



MAY 10 1995

Memorandum

Date June Gibbs Brown
Inspector General *June Gibbs Brown*

From

Subject Review of the Centers for Disease Control and Prevention's Resolution of Unaccounted for Property (A-15-94-00020)

To Philip R. Lee, M.D.
Assistant Secretary for Health

Attached is the final report which presents the Office of Inspector General's (OIG) audit of: (1) the effectiveness of the Centers for Disease Control and Prevention (CDC) in resolving the issue of its missing property and (2) the adequacy of CDC's Fiscal Year 1993 review of its management controls over property.

The report contains recommendations which, if effectively implemented, will enhance the management of property at CDC and throughout the Public Health Service (PHS). In commenting on the draft report, PHS concurred with many of the recommendations and has indicated actions they plan to take. The entire PHS comments are contained in the appendix to the report. Summaries of the comments and related OIG evaluations are contained within the report after the respective recommendation(s).

We would appreciate being advised within 60 days of the status of corrective actions taken or planned on each recommendation. Should you wish to discuss this report, please call me or have a member of your staff contact Joseph E. Vengrin, Acting Assistant Inspector General for Public Health Service Audits, at (301) 443-3582.

To facilitate identification, please refer to Common Identification Number A-15-94-00020 in all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE CENTERS FOR DISEASE
CONTROL AND PREVENTION'S
RESOLUTION OF UNACCOUNTED FOR
PROPERTY**



**JUNE GIBBS BROWN
Inspector General**

**MAY 1995
A-15-04-00020**

EXECUTIVE SUMMARY

This report presents the Office of Inspector General's (OIG) audit of: (1) the effectiveness of the Centers for Disease Control and Prevention (CDC) in resolving the issue of its missing property and (2) the adequacy of CDC's Fiscal Year (FY) 1993 review of its management controls over property. The CDC had \$171.7 million in property on its books as of September 30, 1992.

Missing Property

The CDC does not have policies and procedures to implement the Department of Health and Human Services (HHS) and the Public Health Service (PHS) requirement for promptly resolving cases of missing property. We further found that:

- The missing property list resulting from the physical inventory conducted for FY 1992 totaled \$8.2 million as of February 1993. By February 1994, the CDC's records indicated that \$1.6 million of property continued to be missing. Many of the missing items were easily movable (e.g., computers, microscopes, binoculars, passenger vehicles, cameras, etc.). Our analysis showed that 36 percent of these items had been missing for over 3 years and that 82 percent of those items missing for over 3 years had not been sent to a board of survey for resolution.
- Of the 50 items we judgmentally selected from the list of items not accounted for in the FY 1992 inventory but subsequently considered resolved by CDC, 26 items were not accounted for when the inventory for FY 1993 was taken. Of the 26 items which were not accounted for after CDC reported them to be found, subsequent reports from CDC property custodians: confirmed that 15 items were missing, indicated that 8 items were found again, and were unclear on the status of 3 items.

Reconciliations

The HHS policy requires that reconciliations¹ be conducted to effectively manage property and ensure the accuracy of related records. We found that, rather than reconciling property records to the general ledger, CDC financial staff adjusts the general ledger each month to reflect balances in property records. We conducted a reconciliation of \$712,000 in selected purchases and identified errors in both the property records and general ledger accounts which CDC should have detected had they been complying with HHS' policy which requires the conduct of reconciliations.

We had noted that some errors occurred because CDC improperly allowed program personnel to use journal vouchers to adjust general ledger accounts. As a corrective measure, CDC began having budget analysts approve journal vouchers. However, having budget analysts approve adjustments to accounts in the general ledger does not maintain adequate separation between accounting and budgetary responsibilities.

¹ A reconciliation brings records into balance by identifying differences, determining reason(s) for the differences, and making adjustments that are always supported by a written justification.

Separation of Duties

The CDC relies on property management records that are not reconciled to the financial records. This condition is exacerbated by some property management officials who have duties that are inconsistent with Federal management control standards for maintaining a system of checks and balances by separating key duties to reduce the chance for fraud, waste and abuse. We found inadequate separation of duties in the following areas of CDC's property management:

- The Director of the Procurement and Grants office oversees both procurement and the management of property.
- Property custodians are responsible for both the physical existence of property and for initiating reports of survey to refer missing property for resolution. This is compounded by CDC not having a policy to limit the time to refer missing items to a board of survey.
- The same contractor both receives property and conducts physical inventories.

CDC's Review of Property

The CDC's report on a special property management review which was conducted in FY 1993 noted the absence of a hotline for the anonymous referral of information on property at risk. The CDC's report also alluded to some of the problems we identified; however, it did not address them in sufficient detail to adequately focus corrective action. Also, CDC's report asserts that they had tested management controls but there was not adequate documentation to support this assertion.

Neither the special review guide developed by PHS nor the CDC review met management control review (MCR) standards established by the Office of Management and Budget (OMB) and HHS. Rather than reporting their review as a MCR, the CDC reported their review to PHS as a special review. Nevertheless, PHS reported the CDC's review to HHS as a review that met standards for a MCR. This resulted in HHS using the PHS report as a basis for reporting the status of HHS' management controls to the President and Congress. Moreover, PHS instructed its other agencies to use the special review guide in conducting their MCRs.

The CDC's previous MCR of property management was conducted in FY 1986, or 7 years prior to the special review in FY 1993, which is not consistent with the HHS requirement that MCRs be conducted at least every 5 years.

Recommendations

Management's implementation of recommendations in this report can strengthen CDC's management controls over property by:

- (1) promptly resolving missing property;
- (2) performing reconciliations as required by HHS;
- (3) separating key duties within CDC property management functions to maintain an adequate system of checks and balances;
- (4) conducting a MCR of property management which fully complies with standards; and
- (5) establishing and promoting the use of a hotline for the anonymous referral of information on property at risk.

We also recommend that PHS ensure that its guidance for conducting property MCRs complies with OMB and HHS requirements. The PHS concurred with many of our recommendations and plans to take appropriate action. Our evaluation of PHS' comments made to our recommendations is included in the report. The PHS comments are included in their entirety in the appendix.

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PHS Comments to Draft Audit Report

INTRODUCTION

This report presents the OIG's audit of: (1) the effectiveness of CDC in resolving the issue of its missing property and (2) the adequacy of CDC's FY 1993 review of its management controls over property. The CDC had \$171.7 million in property on its books as of September 30, 1992.

A missing items list that resulted from the physical inventory conducted by a CDC contractor for FY 1992 indicated that \$8.2 million of CDC's \$171.7 million in property was unaccounted for as of February 1993. By February 1994, CDC's records indicated that they had found or otherwise resolved all but \$1.6 million of the property that was not accounted for during its FY 1992 physical inventory.

We had previously identified problems with property management at other agencies within the Department. In a March 1993 report² on property management at the National Institutes of Health (NIH), the OIG stated that NIH had problems with: (1) managing a board of survey to further investigate property shortages; (2) having property management and procurement responsibilities assigned to the same manager at NIH; and (3) conducting a MCR as required by OMB and HHS policies. The OIG has also reported on significant property management problems within the Indian Health Service³, and elsewhere within HHS such as the Office of the Secretary Working Capital Fund⁴ and the Social Security Administration⁵.

BACKGROUND

The CDC and its sister agency, the Agency for Toxic Substances and Disease Registry (ATSDR), are headquartered in Atlanta, Georgia. As shown in their annual report:

"The mission of CDC is to promote health and quality of life by preventing and controlling disease, injury and disability. As the Nation's prevention agency, CDC accomplishes its mission by working with partners throughout the Nation and the world to: monitor health, detect and investigate health problems, conduct research to enhance prevention, develop and advocate sound public health policies, implement prevention strategies, promote healthy behaviors, and foster safe and healthful environments."

² Property Management Issues at the National Institutes of Health, (A-15-92-00015, March 1, 1993).

³ Audit of Equipment Inventory Controls at Three Area Offices of the Indian Health Service, (A-06-91-00032, December 12, 1991).

⁴ Financial Statement Audit of the Department of Health and Human Service's Working Capital Fund, (A-17-92-00007, August 26, 1992).

⁵ Report on Management and Financial Audit for Fiscal Year 1991 -- Social Security Administration, (A-13-92-00221, June 30, 1992).

To accomplish its mission, the CDC has property which, as of FY 1992, had a total book value of \$171.7 million (\$185.5 million as of FY 1993). The need for property to accomplish CDC's mission necessitates a property management function to oversee the use of and maintain accountability over property. The organizational unit at CDC which is responsible for administering and managing property is the Procurement and Grants Office (PGO) in the Office of Program Support. The activities of the PGO are governed by policies established by HHS and PHS. The PGO's activities include having a CDC contractor conduct annual physical inventories by scanning bar codes of property located on-site. Missing property lists, which include property located off-site, are generated from the process of comparing inventory results with property records. These lists are provided to property custodians for use in determining whether the property can be located. Property that is located off-site is initially shown on the missing items list since it was not inventoried. The items located off-site are subsequently removed from the missing items list when property custodians report that they have evidence that the property continues to be maintained off-site.

The HHS Property Custodial Officer's Guide (Guide) specifies that accountability for Government property is accomplished by: (1) keeping an up-to-date inventory of the property in the custodial area and (2) knowing where the items are at all times (either by physical location or paperwork that identifies the location). The Guide further states that property accountability is a function to account for property by using appropriate documentation of all transactions which affect the property on-hand, received and disposed of by an organization; this process is carried out by Property Accountable Officers. The physical control of property is assigned to a Property Custodial Officer.

The Guide states that the Property Custodial Officer is responsible for: maintaining adequate records for the property in the property custodial area and having a satisfactory explanation for differences between items listed and items located during the physical inventory. It is the Property Custodial Officer's responsibility to maintain records of transactions so the original inventory of property assigned to the property custodial area can be readily reconciled with the listing maintained by the Property Accountable Officer. The Guide specifies that items of property are not to be moved without documentation and that the documentation represents a major communication link between the Property Accountable Officer and the Property Custodial Officer.

In the event the inventory cannot be reconciled, the Property Custodial Officer is to initiate a report of survey which will begin to accomplish this reconciliation. The report of survey is referred to a board of survey which is a committee appointed to inquire into the circumstances of the missing property and report their findings. The board of survey makes recommendations regarding the disposition of the missing items contained in reports of survey.

In situations where property is suspected of being lost or stolen, the HHS Materiel Management Manual states that the employee detecting the loss should immediately make an oral report to their supervisor or security official. The supervisor should then report the facts of the suspected loss through a report of survey to the Property Custodial Officer. The report of survey will then pass to the Property Accountable Officer and, if the missing property is not resolved at this point, the report will be forwarded to a board of survey.

In addition to applying guidance for the management of property, the CDC is also required to conduct MCRs of property management. The HHS policy requires that MCRs of all management control areas, such as property management, be conducted at least once every 5 years. The objective of a MCR is to strengthen management controls when needed by requiring management to establish a continuous process for evaluating, improving and reporting on management controls and accounting systems.

Since PHS viewed property management controls as an area needing special attention, it developed a special review guide in February 1992, for use in conducting property management reviews within each of its agencies. The PHS directed its agencies to conduct the special reviews using the special review guide in lieu of the "regular" MCRs which had been scheduled for FY 1992 in some agencies and FY 1993 in other agencies. On December 7, 1992, CDC's Management Control Officer submitted to PHS a report of a special review of property management for both CDC and its sister agency, ATSDR.

In February 1994, PHS issued a Personal Property Management Review Guide which they plan to use as a basis for alternative MCRs⁶. Also, in July 1994, PHS issued a Logistics Policy Guide for Property Management to strengthen the management of personal property throughout PHS.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective was to assess CDC's resolution of items not accounted for during its FY 1992 inventory. We conducted evaluations to determine: whether missing property was being resolved in a timely manner and whether property that CDC reported as being found was missing again. We also reviewed the adequacy of separation of property management duties at CDC and whether property records were being properly reconciled. We analyzed organizational charts and position descriptions and reconciled selected property records to the general ledger. We also analyzed records in CDC's property management office, including lists of items sent to boards of survey for resolution.

⁶ Alternative MCRs are, for example, ongoing management evaluations, studies and audits. An alternative MCR, however, must include a detailed examination of the system of management controls to determine their adequacy as well as whether they are being properly implemented.

Since PHS counted CDC's special review as a MCR for both CDC and ATSDR, we evaluated the design of the PHS special review guide and CDC's supporting work papers for consistency with OMB and HHS guidance for conducting MCRs. We conducted an analysis to determine whether CDC's special review was sufficiently comprehensive to identify significant weaknesses such as those noted during our review. We held discussions with PHS and CDC management control officials and identified key events⁷ which are typical in the property management function of a PHS agency. We judgmentally selected an event, "receiving of property," and compared the results of our review to that of CDC's special review.

We did not review all events in the property management cycle and consequently our review does not qualify as an alternative MCR although our work could be used to substitute for parts of such a review. The PHS Personal Property Management Review Guide issued in February 1994 states that reviews conducted in accordance with it will qualify as alternative MCRs. Our review focused on CDC's property management, and consequently we did not assess the adequacy of PHS' Personal Property Management Review Guide or its Logistics Policy Guide for Property Management. Also, we did not review CDC's processes for identifying individuals to which property is assigned or for assigning pecuniary liability for Government property which has been stolen, lost or damaged.

Our audit was conducted in accordance with Government Auditing Standards at various CDC locations in and around Atlanta, Georgia, and at PHS headquarters in Rockville, Maryland, between April 1993 and June 1994. It utilized work performed during a previous survey of CDC's property management (Common Identification Number A-15-92-00024) which we initiated in April 1992 and terminated in October 1993 without issuing an audit report in order to carry out time sensitive audit responsibilities mandated by the Chief Financial Officers Act of 1990, Public Law 101-576. While property inventory and missing property amounts noted in our report include the CDC's National Institute for Occupational Safety and Health, headquartered in Cincinnati, Ohio, our review did not include the \$36.5 million in property assigned to this institute as of FY 1992.

⁷ An event is the occurrence of a singular activity, for example the transfer of property, whereas an event cycle is the grouping of similar events or activities.

RESULTS OF REVIEW

The CDC's February 1994 missing property list consisted primarily of easily movable items, many of which had been missing for more than 3 years without having been sent to a board of survey for resolution. Of the items that CDC had taken off of its missing property list, we judgmentally selected 50 items for review and found that half of these items were reported as missing again when CDC's inventory for FY 1993 was taken. The items had been taken off of the missing property list based on annotations and reports by property custodians which indicated that the property had been found. The CDC used the property custodians' reports to remove items from their missing items list without an independent validation that the missing property had been resolved. Also, CDC does not have written procedures for implementing subpart 103 of the HHS Materiel Management Manual which requires that missing property be promptly investigated.

The CDC's general ledger is being adjusted monthly to reflect balances shown in the property records rather than reconciling the two systems. Our reconciliation work found instances where the property records were in error and, in these instances, the property records should have been adjusted instead of the general ledger. Furthermore, the CDC was improperly using certain general ledger accounts and incorrectly using journal vouchers. In addition, there is a lack of separation of certain duties within CDC's property management functions.

The CDC's report of its property management review completed in FY 1993 alluded to some of the conditions we identified, but did not identify the magnitude of the problems, or otherwise address the problems in sufficient detail to be fully useful as a basis for taking adequate corrective action. In conducting its review, CDC used a PHS special review guide which did not meet MCR standards in that it did not require the identification and consideration of all property management functions.⁸ Also, the CDC's report of their property management review indicated that they had tested controls in operation, as was required by the PHS special review guide, but their work papers did not contain adequate documentation to support this assertion. The CDC characterized its report as a special review but PHS incorrectly reported it to HHS as a review that met the criteria of a MCR. In addition, the CDC was not conducting property management MCRs every 5 years as required by HHS.

⁸ These functions are referred to as event cycles. Event cycles are the processes used to initiate and perform related activities, create the necessary documentation and gather and report related data. In other words, an event cycle is a series of steps taken to get something done.

MISSING PROPERTY

The CDC's February 1994 missing property list contained 648 missing items valued at \$1.6 million. This missing property list shows items that were identified as missing during the physical inventory for FY 1992 and had not been resolved as of February 1994. Our analysis of CDC's February 1994 missing property list showed that:

- 36 percent or 231 of the items have been missing for more than 3 years;
- 82 percent or 189 of the 231 items missing for more than 3 years had not been sent to a board of survey for resolution; and
- many of the items are easily movable, such as: personal and other computing equipment, cameras, microscopes and passenger vehicles.

We also found that the CDC's missing property list, dated February 1994, was incomplete. During our review of items on the board of survey listings, we noticed 46 items with a total value of \$75,328 that were not shown on CDC's missing items list even though they should have been since they had been referred to but not resolved by a board of survey.

We also determined that 52 percent, or 26 items, of a judgmental selection of 50 missing items that CDC reported as being found were not accounted for during the FY 1993 physical inventory. We found no indication in the property management files as to why these items had not been accounted for.

Type and Age of Missing Property

The CDC's missing property list dated February 1994 contained 648 items which totaled \$1.6 million. Our analysis of this list identified that 231 items, or 36 percent of the items, were known to have been missing during the period of FY 1988 through FY 1990. Many items on CDC's missing property list are easily movable and, accordingly, timely action should have been taken to resolve these missing items.

During a discussion with CDC property management officials, we questioned why there was a large number of unresolved items on the missing items list that are known to have been missing during or prior to FY 1990 or for over 3 years (see table on page 7 for further details on the type and age of property missing at CDC.) The CDC officials had no explanation as to why these items had not been resolved. We further analyzed the missing property list and found that 189 out of 231 items, or 82 percent, were missing during or prior to FY 1990 and had not been reported to a board of survey for resolution.

PROPERTY MISSING BY YEAR--AS OF FEBRUARY 1994								
FISCAL YEAR SHOWN AS MISSING	PERSONAL COMPUTERS AND OTHER COMPUTER EQUIPMENT		SCIENTIFIC AND OTHER EQUIPMENT		VEHICLES		TOTALS	
	(1)		(2)		(3)			
	# OF ITEMS	VALUE	# OF ITEMS	VALUE	# OF ITEMS	VALUE	# OF ITEMS	VALUE
1988	14	\$12,200	32	\$52,600	0	\$0.0	46	\$64,800
1989	58	\$87,200	35	\$78,500	0	\$0.0	93	\$165,700
1990	54	\$85,400	38	\$90,500	0	\$0.0	92	\$175,900
1991	141	\$319,500	139	\$521,600	6	\$62,400	286	\$903,500
1992	86	\$118,700	36	\$80,500	9	\$93,200	131	\$292,400
TOTAL	353	\$623,000	280	\$823,700	15	\$155,600	648	\$1,602,300

Notes to Chart:

- 1) The personal computers and computer equipment category consists of desk top and laptop computing units, printers, modems, and tape and disk drives.
- 2) The scientific and other equipment category consists primarily of microscopes, binoculars, cameras, audio/visual equipment, and office equipment.
- 3) The vehicle category consists primarily of passenger type vehicles.

Property management officials at CDC told us they routinely investigate items disclosed by annual inventories as missing, but acknowledged that they do not have written policies and procedures to guide the investigative process. They stated their investigation usually starts with inquiring into whether the property is on hand but was overlooked during the physical inventory. We were informed that CDC's property custodians continue their efforts to resolve missing property for about 2 years in the event that property has not been located. After efforts of CDC's management to resolve missing property have failed, the missing items are referred to a board of survey for resolution.

Subpart 103 of the HHS Materiel Management Manual requires that missing property be promptly investigated. The PHS recently added specificity to this requirement. Its Logistics Policy Guide for Property Management, issued on July 7, 1994, states that: "A report of survey must be prepared by the cognizant Property Custodial Officer or Accountable Officer as soon as possible but not more than 90 days after the loss, theft, damage, or destruction of Government property is confirmed." This guide further states

that Property Custodial Officers are required to: "...promptly submit a report of survey to the Property Accountable Officer for any lost, damaged, stolen, or destroyed personal property." The CDC officials acknowledged they do not have written policies and procedures to define when missing property is to be referred to a board of survey for resolution.

In instances where items continue to be missing and it appears that the items were stolen, CDC stated that security officials are notified and a board of survey is convened. The CDC officials believe the majority of instances of missing property do not involve theft. The CDC officials also informed us that they can, in certain instances such as when property is taken off-site, identify the individual responsible for missing property and that they have obtained restitution from employees where theft has occurred or their negligence has resulted in loss or damage to Government property.

The recently issued PHS Logistics Policy Guide for Property Management states that, "Accountability requires not only that personal responsibility be assigned for each item, but that the status of each item be periodically verified and appropriate action taken when accountable property is lost, stolen, damaged, or destroyed." It also classifies many easily movable items of property as sensitive and has designated these items as accountable personal property regardless of acquisition value. It further states that, "Sensitive items are those that require special control or determined to be subject to unusual rates of loss, theft, or misuse." Since PHS recently issued these requirements, we did not assess the adequacy of CDC's process for assigning personal responsibility.

CONCLUSIONS

We observed instances where property remained on CDC's missing property list for a number of years and, although much of this property is easily movable, timely resolution action had not been taken. We found that CDC does not have written procedures to guide their process for resolving missing property or to define when reports of missing property are to be referred to a board of survey. Accordingly, CDC's missing property resolution practices fall below HHS and PHS standards which require prompt action. The CDC officials have recognized the need for written property investigation procedures and have agreed to develop and implement them. We believe the procedures should allow property management officials no more than 90 days to locate the property or refer missing property to a board of survey for further inquiry and resolution. In cases where the missing property is easily movable or otherwise particularly vulnerable to loss, we believe the period for finding property or referral to a board of survey should be limited to 30 days. The earlier missing property is investigated, particularly with easily movable property, the more likely the property will be found or the individual responsible for the loss identified.

We support PHS' belief that good property management practices dictate that individual responsibility be assigned for all sensitive and easily movable property regardless of acquisition value. We further believe that assigning personal responsibility should be practiced regardless of where the property is being used.

RECOMMENDATIONS

We are recommending that the Assistant Secretary for Health require the Director of CDC to:

1. promptly resolve all missing property which has been missing for more than 90 days.

We are further recommending that the Assistant Secretary for Health require the Director of CDC to:

2. develop and implement written policies and procedures to:
 - A. guide the process of investigating and resolving missing property.
 - B. address the recently issued PHS policy which requires the assignment of personal responsibility for each item of sensitive and easily movable property. This policy should require assignment of personal responsibility regardless of whether the item is being used on or off Government premises.
 - C. require the resolution, or referral to a board of survey, of easily movable property that has been missing for 30 days and other property missing for 90 days.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurred with recommendation 1 and stated that the CDC will follow guidance in Part V of the PHS Logistic Policy Guide. This section of the PHS Logistics Policy Guide provides that, with respect to items that are not found during the inventory process, reports of survey must be prepared and submitted as soon as possible but not more than 90 days following completion of a custodial area physical inventory. Although this section of the PHS Logistics Policy Guide does not specifically relate to our recommendation that CDC resolve **all** property missing for more than 90 days, compliance with this provision would be a step toward resolving the problems identified in our audit.

The PHS concurred with recommendation 2.A. and stated the CDC will comply with applicable criteria established by the PHS Logistics Policy Guide.

The PHS did not concur with recommendation 2.B. and stated that individuals are held responsible for property for property assigned to them but that signed receipts are not required except where property is to be used off site or in other circumstances deemed necessary. The PHS Logistics Policy Guide states, "...PHS employees are responsible for...any property assigned to them...(and)...may accept property only when properly assigned custody and control..." The Logistics Guide also states, "Accountability requires...personal responsibility be assigned for each item..." Although employees could be held accountable without signing receipts, the PHS, in commenting on our recommendation, was not clear on the process they would use to assign responsibility for property to individual employees. We, therefore, continue to recommend the CDC assign personal responsibility for property regardless of where it is being used, particularly if the property is sensitive or easily removable. The establishment of personal liability is greatly facilitated when the responsible individuals can be easily identified as a result of assigning property to individuals.

The PHS did not concur with recommendation 2.C. and stated it would be illogical to conclude an inventory and report property as missing without having first made a concerted effort to locate it. We agree that an effort should be made to locate missing property; however, a protracted effort to locate missing property is not prudent property management. We, therefore, continue to believe that PHS needs to require timely resolution of missing items, especially where the property is easily removable. This includes referring items to a board of survey in accordance with the PHS Logistics Policy guide.

Property Missing Again After Reported Found

We analyzed a judgmental selection from the unaccounted for items that CDC reported as being found or resolved. The selection consisted of the five largest property custodial folders documenting property management activity. The folders contained a total of 273 items which CDC had previously reported as missing and determined to be located or resolved. From the 273 items, we tested 50 items where the bar code should have been scanned in FY 1993. The 50 items ranged in value from \$2,158 to \$85,565 with 16 items having a value of over \$5,000 each. Of the 223 items excluded from our judgmental sample, most were excluded because there was an explainable reason why the bar code was not scanned during the FY 1993 inventory, such as items that were: reported as being located off-site; a component of another piece of equipment; traded or sold; or missing a bar code. We also excluded items valued at less than \$2,000.

Our review of the 50 items identified that 26, or 52 percent, of them were reported by CDC as being found and appeared on their FY 1993 missing property list. Of the 26 items which were not accounted for after CDC reported them to be found, subsequent reports from CDC's property custodians: confirmed that 15 items were missing, indicated that 8 items were found again, and were unclear on the status of 3 items. The reports consisted of missing property lists with annotations by property custodians indicating

where the missing property was found and other annotations such as confirmations that the property was indeed missing. The PGO uses these reports as the basis for updating property records and removing property from the missing list.

The results of our judgmental selection of 50 missing items cannot be used to estimate the extent that CDC's missing property list is incomplete since it was based on a judgmental rather than statistical sample. Nevertheless, the results of our review of the 50 items does raise concerns about the adequacy of CDC's controls over and accountability for its property.

In addition, we noticed items of missing property that were not on CDC's missing property list even though they should have been. This discovery was made through a review of items shown on the board of survey listings where we noticed that 46 items of property were shown on these listings but had not been resolved by the board. Since these items had not been resolved by the board of survey and were missing since the FY 1992 inventory, they should have been shown on CDC's missing property list.

During our survey work conducted in FY 1992, we also noted that CDC was not retaining historical information pertaining to missing or found property. After we brought this matter to the attention of CDC officials, they began retaining copies of missing property lists.

CONCLUSIONS

The CDC's missing property list, dated February 1994, contains \$1.6 million in missing property and was incomplete. This is based on our noticing 46 items which were not shown on CDC's missing items list even though they should have been.

We further found that 52 percent, or 26 items, of a judgmental selection of 50 missing items were not accounted for during the FY 1993 physical inventory after CDC reported the items as being resolved or found. The historical data which CDC has been maintaining since FY 1992 could be used to improve its management of property by providing information about property that is found and reappears as missing. In addition, the historical data would be useful in identifying: (1) trends with certain types of property that tends to be missing and (2) specific locations where property losses are prevalent. We believe that historical property management data is essential for the effective management and control of property.

RECOMMENDATION

We are recommending that the Assistant Secretary for Health require the Director of CDC to:

3. fully utilize historical data on both found and missing property by identifying trends and making other comparisons to identify opportunities to improve CDC's property management system.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurred with this recommendation and stated the CDC will assess all available data in an effort to improve overall control systems.

RECONCILIATIONS

The HHS policy requires reconciliations be conducted to effectively manage property and to ensure accuracy of the related records. Property management involves reconciling: 1) the physical inventory results to property records and 2) the property records to the general ledger. By properly conducting the two key reconciliations involved with managing property, there will be consistency between: 1) the physical inventory results and the property records and 2) the property records and the general ledger. Our review of the two key reconciliations disclosed the following.

- Physical Inventory Results to Property Records

The CDC had taken physical inventories for the past several years and the results of these inventories were compared with property records to produce lists of missing property. However, as is noted in this report, property identified as missing has not always been resolved in a timely manner.

- Property Records to the General Ledger

The CDC did not reconcile property records to the general ledger, rather CDC adjusts the general ledger to reflect balances shown in the property records. This is not a reconciliation because it does not: (A) determine the reason for differences in account balances; (B) result in a justification for adjusting account balances; and (C) provide information on systemic reasons for accounts to be out of balance. The HHS Accounting Manual, section 1-30-20-F states: "The subsidiary property records and the general ledger accounts will be reconciled each month."

Several CDC financial officials indicated that reconciling property records to the general ledger was not practicable since available staff was working on what management considered to be higher priority work. However, we consider such reconciliations to be both practicable and necessary. We were able to readily reconcile \$712,000 of purchases using the subsidiary and general ledgers. The \$712,000 of purchases we reconciled consisted of 123 transactions for the period August 1 through September 30, 1991. Our reconciliation disclosed:

- Errors in CDC's Property Records

\$45,686 of purchases had not been recorded in the property records and a \$76,400 purchase was not recorded until a year after it was made.⁹ Further, we found that cash discounts for some equipment purchases were not reflected in the financial records even though required by HHS Accounting Manual, Chapter 1-30-20-B, Principles of Capitalization.

As a result of additional OIG audit effort which stemmed from our reconciliation, we further found:

- Incorrect Use of General Ledger Accounts

Approximately \$4.5 million of equipment disposals for FY 1991 were not recorded in the Gain/Loss from Disposal of Capital Asset accounts. Instead, CDC erroneously included the disposals in the monthly adjustment to the expense account, Operating Expense--Price Variance/Cash Discounts.

- Improper Use of Journal Vouchers

Program personnel were improperly allowed to decrease equipment accounts using journal vouchers and thereby bypass accounting controls intended to ensure transactions are properly reflected in the equipment accounts. Our review of 59 journal vouchers totaling \$5,833,208 disclosed 4 errors totaling \$271,254, an error rate of approximately 5 percent. The CDC corrected the errors after they were brought to their attention. We also note that CDC stated they had taken corrective action pertaining to program personnel's use of journal vouchers by requiring budget analysts to approve journal vouchers before they are recorded in the general ledger.

⁹ The \$45,686 in unrecorded purchases were shown on document numbers 9133062, 9177353, 9179588, and 9179745. The CDC officials recorded these purchases after we brought the problem to their attention. The \$76,400 purchase that was not recorded timely was shown on document number 200910093.

We were informed that CDC plans to implement a system to automate the accounting for property. The CDC officials stated the forthcoming system will solve the reconciliation issue since it will derive information for both the property management and accounting systems from one set of entries. We were also told that there was no current need to reconcile the property management and general ledger systems due to the forthcoming enhancements. The new system is not planned to be implemented for another 5 years.

CONCLUSIONS

The CDC's plan to implement an accounting and property management system, that will derive information from one set of entries, may eliminate the future need to reconcile the general ledger and property records. However, this system currently is not operational and accordingly there is a need to perform reconciliations. These reconciliations are necessary under the current environment to detect errors in the property management system and the accounting records such as those we identified. Also, reconciliation between the property management and accounting records is a necessary starting point for implementing the new system.

Had CDC been reconciling account balances it would have discovered, as we did, that:

- the subsidiary property records were not always correct.
- not all property was recorded in a timely manner in the property records.
- general ledger accounts were not always used correctly.
- journal vouchers were not always being used appropriately by program personnel.

We emphasize that the effectiveness of controls intended to safeguard property is reduced by CDC's practices of: (1) adjusting the general ledger to reflect amounts in the subsidiary property records without reconciling the two sets of records; and (2) recording property in the property records in an untimely manner.

The CDC's practice of having budget analysts approve journal vouchers results in an inadequate separation between the functions of accounting for transactions and maintaining budgetary information. Furthermore, budget analysts may be less likely than experienced accountants to have the skills necessary to detect inappropriate adjustments being made through journal vouchers. Accordingly, budget analysts should not be approving journal vouchers.

RECOMMENDATIONS

We are recommending that the Assistant Secretary for Health require the Director of CDC to:

4. have the general ledger reconciled with the property records on a monthly basis as required by HHS policy.
5. have journal vouchers approved and entered into the general ledger only by experienced accountants.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurred with recommendation 4 and stated that, beginning in FY 1995, the CDC's Financial Management Office will reconcile the personal property general ledger accounts with personal property system records. They additionally commented that property management staff will randomly test a small segment of the reconciliation reports, monitor the items on the missing property list and make recommendations to a board of survey when determined appropriate. We agree with the additional comments made by PHS and suggest the random testing be conducted on a statistical basis.

The PHS concurred with recommendation 5 and stated that journal vouchers are prepared and recorded by accountants only. In regard to this recommendation, the PHS indicated that the audit report should have made a clear distinction between property and financial management responsibilities. Although we agree with the distinctions made in PHS' comments, the preceding conclusions upon which this recommendation is based address the need to separate accounting and budgetary functions.

SEPARATION OF DUTIES

We found a lack of separation of certain duties within CDC's property management functions which are performed by: the Director of Procurement and Grants, the property custodians, and a contractor. The lack of separation of these key duties is not consistent with Federal management control standards¹⁰ which require that duties be separated so as to maintain an adequate system of checks and balances to minimize the risk of error, waste or wrongful acts and reduce the risk of their going undetected. These standards stipulate that no one individual should control all key aspects of a transaction or event.

¹⁰ *Standards for Internal Controls in the Federal Government*, United States General Accounting Office, 1983.

We found that certain duties are not adequately separated within the following areas of CDC's property management:

Procurement and Grants Office

The Director of the PGO has conflicting duties. The Director oversees and controls all aspects of property management from the point of acquisition through the disposal of property. This is evidenced by the position description for the Director of PGO including oversight of both:

- procurement - the authorizing, approving and purchasing, and transporting of acquisitions; and
- property management - the receiving and tagging of property, conducting physical inventories, investigating losses, reconciling property and financial records, and disposing of property and equipment.

The lack of separation of the Director's duties was also previously identified in a report issued in October 1990 by the Logistics Management Institute¹¹.

Property Custodial Areas

Property custodians at CDC are responsible for the physical existence of property in their custodial area. This includes finding property not located during the physical inventory as well as for initiating reports to refer missing property to a board of survey. As previously noted in the "Missing Property" section, many items had been missing for more than 3 years and items that CDC's property custodians had reported as being found were sometimes reported missing again. In this regard, we found no instances of validation of the reports from the property custodians that indicated that missing property had been found. Without validation of the property custodian's report, there is inadequate assurance that the missing property problem had been corrected.

Receiving and Inventorying Property

The CDC's PGO awarded a contract for the conduct of property inventories to the same contractor that performs the receiving function and operates CDC's warehouse. The inventories were conducted at CDC's main warehouse located in Atlanta, Georgia and at field locations in and around the greater, metropolitan Atlanta area. Combining responsibilities for warehousing/receiving and inventorying may enable the entity to manipulate records, from the taking of physical inventories, to cover overages or shortages that occurred during receiving. We discussed this control weakness with CDC officials who responded that they would correct this problem.

¹¹ The Logistics Management Institute is an organization specializing in the review of property management activities and issued the report, Meeting the Acquisition Needs of the Centers for Disease Control, Report Number HS902TR1.

CONCLUSIONS

There is a lack of separation in the Director's duties of oversight over both procurement and property management functions. The CDC has not corrected the lack of separation of the Director's duties previously reported in October 1990 by the Logistics Management Institute.

The lack of separation in the property custodians' duties at CDC could be mitigated by the:

- development and implementation of a policy, as contained in recommendation number 2, which stipulates when missing property is to be referred to a board of survey for resolution. In the absence of such a policy, CDC does not have an objective basis with which to evaluate the activities of its property custodians. Consequently, if they defer reporting missing property to a board of survey, CDC's property custodians could delay the resolution of missing property for which they are responsible.
- validation, at least on a test basis, of reports submitted by the property custodians stating that property has been found or located. This would enhance the reliability of property custodians' reports of property being found and thereby strengthen the system of checks and balances that maintains accountability of property.

The lack of separation of duties of the receiving and inventorying contractor provides an opportunity for the contractor to manipulate the results of the physical inventories to conceal receiving deficiencies. As a result, the property records are exposed to errors and property losses that may go undetected. The responsibilities for warehousing/receiving and inventorying should be separated between entities. The CDC agreed to take corrective action in regards to this issue.

The lack of adequate separation of duties at CDC is further exacerbated by CDC's Financial Management Office not reconciling the general ledger to property records, a reconciliation that the HHS Accounting Manual requires to be performed monthly. Monthly reconciliation of the general ledger and property records would provide information for correcting deficiencies in property management, such as identifying property that had not been properly recorded in property or financial records. The inadequate separation of duties in the PGO coupled with the lack of reconciling property records to the general ledger exposes CDC's property management system to errors, losses, and other systemic problems which had not been detected in a timely manner.

RECOMMENDATIONS

We are recommending that the Assistant Secretary for Health require the Director of CDC to:

6. adequately separate the duties for:
 - A. the Director of Procurement and Grants by segregating responsibilities for procurement and property management between two existing directors;
 - B. the property custodians by having the responsibility for attesting to the accuracy of their reports assigned to someone else in property management. Property management officials, other than the property custodians, should conduct tests to assess the reliability of reports or other annotations from property custodians that are used to remove property from the missing items list. Furthermore, property management officials should monitor the age of items on the missing property list to ensure the items are referred in a timely manner to a board of survey if they are not promptly resolved.
7. separate the warehousing/receiving and inventorying functions. In the period prior to the expiration of the current contract, CDC should closely supervise the current contractor to ensure the proper conduct of receiving and inventorying functions.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurred with the intent of recommendation 6, but not the specific procedures suggested in recommendation 6.A. for separating the duties for the Director of Procurement and Grants. The PHS did not comment on recommendation 6.B. In their comments, the PHS stated they would reemphasize the property management responsibilities of all appropriate line officials.

In commenting on recommendation 6.A., PHS stated our recommendation would add layers of management and lead to less effective property management. The PHS implies that the need for adequate separation of duties is met by having at least three vertical levels of personnel between the Director and actual performance of the functions and by using automated systems.

Our recommendation 6.A. specifies that the procurement and property management duties currently assigned to the Director of Procurement and Grants should be separated between two existing directors and, therefore, would not result in additional layers of management. Also, adequately separating these duties would not necessarily lead to a negative impact on operational efficiency. In addition, separating duties vertically does not substitute for adequately separating duties horizontally. Federal management control standards require the horizontal separation of procurement and property management responsibilities in

order to ensure a properly functioning system of management controls. Furthermore, automated systems do not compensate for a combination of duties that are incompatible from a management control perspective.

In commenting on recommendation 6, PHS also stated our audit report offers no convincing evidence of losses or mismanagement resulting from the existing organizational structure and the amount of documented missing property is not significant. The length of time and type of property missing, as contained in our report, indicates a need to improve the management of personal property at CDC. Furthermore, the understated amount of missing property on CDC's missing property list indicates a need to improve the existing organizational structure.

The PHS concurred with recommendation 7 and stated the warehousing/receiving and inventorying functions will be separated upon completion of the current contract. The PHS also stated property management personnel will closely monitor the current contractor.

ADEQUACY OF PROPERTY MANAGEMENT REVIEW

The CDC should have discovered the control weaknesses identified by our review had they conducted a MCR of property management that met requirements as established by OMB and HHS. However, the PHS review guide that CDC used to conduct its FY 1993 special review of property management was not sufficiently comprehensive in its design, and as a result, existing property management control weaknesses were not disclosed in enough detail to spur appropriate corrective action.

In their report, CDC asserted that it had conducted tests of controls; however, we did not find adequate documentation in CDC's working papers to support this assertion. Both OMB and HHS guidance require that working paper evidence confirm major assertions in a MCR report. Furthermore, the report of CDC's review noted several management control weaknesses but did not provide information on the significance of the weaknesses. Such information is crucial for initiating corrective action for deficiencies found in CDC's property management system. The CDC has not conducted MCRs of property management that are consistent with HHS' requirement that MCRs be conducted at least every 5 years. In addition, CDC did not conduct risk assessments required by OMB Circular A-123 when its property management system underwent substantial changes.

Design of the PHS Special Property Management Review Guide

We found that the design of the PHS special review guide used by CDC did not satisfy all MCR requirements as established by OMB and HHS. The OMB Circular A-123, Internal Control Guidelines, describes the steps for conducting a MCR. In general, a MCR provides for: (1) an analysis of the general control environment; (2) documentation of the event cycle; (3) an evaluation of internal controls within the event cycles; (4) a test of the internal controls; and (5) reporting results of the internal control evaluations. Also included is a requirement to assess whether key duties and responsibilities are adequately separated. The OMB Circular A-123 implements the General Accounting Office's

Standards for Internal Controls and provides specific guidance on assessing the adequacy of separation of duties. We found that this guidance was not incorporated into the PHS special review guide. The OMB Circular A-123 further states that an agency's policies and procedures governing the performance of and reporting on MCRs are expected to provide the necessary detailed instructions to guide its staff on how these reviews are to be conducted.

The HHS guidance pertaining to MCRs indicates a need for identifying event cycles and linking them to control objectives when determining whether management controls provide reasonable assurance that desired results are being achieved. The HHS guidance notes that MCRs shall evaluate the major event cycles, control points, control objectives and control techniques within a management control area, identify control gaps and test the effectiveness of existing management controls. The HHS guidance also states that individual management control systems are developed for discrete processes or event cycles within an organization, and that management controls are developed to meet legislatively and administratively mandated control objectives.

To conduct their review of property management, the CDC reviewers applied the PHS special review guide which required evaluations of the:

- ▶ Property control officials/ organizational structure
- ▶ Marking/labeling new equipment
- ▶ Reporting lost or stolen equipment
- ▶ Transferring, donating, loaning or taking equipment home
- ▶ Repair procedures and disposition of unserviceable, or unrequired equipment
- ▶ Borrowing equipment for evaluation and testing purposes
- ▶ Moving equipment and clearing separating personnel
- ▶ Administrative and financial controls

The PHS special review guide did not require narrative explanations and/or flowcharts of the property management system as is required in a MCR that meets all of the standards of OMB and HHS. Had the PHS special review guide required an adequate review of the property management cycle, it would have included events such as: (1) validating the need for property; (2) receiving property; (3) storing property; (4) issuing property to requestors; (5) accounting for property; (6) reviewing property; and (7) identifying and disposing of excess property.

We judgmentally selected and reviewed the receiving event and found the PHS special review guide required an evaluation of only one item related to the receiving event which was to determine whether a policy or procedure existed for placing decals (i.e., bar codes) on property when received. Certain aspects of the receiving event were not required to be reviewed by the PHS special review guide. In particular, the special review guide did not

require a review of the procedures for assuring, that upon receipt, invoices, titles, other documents or physical existence of the property are verified against authorizations for validity, terms of authorization, accuracy, amounts, quantity, and quality.

The PHS special review guide did not require CDC to consider for review all events within the property management cycle. Had PHS required CDC to consider all events in the property management cycle, CDC would have discovered that missing property is not resolved in a timely manner.

In February 1994, PHS issued its Personal Property Management Review Guide which they plan to use as the basis for alternative MCRs. The PHS Personal Property Management Review Guide includes requirements for measuring performance of the property system. The PHS Guide mentions the need to review the adequacy of checks and balances (e.g., management controls) in the property management function.

CONCLUSIONS

We found that the PHS special review guide was not comprehensive enough to constitute the basis for a MCR that meets OMB and HHS standards. The special review guide did not require a systematic identification and evaluation of a reasonable level of events within the property management cycle. Our evaluation of the receiving event, as covered in the PHS special review guide, showed that CDC's review was not designed to adequately cover the receiving event of the property management cycle. The PHS special review guide was not adequate because it did not require CDC to review certain aspects of the receiving event. In particular, it did not require a review, among other things, of CDC's procedures for assuring that, upon receipt, invoices, titles, other documents or physical existence of the property are verified against authorizations for validity, terms of authorization, accuracy, amounts, quantity, and quality.

The PHS special review guide did not require an evaluation of the general control environment or an assessment of the adequacy of separation of duties. Had CDC conducted such an evaluation, they would have found, as we and the Logistics Management Institute did, that there is a lack of separation of duties in CDC's property management function.

Accordingly, PHS should not have reported to HHS that the review conducted by CDC was a MCR. Since the design of the PHS special review guide does not adequately address the requirements of a MCR, we conclude that the special reviews conducted by other PHS agencies would not qualify as a MCR. We believe the new Personal Property Management Review Guide should be evaluated to assure that it meets existing standards for an alternative MCR.

RECOMMENDATION

We are recommending the Assistant Secretary for Health require, by the end of FY 1995, that the PHS Management Control Officer:

8. evaluate the PHS Personal Property Management Review Guide for compliance with OMB's standards which require: (A) an evaluation of the general control environment; (B) an assessment of the adequacy of separation of duties for all major events in the property management cycle; (C) thorough documentation of an assessment of all major events in the property management cycle; and (D) an assessment of the adequacy of specific control techniques applied during each event in the property management cycle.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurred with the intent of this recommendation but not with the specific proposals. The PHS states the Personal Property Review Guide is in accord with the working draft of the proposed revisions to OMB Circular A-123, "Internal Controls." We believe the PHS Personal Property Review Guide will provide a basis for tracking the performance of a property management system; however, as cited in our report, it does not contain the items required by MCR regulations currently in effect. The PHS Personal Property Review Guide will be useful for conducting MCRs once the items cited in the recommendation above are incorporated.

Sufficiency of CDC's Review

We found that CDC did not adequately: document the event cycle; track transactions through the event cycle; identify the methodology used to conduct their review; adequately test internal controls; or prepare work papers to adequately support comments made in their report.

In conducting a review of management controls, it is essential that the reviewers document the event cycle in order to obtain a thorough understanding of how it operates. This is accomplished by interviewing the persons involved with the cycle, reviewing existing documentation, observing the activity, and then preparing either a narrative explanation and/or a flow chart, accompanied by pertinent information in sufficient detail to permit an in-depth analysis of the adequacy of management controls in meeting management control objectives. The documentation of the event cycle should identify procedures, the personnel performing the procedures, and the forms and records developed and maintained. The CDC's work papers of their review did not contain a narrative explanation or flowchart of the property management cycle.

Regardless of the method used, it is advisable to review the completed documentation with the persons providing the information, and, if necessary, track some of the transactions through the process to ensure that the reviewer's understanding of the cycle is accurate. We found that CDC did not document their understanding of the property management cycle. Moreover, they did not track transactions through the property management cycle to attest to the validity of their understanding of the cycle. We also found that CDC's work papers also did not provide an adequate basis to determine the methodology used to gain an understanding of the event cycle.

Both OMB and HHS guidance discuss the importance of testing the effectiveness of management controls to assure that objectives are met and to identify gaps. Both HHS and OMB guidance states that management controls may be tested by selecting a sample of transactions and reviewing the documentation for those transactions, as well as making other observations and inquiries, and ascertaining whether the specified techniques are satisfactorily employed. The HHS guidance further states that the results of a MCR must be adequately documented to support the conclusions reached by the reviewer(s) and that the documentation be retained and made available to auditors.

The CDC's report stated that, "The reviewers made sure that internal controls were in place at various steps in the activity and tested the adequacy of the controls to protect Government resources and to prevent fraud, waste, abuse, mismanagement...." We found, however, that the working papers supporting CDC's report did not contain: (1) information on how management control weaknesses disclosed in the report were identified; or (2) documentation of testing the controls currently in place. Furthermore, our review disclosed the following findings that contradict the statement made in CDC's report. As previously indicated, we specifically found that CDC was not: (1) resolving missing property and referring missing items to a board of survey in a timely manner; (2) reconciling property records to the general ledger; (3) correctly using general ledger accounts; (4) properly using journal vouchers; and (5) adequately separating duties in property management. When we discussed these issues with CDC officials, they explained that, from the onset, this project was viewed as a special review and accordingly it was not conducted to meet MCR standards.

The report of CDC's review identified management control weaknesses in regard to assessing inventory shortages and conducting reconciliations. However, the report did not disclose the required details to assess the significance of the weaknesses. The requirements for MCR reports state that the reports should contain enough information to initiate corrective action on a management control weakness. The requirements also state material weaknesses are only those items significant enough to be of interest to the Executive Office of the President and to congressional oversight committees. The criteria for assessing what constitutes a material weakness in internal controls systems is set forth in OMB Circular A-123, Internal Control Systems, and includes weaknesses that:

significantly impair fulfillment of an agency's or component's mission; violates statutory requirements; significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or results in a conflict-of-interest.

We note that the report of CDC's review stated, "There is no internal CDC 'Hotline' available for employees wishing to report information anonymously regarding situations that they feel place management of agency property at risk." The CDC's report stated that employees can report such situations in writing and that there is no requirement that the letters be signed. The report further stated that employees can submit their concerns by telephoning the Materiel Management Branch. However, there was no discussion on the effectiveness of either of the methods currently being used by CDC.

CONCLUSIONS

We found that CDC's special review did not identify key property management events and related control objectives, and accordingly should not have been counted as a MCR. In reviewing the CDC's work papers, we could not establish the method used by CDC to conduct their review which resulted in a determination of certain control weaknesses. We found that CDC did not sufficiently conduct tests of controls to determine whether the controls were operating as intended even though they asserted in their report that controls were in operation. Furthermore, we could not substantiate CDC's conclusions due to insufficient evidence in their work papers.

The CDC's report, which was a result of their following the PHS special review guide, is not consistent with the requirement that MCR reports contain enough information to initiate corrective action on a management control weakness. Such information is necessary to achieve corrective action and improve the system.

We agree with CDC's report that a hotline would be beneficial since having such a system would provide a mechanism for employees of CDC to forward information that may assist in identifying property management problems.

RECOMMENDATIONS

We are recommending that the Assistant Secretary for Health require the Director of CDC to:

9. set up a hotline and promote its use for the anonymous referral of information on property at risk.

After PHS has taken appropriate action for recommendation number 8, we are also recommending the Assistant Secretary for Health require, by the end of FY 1995, the Director of CDC to:

10. complete a MCR of property management that adequately: (A) identifies and assesses key property management events and the related control objectives; (B) indicates the method used to conduct the review and identify control weaknesses; (C) tests controls; (D) supports conclusions contained in the MCR report; and (E) reports sufficient information to effect corrective action on the reported weaknesses and improve the property management system.

We are recommending the Assistant Secretary for Health require the PHS Management Control Officer to:

11. direct the other PHS agencies that used the PHS special review guide to complete a review which meets standards.

AGENCY COMMENTS AND OIG EVALUATION

The PHS concurs with the intent of recommendation 9 but does not concur with the specific proposal. The PHS stated there are other mechanisms currently in place for employees to refer information on property at risk and they cannot identify the benefits to offset the costs of establishing a separate hotline for property. In responding to this recommendation, the PHS stated that CDC will communicate with all employees regarding their property responsibilities once the final OIG report is issued. We believe the actions planned by PHS will adequately address this recommendation. We suggest that the CDC's communication include information on how employees can refer information on property at risk to the CDC Offices of Physical Security and Personal Property and the Office of Inspector General.

The PHS did not concur with recommendation 10. The PHS stated the CDC had performed a special review of property management in FY 1993 and that this review, when taken in consideration with the OIG's review, obviates the need for a formal MCR until the one that is scheduled for FY 1998. In the Objectives, Scope and Methodology section of our report, we specifically stated, "We did not review all events in the property management cycle and consequently our review does not qualify as an alternative MCR although our work could be used to substitute for parts of such a review." Furthermore, our report noted, "...the PHS special review guide (that CDC used to conduct its review) was not comprehensive enough to constitute the basis for a MCR that meets OMB and HHS standards." Our review also disclosed numerous problems with CDC's special review and identified findings which contradicted statements made in CDC's review report. We, therefore, are continuing to recommend the CDC complete a MCR that meets standards.

In comments applicable to recommendation 11, the PHS agreed to complete future MCRs of the property management function using the PHS Personal Property Review Guide. As we noted in our evaluation of PHS' comments made to recommendation 8, the PHS Personal Property Review Guide will provide a basis for tracking the performance of a property management system but does not contain the items required by MCR regulations currently in effect. We, therefore, believe PHS will not satisfy future MCR requirements by having its agencies use the PHS Personal Property Review Guide as it is currently written. Furthermore, we note PHS' comments infer previous MCR requirements at its other agencies have been satisfied by their using the same PHS special review guide that CDC did. Our report provides several bases why the PHS special review guide does not meet MCR standards and, as a result, MCR requirements have not been met by the other PHS agencies that used the PHS special review guide. Therefore, the PHS should, as we recommended, direct the other agencies that used the PHS special review guide to complete a review which meets MCR standards.

Timeliness of Review

The CDC did not complete a MCR of its property management system which was consistent with HHS' schedule that requires MCRs of all management control areas be conducted at least once every 5 years. The last MCR of property management at CDC was completed in FY 1986, or 7 years prior to the completion of its special review in FY 1993.

In addition, CDC did not conduct risk assessments as required, in FYs 1988 and 1991, when its property management system underwent substantial changes from a manual system to an automated system for receiving and inventorying property. The OMB Circular A-123, Internal Control Systems, states that a risk assessment for substantially revised programs should occur as part of planning for implementation.

CONCLUSIONS

By not conducting MCRs and risk assessments on a timely basis, CDC has delayed realizing the positive results that MCRs can bring. These benefits include: helping to get serious problems addressed and resolved; preventing potential problems before they become significant problems; and eliminating excessive controls that lead to waste. Properly conducted and timely MCRs would have resulted in an earlier identification and correction of property management problems at CDC.

RECOMMENDATIONS

We are recommending the Assistant Secretary for Health require the PHS Management Control Officer to:

12. direct that all future MCRs be on a recurring basis that is consistent with HHS' 5-year requirement.
13. remind all PHS management officials of the requirement to perform a risk assessment when existing operations undergo substantial change.

AGENCY COMMENTS AND OIG EVALUATION

By stating that they intend to have agencies complete MCRs in accordance with their established management control plan, the PHS, in effect, has concurred with recommendation 12. We agree with PHS in as much as their management control plan continues to require MCRs in accordance with the Department's 5-year cycle.

In regard to recommendation 13, which establishes a need to conduct a risk assessment when existing operations undergo substantial change, the PHS stated they do not believe there is any special requirement for risk assessments to be conducted when operations are substantially changed. They also stated that a risk assessment is a routine part of their improvement efforts. We underscore that OMB requirements state that a risk assessment be conducted for substantially revised programs and that the PHS comments are not in conformity with this requirement. All PHS management officials should, therefore, be reminded of and required to comply with the requirement that a risk assessment be performed when existing operations undergo substantial change.

We would appreciate being advised within 60 days of the status of corrective actions taken or planned on each recommendation. Should you wish to discuss this report, please call me or have a member of your staff contact Joseph E. Vengrin, Acting Assistant Inspector General for Public Health Service Audits, at (301) 443-3582.

APPENDIX



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Memorandum

Date . APR 4 1995

From Deputy Assistant Secretary for Health (Management and Budget)

Subject Office of Inspector General (OIG) Draft Report "Review of CDC's Resolution of Unaccounted for Property," A-15-94-00020

To Inspector General, OS

Attached are the Public Health Service (PHS) comments on the subject OIG report. We concur with most of the report's recommendations, or their intent, and have taken or will take actions to implement them. In those instances where we do not concur with the recommendations, our comments provide the rationale for our nonconurrence.

The CDC is currently conducting a wall-to-wall property inventory which should be completed in May 1995. Once CDC has reconciled the physical inventory results with property accountability records, we will have a picture of how successful their property management improvements have been. Further action on my part will depend on the results of the inventory.

Anthony L. Itteilag
 Anthony L. Itteilag

Attachment

IG	✓
SAIG	✓
PDIG	✓
DIG-AS	✓
DIG-EI	_____
DIG-OI	_____
AIG-CFAA	_____
AIG-MP	_____
OGC/IG	✓
EXSEC	✓
DATE SENT	4/5

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 OFFICE OF INSPECTOR GENERAL

PUBLIC HEALTH SERVICE (PHS) COMMENTS ON THE OFFICE OF INSPECTOR
GENERAL (OIG) DRAFT REPORT "REVIEW OF THE CENTERS FOR DISEASE
CONTROL AND PREVENTION'S (CDC) RESOLUTION OF UNACCOUNTED FOR
PROPERTY," A-15-94-00020

OIG Recommendation

We recommend that the Assistant Secretary for Health require the Director of CDC to:

1. Promptly resolve all missing property which has been missing for more than 90 days.

PHS Comment

We concur with this recommendation. The CDC will follow guidance provided in Part V of the PHS Logistics Policy Guide which includes specific requirements for the resolution of missing property.

OIG Recommendation

2. Develop and implement written policies and procedures to:
 - a. guide the process of investigating and resolving missing property.
 - b. address the recently issued PHS policy which requires the assignment of personal responsibility for each item of sensitive and easily removable property. This policy should require assignment of responsibility regardless of whether the item is being used on or off Government premises.
 - c. require resolution, or referral to a board of survey, of easily removable property that has been missing for 30 days and other property missing for 90 days.

PHS Comment

The CDC will comply with the recently issued PHS Logistics Policy Guide which assigns responsibility for personal property to a number of different agency positions as identified in Part III, page 3-3. While individual employees are responsible for the proper use, and protection and control of property assigned to them (see page 3-5 of the Guide), we do not require the signing of receipts by the individual employees, except where equipment is to be used off site or in other circumstances where agency officials deem it necessary.

The CDC will also comply with the PHS policy on investigating and resolving missing property, preparing reports of survey, and conducting boards of survey when needed. Part V of the PHS

reports, and we have no reason to question the veracity of the property custodial officers for this Agency. We also agree to monitor the items on the missing property list and make recommendations to a board of survey when determined appropriate.

OIG Recommendation

5. Have journal vouchers approved and entered into the general ledger only by experienced accountants.

PHS Comment

We concur with this recommendation. Journal vouchers are prepared and recorded by accountants only. Program personnel are not permitted to submit journal vouchers. However, the report does not make a clear distinction between property and financial management responsibilities. Maintenance of property records through the inventory process is a property management responsibility. Maintenance of the general ledger is an ongoing responsibility of finance officials through accurate recording of property gains and losses on a monthly basis. Property management officials can supply the information required for general ledger updates, but cannot perform the actual updating.

OIG Recommendation

6. Adequately separate the duties for:
 - o the Director of Procurement and Grants by segregating responsibilities for procurement and property management between two existing directors;
 - o the property custodians by having the responsibility for attesting to the accuracy of their reports assigned to someone else in property management. Property management officials, other than the property custodians, should conduct tests to assess the reliability of reports or other annotations from property custodians that are used to remove property from the missing items list. Furthermore, property management officials should monitor the age of items on the missing property list to ensure the items are referred in a timely manner to a board of survey if they are not promptly resolved.

PHS Comment

We concur with the intent of this recommendation, but not the specific procedures suggested. Adding layers of management seems incongruent with the Administration's efforts to streamline and flatten organizations, and increase supervisory spans of control. We believe that segregation of procurement and property

management will lead to less effective property management through reduced communication in areas such as needs assessment.

While CDC's Director of Procurement and Grants has overall responsibility for the operation of the procurement and property functions for CDC, there are at least three levels of personnel between the Director and actual performance of the functions. Furthermore, CDC has automated systems in place that document the request for property from the requisition throughout procurement, receipt, acceptance, and movement into and out of inventory. While the same office is responsible for receiving, tagging, and taking physical inventories, nothing goes into the inventory without the approval of the requesting office and nothing is removed from the inventory without proper documentation. Therefore, we do not believe that this recommendation would provide any significant improvements in CDC's property management system.

We believe that the report offers no convincing evidence of losses or mismanagement resulting from the existing organizational structure. Under PHS policy, a property management system is considered satisfactory as long as the value of missing property is two percent or less of the total property value. Given that CDC's property inventory now totals about \$196 million, a successful inventory would report no more than \$3.9 million in missing property. The missing property balance as of February 1994 was \$1.6 million -- well under the two percent threshold. We expect that by mid-summer 1995, the unreconciled CDC balance will be even lower.

In addition, we will reemphasize the property management responsibilities of all appropriate line officials.

OIG Recommendation

7. Separate the warehousing/receiving and inventorying functions. In the period prior to the expiration of the current contract, CDC should closely supervise the current contractor to ensure the proper conduct of receiving and inventorying functions.

PHS Comment

We concur with this recommendation. The warehouse/receiving and inventory functions will be separated upon completion of the existing contract. In the meantime, property management personnel will closely monitor the current contractor.

OIG Recommendation

8. We are recommending that the Assistant Secretary for Health require, by the end of FY 1995, that the PHS Management Control Officer evaluate the PHS Personal Property Management Review Guide for compliance with Office of Management and Budget's (OMB) standards which require: (A) an evaluation of the general control environment; (B) an assessment of the adequacy of separation of duties for all major events in the property management cycle; (C) thorough documentation of an assessment of all major events in the property management cycle; and (D) an assessment of the adequacy of specific control techniques applied during each event in the property management cycle.

PHS Comment

We concur with the intent of this recommendation, but not its specific proposals. The PHS Personal Property Management Review Guide meets existing OMB standards for use as an alternative management control review. The PHS Review Guide is in accord with the OMB working draft of the proposed revisions to OMB Circular A-123, "Internal Controls." In this draft document, OMB is moving in the direction of giving Federal entities greater discretion to determine which tools to use in arriving at the annual assurance statement to the President and the Congress. For these reasons, we believe that it is appropriate for the PHS agencies to continue to use the Review Guide as the mechanism for assessing management controls in the area of property management.

OIG Recommendation

9. We are recommending that the Assistant Secretary for Health require the Director of CDC to set up a hotline and promote its use for the anonymous referral of information on property at risk.

PHS Comment

Again, we concur with the intent of this recommendation, but not the specific proposal. Employees currently have access to the CDC Offices of Physical Security and Personal Property and the Office of Inspector General to refer information on property at risk. Further, we cannot identify benefits to offset the costs of establishing a separate hotline for property. Once the final OIG report is issued, CDC will communicate with all employees regarding the property responsibilities of employees individually and CDC as an organization.

OIG Recommendation

10. After PHS has taken appropriate action for recommendation number 8, we are also recommending the Assistant Secretary for Health require, by the end of FY 1995, the Director of CDC to complete a MCR of property management that adequately: (A) identifies and assesses key property management events and the related control objectives; (B) indicates the method used to conduct the review and identify control weaknesses; (C) tests controls; (D) supports conclusions contained in the MCR report; and (E) reports sufficient information to effect corrective action on the reported weaknesses and improve the property management system.

PHS Comment

We do not concur with this recommendation because CDC performed a special review in FY 1993. Since that review did not disclose any significant problems, we do not plan to perform another management control review (MCR) until FY 1998, which is when the next MCR is scheduled to occur. Also, in accordance with Departmental policy, we consider this OIG review of personal property management at CDC to be a partial alternative management control review which, when taken in consideration with the special review done by CDC in FY 1993, obviates the need for a formal MCR until the one scheduled for FY 1998. As stated above, the FY 1998 MCR and all future MCRs of this functional area will be conducted in accordance with the PHS Personal Property Management Review Guide.

OIG Recommendation

We are recommending the Assistant Secretary for Health require the PHS Management Control Officer to:

11. Direct the other PHS agencies that used the PHS special review guide to complete a review which meets MCR standards.
12. Direct that all future MCRs be on a recurring basis that is consistent with HHS' 5-year requirement.
13. Remind all PHS management officials of the requirement to perform a risk assessment when existing operations undergo substantial change.

PHS Comment

We intend to have the PHS agencies complete future reviews of the property management function in accordance with their established management control plans. The PHS Personal Property Review Guide

will be used to accomplish MCRs in this functional area. In these reviews, we will continue to assess management controls consistent with our agencies' management control plans and the requirements of the Office of the Secretary and OMB Circular A-123, "Internal Controls." We do not believe that any special requirement to perform Federal Managers' Financial Integrity Act (FMFIA) related risk assessments is needed when existing operations undergo substantial change because implementing the change process must be handled in a systematic manner and proactive measures to develop and institute management controls are part of this process. Our improvement efforts must routinely consider not only an assessment of program importance and risk, but also assurance that controls are appropriate and cost effective -- this would obviate the need for a special FMFIA assessment of risk.