United States General Accounting Office 131672

GAO

Report to the Congress

November 1986

FINANCIAL AUDIT

Gorgas Memorial Institute's Financial Statements for 1985 and 1984

UNITED STATES GENERAL ACCOUNTING OFFICE

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

Comptroller General
of the United States

B-197020

November 26, 1986

To the President of the Senate and the
Speaker of the House of Representatives

This report transmits our unqualified opinion on the financial statements of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, for the years ended September 30, 1985 and 1984. The Institute is a private, nonprofit organization primarily involved in biomedical research and training in tropical diseases and receives an annual appropriation from the United States. We made our examinations pursuant to the authority provided by the act of May 7, 1928 (22 U.S.C. 278a), and in accordance with generally accepted government auditing standards.

For the transactions we tested, we found no material internal accounting control weaknesses or violations of laws and regulations that could have materially affected the Institute's financial statements.

We are sending copies of this report to the Director of the Office of Management and Budget, Secretary of the Treasury, Director of the Fogarty International Center, and Board of Directors of the Gorgas Memorial Institute.

For Frederick D. Wolf

Charles A. Bowsher
Comptroller General
of the United States

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To the Board of Directors
Gorgas Memorial Institute of Tropical
and Preventive Medicine, Incorporated

We have examined the balance sheets of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, as of September 30, 1985 and 1984, the related statements of revenue, expenses, and changes in fund balances, and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Institute as of September 30, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

for Charles A. Bowsher
Comptroller General
of the United States

June 15, 1986

Report on Internal Accounting Controls

We have examined the financial statements of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, for the years ended September 30, 1985 and 1984, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls for fiscal years 1985 and 1984 to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Institute's financial statements. Our study and evaluation was generally limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- budget and cash management,
- expenses,
- financial reporting,
- fixed assets,
- inventory management,
- payroll, and
- revenue.

While our study included all the control categories listed above, we only evaluated the internal accounting controls over the payroll cycle. We did not evaluate the remaining cycles because we concluded from our preliminary review that the audit could be performed more efficiently by expanding substantive audit tests for these cycles.

The management of the Institute is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of internal accounting controls made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the Institute taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation of internal accounting controls disclosed no condition that we believe to be a material weakness that would affect our opinion on the Institute's 1985 and 1984 financial statements.

During the course of our examination, we did identify a number of opportunities for improving internal accounting controls and procedures. We are communicating our findings to the Institute through a separate management letter.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, for the years ended September 30, 1985 and 1984, and have issued our report thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the Institute complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

In connection with our examination, nothing came to our attention that caused us to believe that the Institute was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Financial Statements

Balance Sheets

ASSETS

	September 30, 1985	September 30, 1984
OPERATING FUND:		
Cash in banks and on hand	$ 148,274	$ 11,560
Accounts receivable	487,857	273,430
Inventory at average cost	149,700	132,548
Prepaid expenses	43,667	40,934
Total Operating Fund Assets	829,498	458,472
ENDOWMENT FUND:		
Money market account	110,520	319,558
Due from operating fund (note 7)	374,061	139,596
Total Endowment Fund Assets	484,581	459,154
PLANT FUND: (notes 2 & 3)		
Land and building donated by the Republic of Panama	126,750	126,750
Other buildings and building improvements	949,152	952,871
Laboratory and other equipment	1,328,947	1,235,499
Total Plant Fund Assets	2,404,849	2,315,120
TOTAL ASSETS	**$3,718,928**	**$3,232,746**

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND FUND BALANCES

	September 30, 1985	1984
LIABILITIES, OPERATING FUND:		
Accounts payable	$ 113,716	$ 140,957
Accrued vacation pay	90,438	86,124
Accrued retirement pay (note 2)	65,290	57,748
Unearned grant and contract revenue	25,570	28,005
Due to endowment fund (note 7)	374,061	139,596
Long-term loan (note 6)	500,000	500,000
Total Operating Fund Liabilities	1,169,075	952,430
FUND BALANCES:		
Operating Fund	(339,577)	(493,958)
Endowment Fund	484,581	459,154
Plant Fund:		
Donated by the Republic of Panama	126,750	126,750
Other	2,278,099	2,188,370
Total Plant Fund	2,404,849	2,315,120
Total Fund Balances	2,549,853	2,280,316
TOTAL LIABILITIES AND FUND BALANCES	**$3,718,928**	**$3,232,746**

The accompanying notes are an integral part of these financial statements.

Statements of Revenue, Expenses, and Changes in Fund Balances

	Operating Fund	
	9/30/85	9/30/84
REVENUE: (note 4)		
Contribution - U.S. government appropriation	$1,999,000	$1,899,000
Research grants and contracts	960,117	663,764
Donations and other	16,115	19,201
Total Revenue	2,975,232	2,581,965
EXPENSES:		
Gorgas Memorial Laboratory - Panama:		
Employee costs (note 5)	1,410,288	1,317,391
Employee travel	47,615	37,555
Consultant fees and travel costs	253,417	95,655
Supplies	329,034	263,620
Library journals and books	23,102	18,326
Fieldwork	40,606	36,889
Publishing costs		11,248
Maintenance of plant and equipment	403,765	427,735
Total Gorgas Memorial Laboratory	2,507,827	2,208,419
Gorgas Memorial Institute - Washington, D.C.:		
Employee costs (note 5)	128,696	106,868
Rent	17,678	17,650
Consultant fees and travel costs	3,642	9,089
Interest expense	33,542	30,625
Miscellaneous	17,827	18,459
Soper lecture series		
Fund raising		
Total Gorgas Memorial Institute	201,385	182,691
Total Expenses	2,709,212	2,391,110
Excess of revenue over expenses	266,020	190,855
Fund balances at beginning of year	(493,958)	(385,473)
Capital expenditures transferred to plant fund	(111,639)	(299,340)
Equipment disposals		
Donated equipment		
FUND BALANCES AT END OF YEAR	**$ (339,577)**	**$ (493,958)**

The accompanying notes are an integral part of these financial statements.

Endowment Fund		Plant Fund		Total all funds	
9/30/85	9/30/84	9/30/85	9/30/84	9/30/85	9/30/84
				$1,999,000	$1,899,000
				960,117	663,764
$ 29,003	$ 36,864			45,118	56,065
29,003	36,864			3,004,235	2,618,829
				1,410,288	1,317,391
				47,615	37,555
				253,417	95,655
				329,034	263,620
				23,102	18,326
				40,606	36,889
					11,248
				403,765	427,735
				2,507,827	2,208,419
				128,696	106,868
				17,678	17,650
				3,642	9,089
				33,542	30,625
				17,827	18,459
	400				400
3,576	11,628			3,576	11,628
3,576	12,028			204,961	194,719
3,576	12,028			2,712,788	2,403,138
25,427	24,836			291,447	215,691
459,154	434,318	$2,315,120	$2,015,199	2,280,316	2,064,044
		111,639	299,340		
		(21,910)		(21,910)	
			581		581
$484,581	**$459,154**	**$2,404,849**	**$2,315,120**	**$2,549,853**	**$2,280,316**

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Financial Position

	Operating Fund	
	9/30/85	9/30/84
RESOURCES PROVIDED		
Excess of revenue over expenditures	$266,020	$190,855
Increase in accrued vacation pay	4,314	21,397
Increase in accrued retirement pay	7,542	2,197
Increase (decrease) in due to endowment fund	234,465	(123,504)
Increase in loan payable		325,000
Donated equipment		
	512,341	415,945
RESOURCES USED		
Increase in accounts receivable	214,427	87,297
Increase in inventory	17,152	19,204
Increase in prepaid expense	2,733	10,057
Decrease (increase) in accounts payable	27,241	(6,838)
Decrease in unearned grant and contract revenue	2,435	25,575
Purchases of equipment (net)		
Loss on disposal of assets		
	263,988	135,295
Increase (decrease) in cash before transfers	248,353	280,650
TRANSFERS		
Capital expenditures transferred to plant fund	(111,639)	(299,340)
Increase (decrease) in cash	$136,714	$ (18,690)

The accompanying notes are an integral part of these financial statements.

Endowment Fund 9/30/85	Endowment Fund 9/30/84	Plant Fund 9/30/85	Plant Fund 9/30/84	Total all funds 9/30/85	Total all funds 9/30/84
$ 25,427	$ 24,836			$291,447	$215,691
				4,314	21,397
				7,542	2,197
(234,465)	123,504				
					325,000
			$ 581		581
(209,038)	148,340		581	303,303	564,866
				214,427	87,297
				17,152	19,204
				2,733	10,057
				27,241	(6,838)
				2,435	25,575
		$ 89,729	299,921	89,729	299,921
		21,910		21,910	
		111,639	299,921	375,627	435,216
(209,038)	148,340	(111,639)	(299,340)	(72,324)	129,650
		111,639	299,340		
$(209,038)	$148,340	$ 0	$ 0	$(72,324)	$129,650

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Years Ended September 30, 1985 and 1984

NOTE 1. DESCRIPTION OF ENTITY

The Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, is a private, nonprofit organization exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code. It was organized in 1921 and is primarily involved in biomedical research and training in tropical disease. The institute's administrative offices are located in Washington, D.C. Research is conducted at the Institute's Gorgas Memorial Laboratory (GML) located in the Republic of Panama.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Institute maintains its accounts on the accrual basis using three funds. Current assets, liabilities, and operating accounts are maintained in an operating fund, investments in an endowment fund, and fixed assets in a plant fund.

- Operating Fund - The Institute records all operations and maintenance revenues, costs, assets, and liabilities associated with the Institute and GML in an operating fund. This fund is charged for the costs of assets acquired which are subsequently recorded in the plant fund.

- Endowment Fund - All transactions associated with the Institute's investments, interest earnings, and private donations are recorded in an endowment fund. Fund-raising costs are expensed when incurred and are also recorded in an endowment fund.

- Plant Fund - It is the Institute's policy to initially charge to the operating fund assets acquired and to subsequently record the acquisition in the plant fund at cost. Plant fund assets are written off after 20 years of service. Donated assets are recorded at fair market value on the date received.

Depreciation - Although no depreciation is recorded on plant fund assets, a use allowance is included in the Institute's overhead pool as a means of recognizing the contribution made by plant fund assets to direct research programs. The use allowance is 6-2/3 percent of the acquisition cost of furniture and equipment acquired since fiscal year 1975, and 2 percent of the acquisition cost for buildings and improvements in accordance with the provisions of Federal Procurement Regulations. The increase in income resulting from the inclusion of this use allowance in the overhead pool for the years ended September 30, 1985 and 1984, amounted to $2,361 and $1,354, respectively.

Under cost reimbursement contracts and grants, revenues are recorded as costs are incurred. The Institute includes in revenues the differences between actual overhead billing rates and allowable rates as defined in the contracts because it cannot bill clients for these differences until the actual overhead rate is approved by the Defense Contract Audit Agency. Accordingly, the excess of the actual overhead billing rate over the allowable rate has increased accounts receivables at September 30, 1985 and 1984, by approximately $78,721 and $45,148, respectively.

Employment Termination and Severance Indemnity Benefits - The Institute recognizes a liability for compensation (seniority bonus) that is due under the Panamanian Labor Code to all employees over a specified age with 10 or more years of continuous service upon termination of employment. As of September 30, 1985 and 1984, this liability amounted to $65,290 and $57,748, respectively. Seniority bonus benefits charged to operations in 1985 and 1984 were $35,421 and $2,645, respectively.

Under a 1975 Panamanian law, employers are liable for the current estimated liability for earned seniority bonus benefits of eligible employees as well as the estimated cost for such benefits to employees not currently eligible (i.e., those employees under the age specified by the Panamanian Labor Code and with less than 10 years of continuous service). In August 1975, the Panamanian government submitted to the Institute an estimate of $89,582 that was needed to pay into a fund for the past service cost of all employees at GML. The Institute agreed to pay $82,927 over a 10-year period beginning February 15, 1978. This sum is being charged to operating expenses as the employees become eligible for the seniority bonus benefits. The Panamanian Labor Code also provides that an indemnity must be paid to all employees with service of 3 months or more if such employees are terminated without "justifiable cause" (severance indemnity). Due to the contingent nature of this severance indemnity, the Institute has adopted the policy of recording a liability only when it is incurred. As of September 30, 1985 and 1984, the total contingent liability for severance indemnity benefits was $1,082,584 and $993,846, respectively.

NOTE 3. LAND AND BUILDING DONATED BY THE REPUBLIC OF PANAMA

The Institute's title to the land and building of GML donated in 1930 at the fair market value of $126,750 is contingent upon its continued use for biomedical research.

NOTE 4. FUNDING SOURCES

The Institute obtains its funding from federal appropriations, research grants, and contracts.

Appropriation from the U.S. Government - Section 278 of 22 U.S.C., as amended, authorizes a permanent annual appropriation to be paid to the Institute for the maintenance and operation of the Gorgas Memorial Laboratory. Under this appropriation, the Institute received for the years ended September 30, 1985 and 1984, $1,999,000 and $1,899,000, respectively.

Research Grants and Contracts - The balance of the Institute's funding comes in the form of grants and contracts from a variety of United States, Panamanian, and international organizations which support specific research projects conducted by GML. U.S. government agencies, which are the major sources of such support, include the Army, Navy, National Institute of Health, and the Agency for International Development.

NOTE 5. PENSION PLAN

The Institute participates in a defined contribution pension plan. Coverage under the plan is limited to those employees not covered by the Panamanian social security program. Under the plan, the Institute makes contributions based upon a specified percentage of earnings of participating employees. There are no unfunded past service costs. For the years ended September 30, 1985 and 1984, the Institute's contributions under the plan were $31,682 and $33,623, respectively.

NOTE 6. LOAN PAYABLE

During 1983, the Institute was granted a loan of $500,000 from Caja de Seguro Social (the Panamanian Social Security Administration). Of this amount, the

Institute received $325,000 in 1984 and $175,000 in 1983.

The $500,000 loan is repayable in 10 semiannual installments of $50,000 each, commencing November 14, 1985, with annual interest of 7 percent and is guaranteed by the Government of Panama.

NOTE 7. INTERFUND BORROWING

As of September 30, 1985 and 1984, funds have been borrowed from the Endowment Fund for the Institute's operation and maintenance in the amount of $374,061 and $139,596, respectively.

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