United States General Accounting Office

GAO

Report to Congressional Requesters

February 1999

FINANCIAL MANAGEMENT

FDA's Controls Over Property Have Improved, But Weaknesses Remain

GAO/AIMD-99-51

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-280138

February 22, 1999

The Honorable Tom Bliley
Chairman, Committee on Commerce
House of Representatives

The Honorable Joe Barton
House of Representatives

This report responds to your request that we assess the adequacy and status of the Food and Drug Administration's (FDA) planned actions to correct internal control weaknesses identified related to property and equipment in prior financial statement audit reports.[1] The weaknesses identified in these reports were primarily that FDA (1) had inadequate controls over the physical quantities of property and equipment and their locations and (2) lacked proper reconciliations between its general ledger and property subsidiary ledger systems. As requested, we limited the scope of our work to property and equipment exclusive of buildings and land.

In addition, you asked that we review FDA's internal controls related to the safeguarding and reporting of automated data processing (ADP) equipment that is lost, stolen, destroyed, or surplussed.

Results in Brief

FDA developed an action plan that, if properly implemented, should correct the weaknesses identified in the financial audit reports regarding property and equipment. FDA has made progress in implementing various actions, but it has not yet resolved some of the reported weaknesses. According to FDA officials, as of January 21, 1999, 23 of the 41 tasks in the corrective action plan related to property and equipment had been completed. However, we found that 9 of these 23 tasks had not yet fully achieved their anticipated outcomes. One of these tasks was for FDA's management to create and validate a new property database. While FDA conducted several physical inventories to create this database, our testing showed that the database was not accurate. For example, in a sample of 73 property items selected from FDA centers, 7 were not listed in the database. For the 18 remaining tasks, 17 of the tasks, such as replacing the

[1] Report on the Financial Statement Audit of the Food and Drug Administration for Fiscal Year 1997 (OIG #A-17-97-0003, May 1998) and Report on the Financial Statement Audit of the Food and Drug Administration for Fiscal Year 1996 (OIG #A-17-96-0003, June 1997).

property management system, are not scheduled for full implementation until fiscal year 1999 or later.

FDA did not have adequate controls in place to effectively monitor the loss, theft, or destruction of ADP equipment. FDA procedures for reporting and recording missing equipment were ineffective, with the result that information on missing equipment sometimes never reached the property management database, thus compromising database accuracy and completeness. The reliability of the database was further hampered because FDA used the same code to identify lost, stolen, and destroyed property and thus could not determine individual quantities and values in each of these categories. This was the case for $10.1 million in property, including ADP equipment, that FDA reported in 1998 as having been lost, stolen, or destroyed.[2] Further, for $7.4 million of the $10.1 million, FDA was unable to determine, how much represented lost versus stolen or destroyed property even when it reviewed source documents. Lacking this level of detail in its data, FDA management could not effectively analyze the nature and severity of problems related to missing equipment and develop related management strategies to address its risks.

FDA was unable to provide assurance that the proper authorizations were in place before ADP equipment was designated for surplus[3] and removed from FDA premises. FDA's procedures for surplussing equipment called for filing related paperwork that included the original signatures of the property management personnel who authorized the surplus. However, we found that in 8 of the 27 cases we reviewed, FDA staff altered the forms used to designate equipment for surplus. In other cases, we were told by the Department of Health and Human Services' (HHS) Program Support Center officials that it was not uncommon for the drivers who picked up surplus equipment to alter signed forms before removing equipment from the premises when the equipment listed on the paperwork differed from that available for pickup. Such alterations of required paperwork seriously compromised the control environment and increased the risk of theft and inappropriate removal of equipment.

[2]The date the items were lost, stolen, or destroyed is not known because, according to FDA, no physical inventories of FDA assets were conducted for at least 3 years prior to fiscal year 1998.

[3]Surplussed personal property includes any excess personal property for which there is no longer a need. These items can be donated or sold.

Another aspect of controls over surplussed ADP equipment concerned FDA's requirement to remove all sensitive information from the hard drives of surplussed computers. Based on our limited testing, we found an instance in which a computer donated to a school contained information that should have been removed before it was donated.

Background

FDA, a component of HHS, is one of the nation's oldest consumer protection agencies whose mission is to protect and promote the health and well-being of consumers in the United States. Organizationally, FDA headquarters consists of five support offices and six centers. It has a $1 billion annual budget and employs approximately 9,000 employees who regulate and monitor the manufacture, import, transport, storage, and sale of over $1 trillion worth of food and drugs. In addition, FDA's records indicate that it manages about 40,000 capitalized and noncapitalized property and equipment[4] items such as laboratory, office, ADP, and telecommunications equipment. These items are accounted for within FDA's Property Management Information System (PMIS) and are the responsibility of the particular FDA center using the equipment, with assistance from the Personal Property Management Branch within the Division of Central Services. FDA reported a net amount of $163 million[5] in property and equipment on its fiscal year 1997 financial statements.

HHS is required to have annual audited financial statements under the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994. To meet this requirement, HHS decided to have most of its components' financial statements audited. In its audit reports on FDA's fiscal years 1996 and 1997 financial statements, the independent public accounting firm[6] (IPA) cited internal control weaknesses related to property and equipment. To address these weaknesses and to strengthen internal controls, FDA engaged the IPA as a

[4]Capitalized property and equipment is defined as items with a cost of $25,000 or more. Noncapitalized equipment is defined as those items that cost between $5,000 and $25,000, as well as items under $5,000 listed as sensitive, such as ADP equipment. Prior to 1996, the threshold for capitalized items was $5,000.

[5]This amount resulted from a total cost of $284 million minus accumulated depreciation of $121 million. The net amount of $163 million consisted of $36 million in ADP, laboratory, and office equipment and $127 million in construction, land, and buildings.

[6]The HHS Office of the Inspector General contracted with Gardiner, Kamya, & Associates, P.C., an IPA, to perform the fiscal years 1996 and 1997 financial statement audits.

consultant[7] to review its initial corrective action plan and provide any necessary recommendations. Based on the consultant's recommendations, FDA updated its corrective action plan and issued a revised plan on October 28, 1998.

Scope and Methodology

To determine the adequacy and status of FDA's corrective action plan, we reviewed the IPA's report and workpapers related to the fiscal year 1997 financial statement audit. We also interviewed IPA personnel to obtain more details about the issues raised in the report and to gain an understanding of the work performed and the results. We obtained and reviewed FDA's corrective action plan and discussed with FDA personnel the current status of corrective actions on reported issues. Because one of the corrective actions was to update the PMIS database, we performed tests to ensure that items recorded in the database actually existed and that the database was complete. We also reviewed the results of the consultant's agreed upon procedures to review the initial corrective action plan. However, as part of our work, we did not review the database design or the general and application system controls,[8] which are critical to the integrity of the PMIS database.

We obtained an understanding of the internal controls over property and equipment, which included reviewing the safeguarding and reporting of these assets. To determine whether FDA had adequate controls in place to monitor the loss and theft of ADP equipment, we reviewed and analyzed related Security and Property Office reports for lost, stolen, and destroyed property and equipment. In addition, we reviewed and analyzed related policies and procedures.

To assess FDA's process for monitoring the surplussing of property and equipment, we reviewed and tested related policies and procedures. Procedures tested included the requirement to remove sensitive information before ADP equipment is surplussed. Since FDA could not provide a complete listing of donated equipment, we selected a nonstatistical sample of 22 computers from the six Washington regional

[7]Gardiner, Kamya, & Associates, P.C., Independent Accountant's Report on Applying Agreed-Upon Procedures, (Contract Number: HHS-100-95-0010, August 14, 1998).

[8]General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. Application controls ensure that transactions are valid, properly authorized, and completely and accurately processed and reported.

area schools that received and still had access to these donations in fiscal year 1998. For each of these donated computers, we scanned the hard drives to determine if sensitive information had been properly removed.

Our work was performed at FDA's Washington, D.C., area offices from July 1998 through mid-January 1999 in accordance with generally accepted government auditing standards. We requested written comments on a draft of this report from the Commissioner of FDA or her designee. On February 16, 1999, FDA provided us with written comments, which are discussed in the "Agency Comments and Our Evaluation" section and reprinted in appendix I.

Status of Corrective Actions for Prior Audit Findings

If FDA effectively implements all the tasks contained in its property management corrective action plan and achieves anticipated outcomes, it should be able to adequately resolve the weaknesses reported in the financial statement audits for fiscal years 1996 and 1997. As of January 21, 1999, the plan contained 41 tasks related to property and equipment, each of which identified a specific anticipated outcome. Of these 41 tasks, FDA officials stated that 23 were complete. However, we determined that some of the tasks had not achieved their anticipated outcomes.

Among the tasks included in the plan were: (1) performing periodic comprehensive inventories of property and equipment, as well as component-specific spot audits[9] to provide an accurate database of property assets; (2) developing new policies and procedures, with associated training, to create increased responsibility and accountability for property and equipment at the level of each FDA center; and (3) purchasing and implementing a new property management system to integrate the general and subsidiary ledgers. The following is a discussion of these three areas, which are at the heart of the challenges FDA faces in addressing its property management weaknesses.

Comprehensive Inventories Are Crucial to a Reliable Database

Before fiscal year 1998, FDA had not performed a complete physical inventory of property and equipment in more than 3 years. As part of the fiscal year 1997 audit, FDA's IPA had tested the PMIS database and found that in a sample of 66 capitalized items FDA could not locate 46 items. This

[9]The plan describes these audits as repetitive audits of FDA component inventories and property management practices.

condition contributed to the IPA's reporting of a material weakness regarding controls over the physical quantities of property and equipment and their locations.

Our review of the PMIS database, which included both capitalized and noncapitalized property and equipment, indicated that while significant improvements were made over the last year, the database was still not accurate. For example, we traced 73 sample items from FDA offices to the database and found that 7 items were either not recorded in the database or were recorded incorrectly. We observed that these seven items did not have valid barcodes. Although FDA's corrective action plan listed the task of conducting a comprehensive inventory and barcoding program of all property items as having been completed in April 1998, FDA had not yet achieved its anticipated outcome of having an accurate inventory of FDA property assets.

In addition, we found that 1 computer among 46 items we sampled could not be traced from the database to FDA offices. FDA stated that this computer had been sent to HHS' Program Support Center (PSC) as a surplus item without the required supporting documentation; therefore neither FDA nor we could readily confirm what actually happened to the computer.

FDA's proposed policies and procedures referred to in the corrective action plan call for conducting a comprehensive inventory at least once a year of all accountable personal property items[10] throughout the agency, with the next such inventory planned for March 1999. According to FDA, a less frequent inventory schedule will be considered only when an FDA component's statistics reflect an inventory accuracy of greater than 98 percent and when continuous audits reflect adherence to sound property management practices. In addition, the plan contained a provision for internal audits of FDA component inventories on a continuous basis to ensure (1) a continuing focus on property assets by accountable program officials and (2) positive external audit reports. As of January 1999, FDA officials stated that they were also considering adopting, on a quarterly basis, a modified inventory audit process for capitalized property items.

[10]Accountable personal property is defined as equipment that is complete in itself and is of a durable nature with an expected service life of 2 years or more. The equipment should have an acquisition or adjusted cost of $5,000 or more or should be identified as "sensitive equipment" regardless of cost, such as ADP equipment.

FDA anticipates that these policy and procedural changes will address internal controls over property and equipment.

Given FDA's reported weaknesses in prior year audit reports and FDA's piloting of a new system in the spring of 1999, performing regular inventories and internal audits and continuing to validate the PMIS database are crucial to the success of the new system and the future reliability of the property management database.

New Policies and Procedures Include the Creation of a New Position

FDA's corrective action plan calls for the creation of a new staff position, the Personal Property Coordinator (PPC) at each FDA center. The PPC is to manage the acquisition and barcoding of all property and ensure that receiving data is promptly submitted to the Property Management and Finance offices to update their records. In addition, the PPC is to plan and coordinate center wide inventories and coordinate the activities of the center's Property Custodial Officers (PCO), who are responsible for the day-to-day management of property charged to a specific area within an FDA center.

As of January 21, 1999, three out of six FDA centers have full-time PPCs in place and formal training of PPCs and PCOs was scheduled for March 1999. FDA anticipates that this new structure, when fully in place, will improve the control environment as well as the reliability of data on FDA property.

New System Expected to Improve Reconciliation Between FDA's Property Management, Procurement, and General Ledger Systems

Because PMIS, the procurement system, and the general ledger system were not integrated, FDA had to rely on manual processes to transfer data from one of these systems to another. As a result, PMIS did not contain records of all the property owned by FDA, and cost information did not reach the general ledger promptly. In prior year audits, the IPA reported that FDA did not perform periodic reconciliations between its general ledger system and its property subsidiary ledger system (the PMIS database) and that therefore, significant year-end adjustments were required in order for FDA to prepare its financial statements.

The new property management system is scheduled to be piloted starting in May 1999. Based on the results of the pilot and following approval by the Office of Information Resources Management, a phased rollout of the new system is expected to begin, with full implementation scheduled to occur after fiscal year 1999. Until the new system is operational, the corrective action plan called for FDA to use manual processes to periodically

reconcile the general ledger to PMIS. However, FDA officials did not complete interim reconciliations during fiscal year 1998 as stipulated in the plan. A reconciliation was completed only at year-end, and numerous adjusting journal entries were needed to prepare the fiscal year 1998 financial statements.

FDA's corrective action plan calls for a new property management system that would be integrated with the procurement system and the general ledger system. In addition, the plan calls for the new system to (1) provide more timely data and provide a more accurate picture of property and equipment under FDA's custody, as well as related costs and (2) have the ability to create a detailed audit trail that maintains a record of when property and equipment items are moved, lost, or surplussed, with the date each item's status changed, its new location, and who approved the change. Using the new system, FDA anticipates that its staff should be able to more easily retrieve detailed information about areas of concern (e.g., surplussed ADP equipment), perform analyses, and make necessary changes regarding how this property is managed. FDA also expects that the integrated system will result in FDA's management receiving more timely financial management reports.

FDA Lacked Reliable Information Regarding Lost, Stolen, or Destroyed ADP Equipment

FDA lacked reliable information to account for missing ADP equipment because of ineffective procedures for reporting and recording lost, stolen, and destroyed equipment. Without complete and accurate data, FDA was unable to assess its losses in this area and to respond with appropriate management strategies to address its risks.

When ADP equipment was discovered missing, FDA procedures called for notifying both the Security Office and the Property Office. This notification was to be done by the supervisor of the individual discovering the loss. When the supervisor notified the Security Office, the Security Officer was to file an Incident Report and, if necessary, notify the police. Meanwhile, the supervisor was also required to provide the PCO with a completed Report of Survey concerning the missing equipment. The PCO was then to file the Report of Survey and the Incident Report with the Property Office, whose staff would then update the PMIS database.

Our review of the records generated by the Security and Property offices indicated that this notification procedure was not being consistently followed. Neither office was able to provide us with a complete list of items reported lost, stolen, or destroyed during fiscal year 1998, and the partial

lists provided by each office were significantly different from one another in content.

Because FDA's procedures required the participation of several individuals and the use of two different forms to report and record stolen property, there were several opportunities for the flow of information to stop before it reached the PMIS database. In some cases, information on missing equipment was never entered into PMIS, compromising its accuracy and completeness. Further, a lack of communication and coordination between the Security and Property offices kept the Property Office (which had responsibility for updating the PMIS database) uninformed of all missing data on stolen property.

In an attempt to determine the number of property and equipment items stolen during fiscal year 1998, we obtained a file copy of the PMIS database. However, our analysis was limited by the fact that, although PMIS had the capability to distinguish among lost, stolen, and destroyed items, FDA used the same property code to identify these items in the PMIS database. Thus, it was impossible to use the database to quantify the number of stolen versus lost or destroyed items. Therefore, we requested and reviewed the supporting manual records--Reports of Survey--for lost, stolen, and destroyed equipment. Based on the Reports of Survey reviewed, we found that some items reported missing had not been recorded in PMIS.

After we informed FDA officials that the PMIS database was incomplete, the Property Office obtained Reports of Survey in addition to those we had reviewed and compiled a more extensive list of property and equipment (including items other than ADP equipment) reported lost, stolen, and destroyed. This list, compiled in fiscal year 1998, included about 1600 items, both capitalized and noncapitalized, with a reported total dollar value of approximately $10.1 million.[11]

Of the 1,600 items, 955 items with a reported value of $3.4 million represented ADP equipment. According to FDA officials, the 1,600 were lost, stolen, or destroyed over more than 3 years, dating back to the time FDA's last comprehensive inventory of property and equipment was completed. Of the 1,600 items, FDA could not determine whether 976 items--with a combined reported value of $7.4 million--were lost, stolen, or destroyed because the PCOs involved had not provided that information as

[11]According to FDA, of this total, 1,226 items valued at $7.6 million were fully amortized.

required on the Reports of Survey. Among the 976 were such items as (1) a $208,970 bench facstar laser, (2) a $60,981 Nikon Microscope, and (3) a $40,500 Threshold system molecular device. None of these three items were scheduled for replacement until after 2002. Of the 976 items, 502, valued at a reported $2.2 million, represented ADP equipment.

In a further attempt to analyze data on ADP equipment theft, we obtained the Security Office's fiscal year 1998 incident reports on stolen ADP equipment. However, we had a limited ability to trace items detailed in the incident reports to the Reports of Survey list or the PMIS database because information on missing equipment was recorded inconsistently in incident reports, Reports of Survey, and the PMIS database. In attempting to compare items, we assumed that barcode information would help us trace specific items from one report to another and to PMIS. However FDA's procedures did not require recording barcodes on the incident reports, and many lacked barcodes. Of 22 items listed in the incident reports we reviewed, only 9 contained barcode information. However, even with barcodes, we could find none of the nine items in the PMIS database, and we could only find five of the nine on the Reports of Survey list.

In December 1998, FDA drafted procedures to more effectively monitor and document lost, stolen, and destroyed property. FDA officials stated that these new procedures should be fully implemented by March 1999. Procedural changes include (1) requiring that the PCO, rather than the supervisor, notify both offices of lost and stolen property; (2) using only the Incident Report (with barcode information) to document stolen property and equipment; (3) immediately flagging the property as potentially stolen in the property database; and (4) requiring that PCOs who report lost or destroyed property complete a Report of Survey detailing why the equipment is considered to be lost or destroyed rather than stolen.

As part of FDA's tasks listed in its corrective action plan to address weaknesses identified by the IPA, FDA plans to use periodic quality control reviews to gain assurance that new procedures are fully and properly implemented, including procedures for accounting for lost, stolen, and destroyed property. In January 1999, FDA took the additional step of creating unique property codes to distinguish among lost, stolen, and destroyed equipment in the PMIS database.

Lack of Compliance With Procedures Weakened Controls Over Equipment Being Surplussed

Controls over relocating equipment were inadequate to prevent FDA staff from altering the documents used to control the surplussing of ADP equipment, even though procedures require properly authorized documents with original signatures. In addition, we identified an instance in which FDA did not properly remove sensitive data from ADP equipment that was donated to a school.

Alteration of Documents Circumvented Controls

We found that documentation necessary to remove surplussed ADP equipment from FDA premises could be altered in two ways, circumventing this important control.

1. When equipment was being designated for surplus, the numbers and types of equipment listed on documents was sometimes altered by FDA staff. For example, some of the computers listed on the surplussing forms were crossed-out without being initialed to verify that the change was approved. In those cases, FDA was unable to provide assurance that appropriate approvals were obtained before equipment was designated for surplus and removed from FDA premises.

2. According to HHS Program Support Center (PSC) officials, when their drivers picked up surplus items from FDA, they sometimes changed the required documents when the amount and type of equipment available for removal differed from that listed on the documents.

Because the document used for surplussing ADP equipment is also used for relocating other FDA property, and altered forms could be used to remove equipment from the building, the control environment was seriously compromised and the risk of misappropriation increased.

Before any equipment is removed from FDA premises, FDA policy requires that the person removing it present either a property pass or a Request for Property Action form (HHS-22) at the security desk. A property pass is to be used when equipment is being temporarily relocated, such as computer equipment being used at home. Our inventory testing sample included two cases in which the use of property passes was required to remove equipment from the premises. In both cases, we found that proper procedures were followed and we were able to trace these two pieces of equipment to the locations outside FDA where they were being used.

When ADP equipment is to be surplussed, FDA guidance calls for a form HHS-22 to be authorized and forwarded to the Property Office, where the equipment record is to be removed from the PMIS database. The HHS-22 form is also to be sent to the Program Support Center (PSC), an HHS central location, which, in most cases, is responsible for picking up surplussed equipment. Sometimes, an FDA center donates surplus ADP equipment directly to a school. In those cases, in addition to filing an HHS-22 form, FDA is required to have the school complete and sign a Certification Statement indicating receipt and ownership of donated ADP equipment.

Our review of records for donated equipment showed that FDA staff did not always use original HHS-22 forms in designating equipment for surplus. Instead, they would sometimes alter the number or types of equipment to be surplussed on a form that had been previously approved and signed. FDA officials provided 27 HHS-22 forms, representing surplussed items they had on record for fiscal year 1998. Our review of the 27 forms showed that 8 had been altered. We asked Property Office staff whether, in these cases, the Property Management Officer provided an original signature authorizing the surplus of the equipment before it was removed from the building. While Property Office staff stated that this procedure was generally followed, in several cases, including these eight, the Property Office did not have its copies of the HHS-22 forms on file and so were unable to provide assurance that proper authorizations were obtained before equipment was removed from the premises. The HHS-22 forms provided for our review were copies obtained from the FDA centers.

Even in cases when an original HHS-22 form was used, PSC management informed us that the PSC drivers regularly changed the information regarding the quantity and type of equipment listed on the form from that originally authorized. According to PSC management, drivers stated that the reason for altering the forms was that at the time of pickup, they often found more or fewer equipment items than those listed.

According to FDA management, the drivers' altering of HHS-22 forms may have occurred as a result of employees at FDA centers observing equipment being surplussed, thus seeing an opportunity to either claim the equipment for their own use or add equipment to that being surplussed. This explanation suggests that FDA employees were able to make decisions about the disposition of equipment in FDA's custody without going through the proper channels or completing the necessary documents. In this manner, both PSC drivers and FDA employees were allowed to

circumvent the controls over the surplus of ADP equipment. As a result, FDA lacked assurance that the approved number of surplussed items left the building or reached PSC.

FDA officials told us that as of December 1998, PSC drivers had been informed that they were no longer permitted to alter documents. If drivers see a discrepancy between the property available for pickup and what is described on the HHS-22, they are not to pickup anything until they receive new paperwork that properly describes the items being relocated.

Sensitive Data on Donated ADP Equipment Not Always Removed

For equipment donated to schools, FDA policy required that all sensitive data be removed from the computer. However, the policy allowed for the retention of some software on the computer based upon the licensing agreement with the software company involved. FDA centers are required to sign a statement indicating that ADP hard drives have been properly scrubbed or cleaned. Scrubbing ensures that formatting of the hard drive is complete and that all proprietary information has been removed.

FDA could not provide a complete list of donated ADP equipment to support a statistically valid test of the proper scrubbing of hard drives. Although the PMIS database and the completed HHS-22 forms should each provide a complete record of donated ADP equipment, we found that some of the donated equipment recorded in the PMIS database could not be traced to the HHS-22 forms. Further, some donated equipment on the HHS-22 forms could not be traced to the PMIS database.

Due to FDA's inability to provide a complete population of donated ADP equipment, we performed limited testing in this area. We selected and tested a nonstatistical sample of 22 computers from FDA centers and PSC. The 22 computers were donated to six different schools in the Washington D.C., area. We found that the schools' administrators generally exercised care in ensuring that computers were free from any previous software and viruses by reformatting the hard drives prior to installing the respective school's software. With 14 of the 22 computers we tested, these procedures had already been performed. Therefore, in those cases we could not determine whether FDA had done the proper scrubbing prior to donation.

Regarding the other eight computers, one of the schools we visited had not yet placed the donated computers into service and therefore had not reformatted the hard drives. At this school, one of the eight computers tested contained sensitive FDA information. The information left on the

computer was a rejection letter from the Center for Devices and Radiological Health to a medical technology laboratory stating that FDA could not provide reasonable assurance that the medical device was safe and effective for its intended use. In this case, neither FDA officials nor the school were aware that the sensitive data remained on the computer. Using commercially available software, we took no extraordinary measures to retrieve this data from the computer. Thus, the retrieval could have been done by anyone with basic computer skills and software. After we found the sensitive information on the computer at the school, it was removed.

FDA officials noted that the computer, which contained the sensitive information, was donated in November 1997, prior to FDA's implementation of its new procedures in June 1998. The new procedures require that a center official be designated to certify by signature on the HHS-22 form that the computers are free of sensitive information. However, as mentioned, for those computers we tested that were donated after the effective date of the new procedures, we could not determine whether FDA had properly scrubbed the computers prior to donation.

Conclusions

While FDA is making progress in implementing its corrective action plan, continued emphasis on the tasks and the desired outcomes are key to resolving the internal control weaknesses related to property and equipment reported in prior audit reports. The implementation of a new property management system that integrates on an automated basis with the general ledger, as well as the creation of the PPC position, should provide FDA with enhanced accountability over property and equipment and financial reporting capabilities. However, if FDA fully complies with existing policies and procedures and implements those contemplated in its corrective action plan, the risk of incidents such as the loss and theft of equipment and the inadvertent release of proprietary information will be diminished.

Recommendations

To correct weaknesses identified in prior audit reports and strengthen controls over ADP equipment, we recommend that the Commissioner of Food and Drugs

- finalize and implement proposed procedures for conducting comprehensive property inventories and component-specific spot audits;

- ensure that interim reconciliations of the general ledger system to the property subsidiary ledger system (PMIS) using manual processes are performed until the new property management system is fully operational, as stipulated in FDA's corrective action plan;
- finalize and implement proposed procedures to ensure the reliability of information on lost, stolen, and destroyed property and equipment and conduct periodic quality control reviews to ensure that new procedures are followed; and
- ensure compliance with established policies and procedures that address the surplus of ADP equipment. Specifically, during the March 1999 training for PPCs and PCOs, ensure that proper documentation procedures are covered to prevent the use of altered documents.

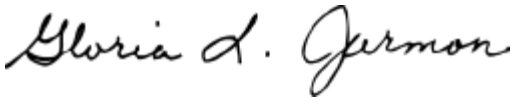
Agency Comments and Our Evaluation

In general, FDA agreed with the report findings and concurred with all of our recommendations. FDA indicated that actions are either planned, already in process, or implemented to address the issues raised in our report. These include (1) developing new procedures for performing inventories and auditing outcomes (the next annual inventory is scheduled to begin later this month), (2) performing monthly reconciliations of the general ledger system to the property subsidiary ledger system, (3) using a new coding system that separates lost versus stolen or destroyed property listed in PMIS, and (4) designing training to include instructions for proper surplussing procedures.

In addition, FDA provided some clarifying comments that we incorporated into our report where appropriate. FDA also raised several additional matters, none of which affect our findings and recommendations. Our response to these matters are discussed in appendix I.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations; Senate Committee on Governmental Affairs, and the House Committee on Government Reform. We are also sending copies of this report to the Secretary of Health and Human Services, the Commissioner of Food and Drugs, and other interested parties. We will also make copies available to others upon request.

If you have any questions, please call me at (202) 512-4476. Major contributors to this report are listed in appendix II.



Gloria L. Jarmon
Director, Health, Education, and Human Services
Accounting and Financial Management Issues

Comments From the Food and Drug Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

DEPARTMENT OF HEALTH & HUMAN SERVICES — Public Health Service

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Ms. Gloria Jarmon
Director, HEHS Accounting and
Financial Management Group
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Dear Ms. Jarmon,

Attached are the Food and Drug Administration's comments on the General Accounting Office Draft Report Entitled: FOOD AND DRUG ADMINISTRATION: Controls over Property and Equipment Improved but Weaknesses Remain, GAO/AIMD-99-51. We appreciate the opportunity to comment on this report.

Sincerely,

Melinda K. Plaisier
Deputy Associate Commissioner
for Legislative Affairs

Comments of the Food and Drug Administration (FDA or Agency) on the General Accounting Office Draft Report Entitled: FOOD AND DRUG ADMINISTRATION: Controls over Property and Equipment Improved but Weaknesses Remain, GAO/AIMD-99-51

The Food and Drug Administration appreciates the opportunity to comment on the draft report. We have reviewed it and find that, in general it is a good report. FDA believes, however, that the "weaknesses" would be more accurately described as further corrective actions that remain to be taken. As the report well recognizes, FDA has approached the problems of property control with a comprehensive set of initiatives including conducting a number of inventories; acquiring a new automated inventory system; committing to periodic inventories and audits; committing to increasing the frequency of reconciliation of the PMIS with the general ledger; developing and implementing new procedures on accounting for lost, stolen, and destroyed property; designing and scheduling training for Property Management Specialists PMS), Personal Property Coordinators (PPC), and Property Custodial Officers (PCO); and instituting new procedures to prevent the alteration of paperwork for excess property actions. We also have established workgroups involving both high-level and hands-on practitioners to address the strategic and practical issues of improvement efforts as they evolve.

See comment 1.

Furthermore, the Office of the Inspector General for the Department of Health and Human Services has informed us that in its latest audit, the outside firm of Gardiner, Kamya, & Associates, P.C., an independent auditing firm, have found no remaining material weaknesses in FDA's accounting system, including property management. In summary, the outside auditors have given an "unqualified opinion" on the financial statements, which means that the auditors found sufficient evidence of FDA's progress to accept FDA's internal control structures (including property) and that all accounts on the financial statements are accurate. They did, however, make property a "reportable condition," indicating that, although property management is no longer a material weakness, there is still work to be done, a fact that FDA fully recognizes. These findings, while consistent with the GAO findings, are strikingly more positive. In view of the demonstrable progress made thus far, the finding by Gardiner, Kamya, and a credible plan for the future, it is FDA's belief that the tasks remaining will be accomplished as scheduled.

In addition to the above, FDA wishes to address the following specific issues.

See comment 2.

Now on p. 1.

Now on p. 4.

FDA has concerns that the tone of the report will create the misimpression that FDA may not be able to implement the Corrective Action Plan (CAP) fully. Specifically, we are concerned about the use of the word "if" on page 2, first sentence of the RESULTS IN BRIEF ("if properly implemented") and page 8, first sentence of the STATUS OF CORRECTIVE ACTIONS FOR PRIOR AUDIT FINDINGS ("If FDA effectively implements..."). The use of the word "if" implies there is a likelihood FDA will not effectively or properly implement the new property management program. We urge that the word "when" be substituted for the word "if" throughout the report.

Now on p. 1.
See comment 2.

On page 2 the report states, "FDA has made progress in implementing various actions, but it has not yet resolved many of the reported weaknesses." While it is true that some actions remain to be

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taken, the majority of the work that was planned has been accomplished. Many of the initiatives implemented to date will reach full fruition in the near future. A more accurate characterization of FDA's current status would be that FDA has made real progress in implementing various corrective actions, having resolved more than 50 percent of planned/targeted tasks designed to correct weaknesses.

See comment 3.

The report also states that, "According to FDA Officials, as of January 21, 1999, 23 of 41 tasks in the corrective action plan related to property and equipment had been completed. However, we found that 9 of these 23 tasks had not fully achieved their anticipated outcomes." It was never FDA's intention that initiation of these tasks would fully achieve the anticipated results immediately. We expect that training property custodians to manage their inventories aggressively and follow accepted practices will produce over time a highly accurate system that will facilitate property identification and accountability. FDA recently purchased an inventory system that will replace the current, interim Property Management Information System (PMIS) to further assure that the system will meet and even exceed expectations. To that end, FDA is continuing to review the interim database and make corrections as errors are identified so data transferred into the new system will be as accurate as possible. Further, the new system will be much more user friendly resulting in fewer errors. While we do not expect to be able to produce a totally error-free database, we do expect the system to meet generally recognized standards of acceptability.

As mentioned above, FDA developed a CAP to address the problems identified by an audit of the Chief Financial Officer's responsibilities. The CAP contains 14 items, 6 of which relate exclusively to financial management. Of the remaining 8 items, all of which relate to property and equipment management, 6 have been completed. For management and communication purposes, FDA staff reported progress to Agency Management on 41 goal-specific tasks derived from the 8 property related items identified in the CAP. FDA was pleased to share those progress reports with GAO. It should be noted that as of February 9, 28 of the 41 tasks were complete. Two additional tasks will be completed by the end of February 1999, 3 will be completed in March 1999, 1 will be completed in April, 3 are scheduled to be completed in May 1999, 2 will be continuous internal audits, and 2 will extend beyond FY 1999. FDA is tracking outcomes and making additional corrections or adjustments as needed to ensure that the system accurately accounts for the equipment inventory and is appropriately linked with the accounting system.

See comment 4.

The report states that, "In addition, we found that one computer among 46 items we sampled could not be traced from the database to FDA offices." While we do not dispute this statement, it mistakenly suggests that a two percent error rate in an accountable property management system is a serious management problem. We suggest that the sentence be revised to read, "Typically, an acceptable accuracy rate for accountable property inventories of non capital assets lies in the range

of 98 percent to 100 percent. We found that one computer among 46 non-capital assets we sampled could not be traced from the database to FDA offices. This is not inconsistent with the desired 98 percent property data management accuracy rate."

See comment 5.

The draft report erroneously states that, "As of January 21, 1999, three out of six of FDA Centers had a PPC in place and formal training of PPCs and PCOs was scheduled for March 1999." In fact, all Centers, including the Office of the Commissioner have had a PPC in place since June 1, 1998. While not every Center has had a full time PPC dedicated exclusively to property management, the PPC's have (whether full or part time) performed the required duties.

As the above comments indicate, FDA has taken seriously the need to clean up its management of property and equipment. Extensive time and resources have been committed to accomplishing this goal during fiscal year 1999. FDA has successfully implemented the majority of its stated goals and is working toward full implementation of the remainder. Senior management in the Agency review progress on a weekly basis. Individuals responsible for specific tasks are held accountable for achieving them. We fully believe that the corrections will, as they are implemented, provide a solid base for property and equipment that will serve the Agency well in the foreseeable future.

GAO Recommendation

To Correct weaknesses identified in prior audit reports and strengthen controls over ADP equipment, we recommend that the Commissioner of Food and Drugs:

1. finalize and implement proposed procedures for conducting comprehensive property inventories and component-specific spot audits;

FDA Comment

We concur. FDA already has developed and will continuously refine new procedures for performing inventories and auditing outcomes. The next annual inventory is scheduled to begin later this month, and comprehensive inventories will continue to be performed annually. Spot audits have already begun and will remain a part of FDA's personal property management program.

GAO Recommendation

2. ensure that interim reconciliations of the general ledger system to the property subsidiary ledger system (PMIS) using annual processes are performed until the new property management system is fully operational, as stipulated in FDA's corrective action plan;

FDA Comment

We concur. FDA already has initiated a program of monthly reconciliations to the property subsidiary ledger system, and will continue this procedure until the new system is fully operational,

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at which time the two systems will be fully integrated.

GAO Recommendation

3. finalize and implement proposed procedures to ensure the reliability of information on lost, stolen, and destroyed property and equipment, and conduct periodic quality control reviews to ensure that new procedures are followed; and

FDA Comment

We concur. FDA already has initiated a new coding system so as to have a more accurate record of property removed from inventory because it has been lost, stolen, or destroyed. New security procedures also have been initiated to ensure that items reported to have been stolen are reported both to the Security Officer and to the appropriate property managers.

GAO Recommendation

4. ensure compliance with established policies and procedures that address the surplus of ADP equipment. Specifically, during the March 1999 training for PPC and PCOs, ensure that proper documentation procedures are covered to prevent the use of altered documents.

FDA Comment

We concur. The training has been designed to include instruction in proper procedures and drivers who pick up surplused equipment from loading docks will be reminded that altering documents is not permitted.

The following are GAO's comments on FDA's letter received on February 16, 1999.

GAO Comments

1. Although the IPA is planning to give FDA an unqualified opinion on its financial statements, FDA's statement that "the auditors found sufficient evidence of FDA's progress to accept FDA's internal controls structure (including property)" is a misinterpretation of the auditor's opinion. Our review of the audit workpapers showed that the IPA did not rely on the internal controls over property management, but instead performed extensive substantive tests of financial statement balances. As FDA indicated, the IPA will continue to report property management as a reportable condition.

2. We believe that this report is balanced and provides adequate recognition of the progress FDA is making to correct reported weaknesses.

3. Even though the corrective action plan indicated that the tasks and anticipated outcomes were complete, FDA acknowledged that the initiation of tasks would not fully achieve the anticipated outcomes immediately. We are encouraged that FDA plans to continue its efforts to correct reported weaknesses, including the review of the interim database and making corrections as errors are identified so data transferred into the new system will be as accurate as possible.

4. FDA believes that our sample test, for which we found 1 error out of 46 items, indicates that the PMIS database has a 2 percent error rate, which is within FDA's stated goal. However, based on the statistical sample methodology we used, 1 error out of 46 items tested actually indicates, with 90 percent confidence, a possible error rate of 0.23 to 8.19 percent. Also, this test result was considered in conjunction with the completeness test of 73 items in which we found 7 errors. These seven errors indicate a potential error rate of 5.42 to 15.68 percent, which is significantly higher than the 2 percent referred to by FDA.

5. This report has been revised to reflect FDA's comment.

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