



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

INTERNATIONAL DIVISION

JUL 24 1978



LM107122

Dr. Jack W. Millar, President  
Gorgas Memorial Institute of Tropical  
and Preventive Medicine, Inc.  
2007 I Street, NW  
Washington, D.C. 20006

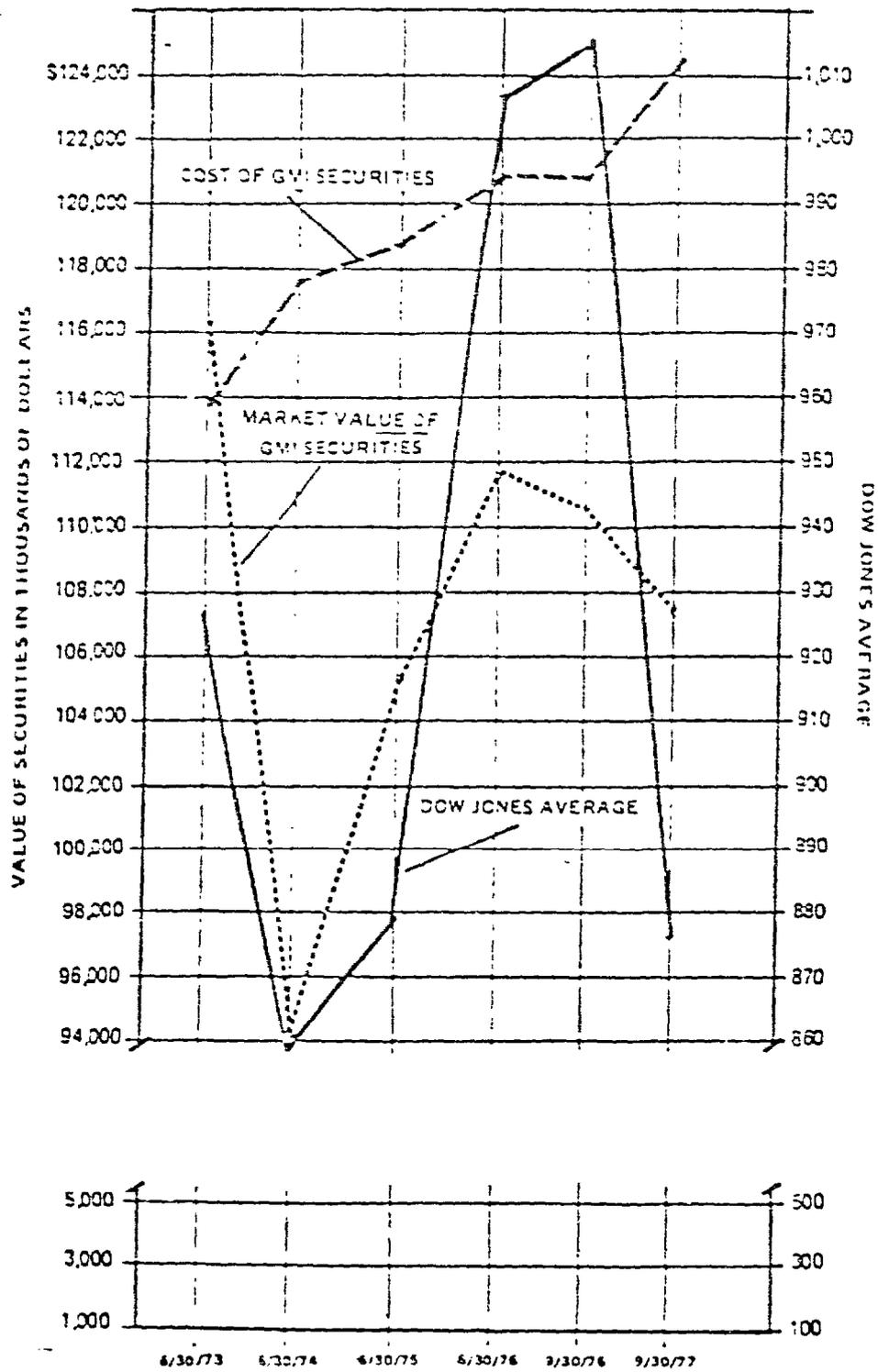
Dear Dr. Millar:

Our examination of the financial statements of Gorgas Memorial Institute of Tropical and Preventive Medicine, Inc., for the fiscal year ended September 30, 1977, identified the following areas requiring management attention.

NEED FOR BETTER MANAGEMENT OF  
ENDOWMENT FUND INVESTMENTS PORTIFOLIO

An analysis of the 1973-77 securities records showed that, except for the purchase of a 1-year Riggs National Bank Certificate of Deposit in 1977, the only change in the securities portfolio resulted from stock dividends and capital gains distributions. We also noted that the cost value of the investments increased an average of 16 percent over the 5-year period, while the market value declined an average of 10 percent, resulting in a loss in value of 6 percent. We recognize that the Institute's securities have at times performed better than the stock market in general. However, unless the investment portfolio is closely monitored and managed, the Institute could suffer a substantial loss should it become necessary to liquidate a portion of its investments. The following graph compares the market value and cost of GMI securities with the Dow-Jones average from June 1973 to September 1977.

COMPARISON OF MARKET VALUE AND COST OF GMI SECURITIES  
WITH DOW-JONES AVERAGE



In view of these matters, we believe the Institute should consider the following actions to provide better management of the Endowment Fund Investment portfolio.

1. Establish an investments policy.
2. Establish a permanent investments committee to implement the policy and to report regularly to the Board of Directors, through its Executive Committee, on the condition of the investments portfolio.
3. Engage a securities broker to monitor the investments portfolio, recommend securities to be acquired or sold, and implement Institute decisions.

#### GORGAS' MEMORIAL LABORATORY (GML)

Our examination at GML in Panama showed that corrective action was needed concerning (1) the calculation and accounting for seniority premium, (2) maintenance of employee indemnities schedule, and (3) an equipment use survey at Building 265 in the Canal Zone. Below is a brief explanation of these matters and agreements reached with GML officials for corrective action.

#### Calculation and accounting for seniority premium

During 1977, three GML employees who were eligible to receive seniority premium bonuses terminated their employment. GML calculated each bonus by applying the formula as prescribed in the applicable Panamanian labor code and paid each employee this amount. GML then requested reimbursement of these amounts from its account maintained by Panama's Social Security Administration. Although the Administration reimbursed GML, its calculations of the premiums due were different than those of GML. To illustrate, GML paid one employee a seniority premium bonus of \$8,375.85; according to the Administration, he was due a bonus of \$10,043.35. This case was further complicated because the Administration reimbursed GML only \$8,066.53 which represented the entire balance in GML's account with the Social Security Administration at that time.

The GML officials agreed to

- request an explanation from the Administration of the method followed in calculating the premium vis-a-vis the method used by GML, and
- determine whether the Administration could provide GML with the seniority premium account balance as of September 30 (rather than June 30) for future years.

We also suggested that GML reconcile this balance each time it is received.

In addition, for the differences in the methods of calculating the seniority premium, GML should make appropriate adjustments that are applicable to future terminations.

Maintenance of employee  
indemnities schedule

GML's payroll clerk currently maintains a schedule showing the indemnities (severance pay, accrued vacation pay, and seniority premium) due each employee at June 30 of each year. We suggest that for future fiscal years this schedule should reflect the indemnities as of September 30. GML officials agreed and will make the change for fiscal year 1978 and future years.

Equipment use survey at  
Building 265

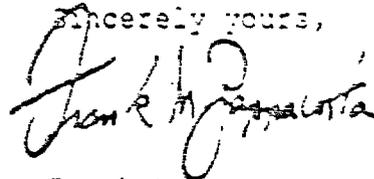
During a tour of GML's Building 265 in the Canal Zone, we noted that some equipment was under used or not used at all. We suggested that a survey be made to identify equipment that was in excess of current and projected needs and that such equipment be disposed of. The GML officials recognized that some of the equipment was not being used, but stated that some will be used in the future as planned research is initiated. They agreed to make a use survey but were unsure how to make the necessary accounting entries to remove the value of equipment no longer needed from the books. We advised the officials that they should first determine whether the U.S. agency that donated the equipment had any reversionary rights to the property. If not,

they should dispose of the equipment and credit the appropriate property account 325 or 326 and debit the equity account 323 (GML does not depreciate its assets because of its nonprofit status).

We would like to acknowledge the courtesy and assistance extended to us by the personnel of the Institute during our examination.

Should you have any questions concerning the matters presented, we will be pleased to discuss them with you.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Frank M. Lappacosta". The signature is fluid and cursive, with the first name being the most prominent.

Frank M. Lappacosta  
Assistant Director