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General Accounting Office
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Accounting and Information
Management Division

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August 10, 1999

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

Subject: Food and Drug Administration: Status of Actions to Address Property Control Weaknesses

Dear Mr. Chairman:

This letter responds to your request that we update you on the Food and Drug Administration's (FDA) corrective actions taken to address the recommendations we made in our February 1999[1] report. The recommendations were intended to address weaknesses in FDA's controls over automated data processing (ADP) equipment and other accountable property, including an inaccurate database of property items, inadequate controls over the surplussing of equipment, and inadequate controls to effectively monitor the loss, theft, or destruction of property and equipment. Specifically, we recommended that the Commissioner of FDA

- perform interim reconciliations between the general and subsidiary accounting ledgers;
- ensure compliance with established policies and procedures for surplussing ADP equipment, including training property officials in these procedures;
- finalize and implement proposed procedures for conducting comprehensive property inventories and component-specific spot audits; and
- finalize and implement new procedures for monitoring lost, stolen, and damaged property and equipment, as well as conducting quality control reviews.

At our July 19, 1999, briefing to your staff, we discussed the status of the property actions taken by FDA related to our recommendations. The following provides a high-level summary of the issues discussed. We requested comments on our draft briefing slides from FDA. FDA concurred with the information presented. The briefing slides are enclosed.

[1]Financial Management: FDA's Controls Over Property Have Improved, But Weaknesses Remain (GAO/AIMD-99-51, February 22, 1999, February 22, 1999).

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Results in Brief

Overall, FDA has made good progress in addressing the recommendations made in our report. Our follow-up found that FDA was performing interim reconciliations of property transactions recorded in the general and subsidiary ledgers, and had begun training agency personnel in proper surplussing procedures for property and equipment. In addition, FDA had written procedures for completing a fiscal year 1999 comprehensive inventory of property and equipment agencywide, which was underway during this review. However, FDA had not yet developed written procedures for conducting component-specific spot audits to ensure compliance with procedures related to property management, nor had FDA finalized and implemented procedures for the processing and reporting of lost, stolen, and damaged property and equipment.

Reconciliations of Property Transactions

FDA has made good progress in performing interim reconciliations of property transactions. Previously, FDA did not perform periodic reconciliations between its general ledger system and its property subsidiary ledger system—the Property Management Information System (PMIS) database—resulting in significant year-end adjustments in order to prepare its financial statements. For fiscal year 1999, the Division of Accounting completed three interim reconciliations between the property general ledger and the PMIS subsidiary ledger. As a result of these reconciliations, numerous entries were made to adjust the accounting records and supporting documentation was available in support of these adjustments. According to FDA management, the Division of Accounting plans to continue these manual reconciliations until completion of the installation of the new property subsidiary ledger scheduled for June 2001, which will automate this process.

Surplussing of Property and Equipment

FDA has also made good progress in following property and equipment surplussing procedures. In our February 1999 report, we found that controls over surplussing and transferring property and equipment were inadequate in that FDA staff were altering the Request for Property Action forms (HHS-22) used to control the surplussing of ADP equipment. In addition, we identified one instance in which FDA did not properly remove sensitive data from ADP equipment that was donated to a school, even though FDA policy required that computer hard drives be "scrubbed"[2] prior to surplussing.

During our follow-up review, we found no alterations of data on the 54 HHS-22 forms examined. While we did not confirm whether hard drives had been scrubbed, we noted that each of the HHS-22s reviewed contained a signed statement certifying that all computer hard drives had been scrubbed. This certifying requirement was not in effect for the items that we tested at the time of our February 1999 report. Some progress is still needed in following surplussing procedures since we noted that 12 of the 54 forms we reviewed did not contain a reviewing official's signature as required by FDA's Staff Manual Guide (FDA 2620.2).

[2]Scrubbing ensures that all proprietary information has been removed from the hard drives.

Based on our previous review, FDA management planned to improve surplussing procedures by providing formal FDA training in property procedures to the Personal Property Coordinators[3] (PPC) and Property Custodial Officers[4] (PCO). Our follow-up noted that FDA has implemented training in surplussing procedures for the PPCs and PCOs using computer based training (CBT) disks provided by the Department of Health and Human Services (HHS). As of May 27, 1999, 45 percent of the PPCs and PCOs had completed this training. However, based on discussions with the PPCs and PCOs, there was a general consensus that they would benefit from the more FDA-specific training initially planned. Since a number of processing procedures described in the HHS CBT were not applicable to FDA, we agree with the PPCs and PCOs that more specific training would be beneficial. FDA plans to provide more FDA specific training by December 1999.

Conducting Inventories and Spot Audits

Prior to fiscal year 1998, FDA had not performed a comprehensive physical inventory for property and equipment in more than 3 years, which resulted in numerous errors reported in FDA's PMIS database. Based on discussions with FDA management at the completion of the review related to our February 1999 report, FDA planned to write procedures for conducting comprehensive inventories annually until the FDA components' statistics reflect an inventory accuracy of greater than 98 percent and these inventories reflect adherence to sound property management. The Office of Facility Acquisitions and Central Services (OFACS), a component of the Office of the Commissioner, is responsible for writing these procedures. Although OFACS had written procedures for completing the fiscal year 1999 inventory, there was no reference to how often the inventories will be conducted. According to OFACS, by December 1999, it plans to finalize the inventory procedures, which would also address the frequency of conducting comprehensive inventories.

In following up on the status of our recommendations, we noted that the FDA centers were in the process of completing a comprehensive inventory. At the four largest centers, we accompanied the PPCs and PCOs during this inventory and observed that the PCOs had a clearer knowledge of their inventories' locations and disposition than they had demonstrated at the time of our earlier review. However, challenges still remain. For example, in conducting these inventories, the PPCs noted that a number of computers at the centers were not on the PMIS list because the technical support Help Desk had replaced them without documenting the exchange through a property pass and/or a HHS-22. The PPC also noted that some computers that had been listed in the old PMIS database were not included in the new PMIS database. Completing these comprehensive inventories will help improve the accuracy of the PMIS database and ensure that PPCs are aware of the location and disposition of property under their responsibility.

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[3]Personal Property Coordinators are responsible for managing the acquisition and barcoding of all property and ensuring that receiving data are promptly submitted to the Property Management and Finance offices to update their records.

[4]Property Custodial Officers are responsible for the day-to-day management of property charged to a specific area within an FDA center.

Because of the errors found in the previous comprehensive inventory, FDA planned to (1) begin conducting agency internal (spot) audits and (2) write procedures to ensure proper implementation of property and equipment procedures. We noted during our follow-up review that OFACS completed one inventory spot audit that tested the completeness and existence of the inventory across FDA. However, this audit did not address the adequacy or implementation of property policies and procedures as initially intended. We found that progress was still needed in performing these spot audits. OFACS had not yet established policies and procedures addressing how the audits are to be conducted or how recommendations based on these audits are to be implemented. OFACS plans to finalize and implement procedures for spot audits by December 1999.

Processing and Reporting of Lost, Stolen, and Damaged Property

We previously reported that FDA lacked reliable information to account for missing ADP equipment because of ineffective procedures for reporting lost, stolen, and damaged equipment. At that time, we found that documentation for missing items was not maintained centrally nor were missing items recorded in PMIS promptly. For each center, OFACS has now created separate folders for Incident Reports (to document stolen items) and for Reports of Survey (to record lost and damaged items). The use of these folders has resulted in easier accessibility and monitoring of reports of missing items.

However, new policies and procedures for recording and reporting lost, stolen, and damaged items have yet to be finalized. OFACS plans to finalize these procedures by December 1999. It is critical that it finalize and implement these policies because our follow-up review indicated that Incident Reports were neither accurately completed nor recorded in PMIS promptly. Also, according to OFACS, no Reports of Survey had been filed from January through June 1999, even though, based on past experience, losses probably occurred during this time period. In addition, since these procedures have not yet been finalized, OFACS had not conducted quality control reviews to ensure that procedures for lost, stolen, and damaged items were followed as recommended.

Scope and Methodology

As requested, our objective was to determine the status of FDA's property actions made per our recommendations. To determine this status, we interviewed property officials and reviewed FDA's current policies and procedures for property management, including any draft updates.

During this follow-up review, we visited the Center for Drug Evaluation and Research (CDER), Center for Biologics Evaluation and Research (CBER), Center for Devices and Radiological Health (CDRH), and Center for Food Safety and Applied Nutritions (CFSAN), which are FDA's four largest centers. At these centers, we reviewed inventory procedures; reviewed reports of lost, stolen, and damaged property; and reviewed surplussing procedures and documentation. We also reviewed the spot audit performed at FDA centers. In addition, we reviewed the interim reconciliations performed between the property general and subsidiary ledgers to determine whether they were being properly performed and whether required adjustments were made. Our work was performed from May 26 through June 30,

1999, in accordance with generally accepted government auditing standards. We provided a draft of this letter and the enclosed slides to FDA for review and comment. On August 5, 1999, a senior FDA official told us that the agency concurred with the content of our letter and had no comments.

We are sending copies of this letter to Representative John D. Dingell, Ranking Minority Member of your Committee; the Honorable Donna E. Shalala, Secretary of Health and Human Services; and Dr. Jane Henney, Commissioner of the Food and Drug Administration; and other interested parties. Copies will also be made available to others upon request.

If you have any questions about this letter or the earlier briefing, please contact me at (202) 512-4476. Key contributors to this assignment were Chinero Thomas and HeidiKitt Winter.

Sincerely yours,

Gloria L. Jarmon

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

Enclosure

(916283)

GAO **Accounting and Information Management Division**

House Committee on Commerce

Briefing on the Status of FDA's Actions to Address Property Control Weaknesses

July 19, 1999

GAO Introduction

- GAO's February 22, 1999, report entitled FDA's Controls Over Property Have Improved, But Weaknesses Remain (GAO/AIMD-99-51) made four recommendations.
- The House Committee on Government Reform did not receive a letter from FDA detailing corrective actions planned to address these recommendations per 31 USC 720.
- The House Committee on Commerce requested that we brief them on the status of property actions.

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Objective

- To determine the status of FDA's corrective actions related to the recommendations made in GAO's February 22, 1999 report.

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Scope and Methodology

- Reviewed FDA's current policies and procedures for property management.
- At the four largest centers, we
  - reviewed inventory procedures
  - reviewed lost, stolen, and damaged property reports
  - reviewed surplussing procedures and documentation
- Reviewed agency internal (spot) audits performed.

Scope and Methodology

- Reviewed interim general ledger/subsidiary ledger reconciliations.
- Our work was performed in accordance with generally accepted government auditing standards.
- Work was performed between May 26 and July 2, 1999.

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February 1999 Report Recommendations

- Finalize and implement procedures for inventories and component-specific spot audits.

- Perform interim reconciliations between the general and property subsidiary ledgers.

GAO February 1999 Report Recommendations

- Finalize and implement new procedures for monitoring lost, stolen, and damaged property and equipment, as well as conducting quality control reviews.

- Ensure compliance with policies and procedures for surplussing ADP equipment. This should include training property officials in surplussing procedures.

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Overall Status of Property Actions

- Good progress has been made in
  - performing reconciliations of property transactions.
  - surplussing of property and equipment.

- Some progress has been made in the performance of comprehensive inventories.

Overall Status of Property Actions

- Progress is still needed in
  - updating and implementing policies and procedures
  - performing spot audits
  - processing and reporting of lost, stolen, and damaged property

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Implementation of Recommendations

- Six Areas Addressed:
  - Status of policies and procedures
  - Performance of comprehensive inventories
  - Results of spot audits
  - Reconciliations of property transactions
  - Processing and reporting of lost, stolen, and damaged property
  - Surplussing of property and equipment

Status of Policies and Procedures

- Improvements
  - Personal Property Coordinators (PPCs) met regularly to provide input to the Office of Facility Acquisitions and Central Services (OFACS) on needed policy changes.
  - PPCs were given Policies and Procedures Manuals.

Status of Policies and Procedures

- Challenges Remaining
  - Have not fully updated policies and procedures.
  - Have not established whether OFACS or the centers are responsible for updating policies and procedures.
  - Have not clearly defined PPC position description.

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Performance of Comprehensive Inventories

- Improvements
  - Comprehensive inventory was being performed.
  - Property Custodial Officers (PCOs) had clearer knowledge of their inventories' locations and dispositions.

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Performance of Comprehensive Inventories

- Challenges Remaining
  - Errors in inventory records occurred as a result of
    - time lag in processing inventory items
    - not following proper procedures for computers undergoing repair

Results of Spot Audits

- Improvements
  - OFACS completed inventory audit at both the field and headquarters offices.
  - One center's PPC initiated an audit related to receiving property. The audit resulted in numerous improvements to the receiving process.

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Results of Spot Audits

- Challenges Remaining
  - No policies or procedures addressing how OFACS audits are to be conducted or how recommendations are to be implemented.

Reconciliations of Property Transactions

- Improvements
  - Three interim reconciliations of the general and subsidiary ledgers were performed.
  - Numerous adjusting journal entries (AJEs) made at the end of the reconciliation period.
  - Supporting documentation existed for these AJEs.

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Processing and Reporting of Lost, Stolen, and Damaged Property

- Improvement
  - OFACS began maintaining folders of Incident Reports (IRs) and Reports of Survey (ROS) for each center, resulting in easier accessibility and monitoring of reports of missing items.

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Processing and Reporting of Lost, Stolen, and Damaged Property

- Challenges Remaining
  - Related policies and procedures have not yet been finalized.
  - Of the three IRs filed, one did not contain correct barcode or serial number information.
  - OFACS did not update the transaction and status codes after receiving the IRs.

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Processing and Reporting of Lost, Stolen, and Damaged Property

- Challenges Remaining
  - OFACS is not receiving timely information on lost and damaged property. According to OFACS:
    - Centers did not file ROSs from January - June 1999.
    - Losses probably occurred during this period.
    - Centers will probably submit reports upon completion of the inventory.

Surplussing of Property and Equipment

- Improvements
  - No alterations of data were found on the 54 HHS-22s reviewed.
  - Each HHS-22 contained a signed statement certifying that all computer hard drives had been scrubbed.
  - 45 percent of the PPCs and PCOs completed the HHS Computer Based Training (CBT) in surplussing procedures.

Surplussing of Property and Equipment

- Challenges Remaining
  - Reviewing officials did not sign 12 out of 54 HHS-22s reviewed.
  - PPCs and PCOs stated that formal FDA specific training is needed in addition to the HHS CBT.

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