performed during the same month).
- No evidence was available to show that the reconciliations had been reviewed.
- All reconciling items were resolved as of our testing date; however, not all items were resolved in a timely manner during the fiscal year (for example, items relating to October 1993 were not resolved until after September 1994).
- For those months for which we could not find a reconciliation, the accounting point was unsure as to whether it was due to the fact that there were no reconciling items or that a reconciliation was not prepared.

Recommendation:

We recommend that NIH strengthen controls and implement additional procedures related to the cash reconciliation process. Specifically, NIH should do the following:

- A review of the reconciliation process should be performed to determine the nature and cause of the unidentified reconciling items. A plan should be implemented to reduce the amount of unidentified items and a policy should be implemented to require timely resolution.

- Require supervisors to sign the reconciliations and related adjustments to evidence review and concurrence.

We concur with management's plan to study the system and process that give rise to suspense account entries and to reduce the number of overall items which enter the suspense accounts.

Management Response

Management concurs with the reportable condition as discussed above. A task order has been written to have E&Y review the suspense accounts and related reconciliation process. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- 3) The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Multiple Virtual Storage (MVS) operating system and the Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system.

At the time of our review, there were over 20,000 users who were provided with access to this system. In our review of the RACF implementation and overall security controls on this system, the following weaknesses were observed:

- All users were provided with the ability to read the primary and backup RACF databases. These files contain user IDs and passwords for all of the users on this system and can potentially be used to obtain unauthorized access to data on this system.
- Several authorized system software libraries were not adequately protected allowing all users of this system to make unauthorized and unapproved changes to these libraries.
- Insufficient protection and controls existed over sensitive authorized programs which could allow circumvention of existing security controls.
- Insufficient audit trail for activities of privileged users, i.e., activities of users with ability to bypass RACF security controls were not being recorded.

As a result of the weaknesses described above, the potential exists for unauthorized individuals to obtain undetected access to this system and the resources which are maintained on this system.

Recommendation:

We recommend that NIH perform a complete and thorough review of the current operating environment to ensure that adequate controls are in place to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

Management Response

Each recommendation has been addressed as follows:

- DCRT has now protected these RACF databases to prevent access from non-authorized individuals.
- This oversight was immediately rectified. Additionally, the procedures and processes that permitted this to occur were reviewed and modified so that new system libraries would be automatically protected at the time they are created.
- There were several applications included in the eligible (authorized) program list. This list has been re-examined and DCRT found that one of the programs no longer required this level of authorization. That program has now been removed. Additionally, we have reviewed our procedures for including programs in this list to ensure that only those required by systems facilities are included in the future.
- The RACF parameters have been set so that this information is now being recorded.

Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL REPORT
NATIONAL INSTITUTES OF HEALTH
FINANCIAL STATEMENTS**

**Independent Auditor's Report on the Financial Statements
of the Royalties**

Independent Auditor's Report

To the Office of Inspector General of the Department of Health and Human Services and the Director of the National Institutes of Health.

Executive Summary

We were engaged to audit, in accordance with generally accepted auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," the accompanying consolidated statement of financial position of the Royalties (the Fund), a fund within the National Institutes of Health (NIH) as of September 30, 1994. Our reports on the consolidated statement of financial position and our reports and findings regarding the internal control structure and compliance with laws and regulations follow this summary. This report also includes a description of management's responsibilities and our responsibilities under the above standards and guidance.

In summary,

- We are unable to express an opinion on the consolidated statement of financial position as of September 30, 1994 of the Fund because of limitations on the scope of our work.
- We noted certain matters in the internal control structure we consider to be reportable conditions including an item identified as a material weaknesses.
- We are unable to provide assurance on the Fund's compliance with laws and regulations because of the limitations on the scope of our work.

Report on Statement of Financial Position

The scope of our work was not sufficient to enable us to express and we do not express an opinion on the accompanying consolidated statement of financial position because:

- (1) NIH was unable to provide us with the sufficient, competent evidential matter for material account balances on the consolidated statement of financial position.

Because of the matters described in the preceding paragraph, the scope of our work was not sufficient to enable us to express and we do not express an opinion on the Fund's consolidated statement of financial position as of September 30, 1994. The accompanying consolidated statements of operations and changes in net position for fiscal years ended September 30, 1994 and 1993, and the consolidated statement of financial position as of September 30, 1993 were not audited by us and, accordingly, we do not express an opinion on them.

We were engaged to perform an audit for the purpose of forming an opinion on the consolidated statement of financial position as of September 30, 1994 taken as a whole. The information in the Overview is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, "Form and Content of Agency Financial Statements." Because we were unable to express an opinion on the consolidated statement of financial position as of September 30, 1994 and were not engaged to perform an audit of the consolidated statements of operations and changes in net position for fiscal years ended September 30, 1994 and 1993, and the consolidated statement of financial position as of September 30, 1993, we cannot and do not express an opinion on the information in the Overview as it relates to such periods.

Report on the Internal Control Structure

We noted certain matters in the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Certain reportable conditions were also considered to be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

A weakness in the Fund's internal control structure which we have classified as a material weakness is as follows:

Inability to analyze account balances. We were unable to obtain sufficient, competent evidential matter for material account balances on the consolidated statement of financial position. Due to turnover in personnel the Fund did not have an individual person who had a comprehensive knowledge of the processes used to account for the Fund and an understanding of transactions that occurred during the year and of adjusting entries made in the financial statement accumulation process. There was not adequate documentation to support the balances.

The reportable conditions include the following:

Identification and timely resolution of suspense items. NIH utilizes suspense accounts common to multiple entities. Month end reconciliations of these suspense accounts contain items that have not been identified and resolved timely. The impact of these unresolved items to the Fund could not be determined.

Security Control Implementation is needed. The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system. There are over 20,000 users who have access to this system.

Currently there are not adequate controls to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

These reportable conditions, with our recommended corrective actions, are discussed in an attachment to this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We also noted certain matters involving the financial reporting internal control structure and its operation that we reported to management of the Fund in a separate letter dated August 11, 1995.

Compliance with Laws and Regulations

Because the scope of our work was limited as discussed above, we were unable to determine and thus we cannot provide assurance about whether the Fund complied with laws and regulations which could have a direct and material effect on the consolidated statement of financial position.

Management's Responsibilities

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of principal financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and that the Fund complies with applicable laws and regulations.

Auditor Responsibilities

In planning our engagement to audit the Fund's consolidated statement of financial position, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated statement of financial position and not to provide assurance on the internal control structure. Our responsibility is to report the extent that the Fund's financial reporting control structure is inadequately designed or is operated ineffectively, if applicable, and could significantly affect the Fund's consolidated statement of financial position taken as a whole. To fulfill these responsibilities we obtained an understanding of the Fund's financial reporting internal control structure policies and procedures to the extent we considered necessary under the circumstances.

Except for the limitations on the scope of our work on the consolidated statement of financial position, internal control structure and compliance with laws and regulations

described above, we performed our procedures in accordance with generally accepted auditing standards, and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

This report is intended solely for the use of the Office of Inspector General of the Department of Health and Human Services and the Director of the National Institutes of Health.

Ernst + Young LLP

Washington D.C.
August 11, 1995

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The following document represents our combined comments for the National Institutes of Health Funds (Royalties, Cooperative Research and Development Agreements and Trust Funds).

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Recommendations

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adjustments made, and made adjustments because they were made in prior years and was unable to fully explain the adjusting entries made.

- The person who accumulated the Gift Fund financial statements had left NIH prior to our starting the audit, and therefore, we were unable to obtain an explanation of how the financial statements were accumulated or explanations for adjusting journal entries.

Recommendation:

We understand that NIH is required to reduce staffing. In light of this requirement, it is even more essential that adequate written documentation for the accounting policies and procedures be developed, maintained and consistently applied. It is important that NIH has sufficient written documentation of their accounting policies and procedures which includes the methodology used to perform a specific procedure. This documentation can be used by the staff as a reference manual which would be helpful in managing staff turnover. Inadequate documentation may result in either responsibilities not being performed at all or being performed improperly.

NIH may also want to consider implementing more consistency in their accounting functions. For example, there should be a requirement for all journal vouchers to have supporting documentation attached and have them filed sequentially in one location. Currently, it appears that each individual is allowed to develop their own system of documentation and filing. Therefore, when they leave, it becomes an enormous task to try to obtain an understanding of the entry or to locate the supporting documentation.

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During the course of our audit, we experienced difficulty obtaining explanations to some of our questions and/or obtaining supporting documentation. The explanation we were usually given had to do with the fact that a number of people who had worked on the funds during the fiscal year we were auditing were either no longer employed or left during the course of our audit.

Recommendations

NIH does not appear to have a policy regarding the management of staff turnover. A couple of the people who have left NIH during this time period had retired. In these cases there should have been adequate time to train or delegate the retiree's responsibilities before the person retired. When it is known that turnover is going to occur, there should be an effort to have the person leaving meet with and train the person who will be taking over their responsibilities, even if the new person is only temporary.

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Management Response

Management concurs with the material weakness as discussed above. Management is already in the process of preparing documentation of the accounting policies and procedures. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- 2) NIH was not able to determine the amount of reconciling items in its suspense accounts that are attributed to the Fund

Reconciliation of the Suspense Accounts to the Treasury's 6653 Report

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Because of the above mentioned items, there was not sufficient audit evidence to support the cash balances at September 30, 1994.

In addition, we reviewed cash reconciliations for each accounting point from October 1993 through September 1994 and noted the following:

- Some reconciliations were not completed until several months after the month-end (for example several month's reconciliations were performed during the same month).
- No evidence was available to show that the reconciliations had been reviewed.
- All reconciling items were resolved as of our testing date; however, not all items were resolved in a timely manner during the fiscal year (for example, items relating to October 1993 were not resolved until after September 1994).
- For those months for which we could not find a reconciliation, the accounting point was unsure as to whether it was due to the fact that there were no reconciling items or that a reconciliation was not prepared.

Recommendation:

We recommend that NIH strengthen controls and implement additional procedures related to the cash reconciliation process. Specifically, NIH should do the following:

- A review of the reconciliation process should be performed to determine the nature and cause of the unidentified reconciling items. A plan should be implemented to reduce the amount of unidentified items and a policy should be implemented to require timely resolution.

- Maintain supporting documentation with each reconciliation in order to provide easily accessible information regarding reconciling items (for example, the nature and resolution of the item).
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Based on the system in place, it is difficult to determine how the amounts recorded in the suspense accounts affect the September 30, 1994 cash balance in each fund.

Recommendation:

We recommend that NIH implement additional procedures and strengthen controls related to the use of suspense accounts. Specifically, NIH should:

- Provide a detailed listing of the items in the suspense accounts to each accounting point monthly, so that they can identify, research, and resolve reconciling items promptly. This will also help the accounting points to see any unidentified differences.
- Require reconciliations to be performed on a monthly basis for all suspense accounts with all reconciling items researched and resolved promptly.

- **Require supervisors to sign the reconciliations and related adjustments to evidence review and concurrence.**

We concur with management's plan to study the system and process that give rise to suspense account entries and to reduce the number of overall items which enter the suspense accounts.

Management Response

Management concurs with the reportable condition as discussed above. A task order has been written to have E&Y review the suspense accounts and related reconciliation process. Management will address the remaining recommendations and develop a corrective action plan as considered necessary.

- 3) The mainframe computer system at NIH, which is used to perform processing for the Central Accounting System (CAS), utilizes IBM's Multiple Virtual Storage (MVS) operating system and the Resource Access Control Facility (RACF) product as the primary access control mechanism to prevent unauthorized access to this system and the data resources maintained on this system.

At the time of our review, there were over 20,000 users who were provided with access to this system. In our review of the RACF implementation and overall security controls on this system, the following weaknesses were observed:

- All users were provided with the ability to read the primary and backup RACF databases. These files contain user IDs and passwords for all of the users on this system and can potentially be used to obtain unauthorized access to data on this system.
- Several authorized system software libraries were not adequately protected allowing all users of this system to make unauthorized and unapproved changes to these libraries.
- Insufficient protection and controls existed over sensitive authorized programs which could allow circumvention of existing security controls.
- Insufficient audit trail for activities of privileged users, i.e., activities of users with ability to bypass RACF security controls were not being recorded.

As a result of the weaknesses described above, the potential exists for unauthorized individuals to obtain undetected access to this system and the resources which are maintained on this system.

Recommendation:

We recommend that NIH perform a complete and thorough review of the current operating environment to ensure that adequate controls are in place to prevent unauthorized users from accessing this system and the resources which are maintained on this system.

Management Response

Each recommendation has been addressed as follows:

- DCRT has now protected these RACF databases to prevent access from non-authorized individuals.
- This oversight was immediately rectified. Additionally, the procedures and processes that permitted this to occur were reviewed and modified so that new system libraries would be automatically protected at the time they are created.
- There were several applications included in the eligible (authorized) program list. This list has been re-examined and DCRT found that one of the programs no longer required this level of authorization. That program has now been removed. Additionally, we have reviewed our procedures for including programs in this list to ensure that only those required by systems facilities are included in the future.
- The RACF parameters have been set so that this information is now being recorded.