

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CENTERS FOR DISEASE CONTROL AND
PREVENTION'S PROPERTY SYSTEM
DATA WERE NEITHER ACCURATE NOR
COMPLETE**

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Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

The data in the Centers for Disease Control and Prevention's Property Management Information System were neither accurate nor complete. As a result, approximately \$29.2 million of property was at risk of being lost or misplaced. In addition, fiscal year 2013 property purchases were understated by approximately \$5.9 million in the property system, and property costing at least \$23.1 million was not removed from the property system even though CDC had classified it as missing.

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS), Centers for Disease Control and Prevention (CDC), has various types of accountable property (property) stored in the United States and overseas. As of September 30, 2013, CDC's Property Management Information System (property system) showed that CDC had 60,241 property items with a total cost of \$451,333,673. Our most recent audit of CDC's property system in 2010 (A-04-07-01054) disclosed that CDC's property system was neither accurate nor complete because it included lost or missing property estimated at approximately \$8.2 million and did not correctly include new property, which resulted in the cost of the property being understated by an estimated \$1.5 million in the property system.

The objective of our audit was to determine whether the data in CDC's property system were accurate and complete.

BACKGROUND

CDC used the property system to manage property from its addition to the property system until its disposal. HHS policy requires property to be barcoded. Barcoding property makes it easier and more efficient for CDC to track and store information about individual items. Although the property system cannot track the purchase or receipt of property, CDC records payments for property purchases in HHS's Unified Financial Management System (UFMS). UFMS contains information about the purchase of property, such as invoice number and purchase price. CDC performs a monthly reconciliation of the property system with UFMS for property costing \$25,000 or more.

CDC's Logistics Management Services Office (LMSO) is responsible for managing CDC property in accordance with Federal requirements. When property is identified as missing, CDC's LMSO initiates a Board of Survey to investigate the circumstances around the missing property, make recommendations regarding financial liability for missing property, and submit its findings in a Report of Survey (document used to make adjustments to the property records) to the Determining Authority, who is the individual with the authority to review and make decisions on these matters.

WHAT WE FOUND

The data in CDC's property system were neither accurate nor complete. Of the 250 items we sampled from the property system, we located 245. CDC had classified the remaining five items as missing. We also found 14 items costing \$3.1 million that were not barcoded or accurately recorded in the property system. On the basis of these sample results, we estimated that \$29.2 million of CDC property was at risk of being lost or misplaced. Human error was responsible for the inaccurate recording of existing property in the property system.

In addition, CDC did not record in the property system all newly acquired property. Of 128 sampled payments that CDC made for property in fiscal year (FY) 2013, CDC correctly barcoded and added to its property system property items associated with 114 payments. For the 14 remaining payments for property items, CDC either (1) had not barcoded or had not recorded the items purchased in the property system or (2) had recorded the items purchased in the property system with incorrect prices. On the basis of these sample results, we estimated that the cost of property purchased in FY 2013 totaling \$96.7 million was understated by approximately \$5.9 million in the property system. These deficiencies occurred because CDC personnel had made clerical errors when they manually entered costs into the property system. Also, although CDC performed a monthly reconciliation of its property system with UFMS, the reconciliation was not complete. CDC's reconciliation was incomplete because it included only property items with costs of \$25,000 or more. By limiting the monthly reconciliation process to property with costs of \$25,000 or more, CDC excluded from its reconciliation process 95 percent of its property items, which represented 41 percent of the total inventory costs in the property system.

If CDC had performed a complete reconciliation, it would have determined that 14 items of property, 9 of which were valued at over \$25,000, were not in the property system or were entered at the incorrect purchase price and would have had the opportunity to make appropriate corrections.

Furthermore, CDC did not always remove from its property system property that it had identified as missing because its Determining Authority did not make final decisions on the Reports of Survey. Without the final Reports of Survey, CDC could not complete the removal process by adjusting CDC's property records. As of October 28, 2014, CDC had \$23.1 million in property that it had classified as "Pending Report of Survey." HHS policy requires that Reports of Survey be resolved within 90 days of their initiation. Because CDC had not taken final action to remove the missing property, the cost of property included in CDC's property system could be overstated by as much as \$23.1 million.

WHAT WE RECOMMEND

We recommend that CDC:

- ensure that existing property is barcoded and correctly identified in the property system;

- ensure that all property is added correctly to the property system, that the property system is reconciled to the general ledger, and that the property system is adjusted to resolve any discrepancies; and
- complete Reports of Survey within HHS’s 90-day time limit and remove property from the property system that the Reports of Survey identify as missing.

CDC COMMENTS AND OUR RESPONSE

In written comments on our draft report, CDC did not concur with our first recommendation, partially concurred with our second recommendation, and concurred with our third recommendation.

We considered CDC’s comments but maintain that all of our recommendations are valid.

TABLE OF CONTENTS

| | |
|--------------------------------------------------------------------------------------------------------------|----|
| INTRODUCTION | 1 |
| Why We Did This Review | 1 |
| Objective | 1 |
| Background | 1 |
| Major Systems CDC Uses for Property Management | 1 |
| CDC Property Management Responsibility..... | 2 |
| Board of Survey Process for Missing Property..... | 2 |
| How We Conducted This Review..... | 2 |
| FINDINGS..... | 3 |
| Existing Property Not Always Barcoded or Accurately Recorded in the Property System | 4 |
| Newly Acquired Property Not Always Barcoded or Accurately Recorded in the Property System | 5 |
| Incomplete Reconciliation of the General Ledger With the Property System..... | 6 |
| Property Purchases Were Not Automatically Recorded in the Property System and Controls Were Lacking | 6 |
| Missing Property Not Always Removed From the Property System | 7 |
| RECOMMENDATIONS | 7 |
| CDC COMMENTS AND OIG RESPONSE | 8 |
| Recommendation 1 | 8 |
| CDC Comment 1..... | 8 |
| OIG Response 1 | 8 |
| CDC Comment 2..... | 9 |
| OIG Response 2 | 9 |
| Recommendation 2 | 9 |
| CDC Comment 1..... | 9 |
| OIG Response 1 | 9 |
| CDC Comment 2..... | 10 |
| OIG Response 2 | 10 |
| Recommendation 3 | 11 |
| CDC Comment..... | 11 |

OIG Response 11

APPENDIXES

A: Audit Scope and Methodology 12

B: Federal Requirements..... 14

C: Statistical Sampling Methodology—Property 16

D: Sample Results and Estimates—Property..... 18

E: Statistical Sampling Methodology—Purchase 19

F: Sample Results and Estimates—Purchase..... 21

G: CDC Comments 22

INTRODUCTION

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS), Centers for Disease Control and Prevention (CDC), has various types of accountable property¹ (property) stored in the United States and overseas. As of September 30, 2013, CDC used its Property Management Information System (property system) to manage 60,241 property items with a total cost of \$451,333,673. Without an accurate and complete record of fixed assets, such as property, management may not be aware of what property is on hand or what property has been lost, stolen, or damaged.

Our 2010 audit report² revealed that CDC's property system was neither accurate nor complete because it included lost or missing property estimated at approximately \$8.2 million and did not correctly include new property, which resulted in the cost of the property being understated by an estimated \$1.5 million in the property system.

OBJECTIVE

Our objective was to determine whether the data in CDC's property system were accurate and complete.

BACKGROUND

Major Systems CDC Uses for Property Management

CDC uses the property system to manage property from its addition to the property system until its disposal. Property recorded in the property system is barcoded,³ which makes it easier and more efficient for CDC to track and store information about individual items. Without barcodes, employees would have to manually track items, which could lead to more errors. For each of CDC's accountable property items, the property system includes the description, manufacturer, Federal stock classification, user name, acquisition cost, location, acquisition date, model number, purchase order number, barcode, and serial number.

¹ Accountable property is any item either designated "accountable" because it has a value of \$5,000 or greater or "sensitive" because it requires special control and accountability because of unusual rates of loss, theft, or misuse or because of national security or export control considerations (*HHS Logistics Management Manual* (July 2009), part 15: Glossary, page 220).

² *Review of the Centers for Disease Control and Prevention's Accountability for Property*, A-04-07-01054, December 2010.

³ All accountable property should be identified with an HHS barcode/decal number (*HHS Logistics Management Manual*, (July 2009) part 3.20.3, page 50). The receiving office, upon acceptance of personal property, must notify the financial, property, and procurement management offices of property received and receiving documents must include a complete description of the item, including barcode/decal number (*HHS Logistics Management Manual*, (July 2009) part 3.1.14, page 39).

Because the property system cannot track the purchase or receipt of property, CDC records payments for property purchases in HHS’s Unified Financial Management System (UFMS). UFMS contains information about the purchase of property, such as invoice number and purchase price. CDC uses purchase orders and invoices as supporting documentation for its property purchases and performs a monthly reconciliation of the property system with UFMS for property costing \$25,000 or more.

CDC Property Management Responsibility

CDC’s Logistics Management Services Office (LMSO) is responsible for managing CDC property in accordance with Federal requirements. LMSO determines, recommends, and implements procedural changes needed to maintain effective management of CDC property, including changes to inventory control, property records, and property reutilization and disposal.

Board of Survey Process for Missing Property

When property is identified as missing, CDC’s LMSO initiates a Board of Survey.⁴ The Board of Survey is a group of at least three individuals who investigate the circumstances around the missing property, make recommendations regarding financial liability for missing property, and submit their findings to the Determining Authority⁵ in a signed Report of Survey.⁶ The Determining Authority reviews the Report of Survey and determines whether an employee is liable for the missing property.

HOW WE CONDUCTED THIS REVIEW

Our audit covered \$411 million of CDC property, which comprised 50,946⁷ property items recorded in the property system as existing and located in the 48 contiguous United States as of September 30, 2013. From these 50,946 property items, we selected a stratified random sample of 250. We performed a physical inventory of each sampled property item and verified whether its barcode, serial number, location, make, and model agreed with CDC’s property system.

⁴ A Board of Survey is a process that is used to investigate all lost, stolen, or damaged Government property to establish liability for the loss or damage and to provide relief from accountability (*HHS Logistics Management Manual*, (July 2009) part 3.27, page 57).

⁵ The Determining Authority is the individual with the authority to review and make decisions on Reports of Survey that Boards of Survey issue (*HHS Logistics Management Manual*, Appendix A).

⁶ A Report of Survey is a document that is used to protect the interest of the Government from loss for other than fair wear and tear (*HHS Logistics Management Manual*, Appendix A). CDC uses the Report of Survey as the official document for making adjustments to its property records.

⁷ CDC had 60,241 property items, with a total cost of \$451,333,673 in its property system as of September 30, 2013. We removed all property items located outside of the 48 contiguous States. We also removed items that were disposed of between October 1, 2013, and February 28, 2014. The remaining 50,946 property items had a total cost of \$410,932,992. We refer to these 50,946 property items as “existing property.”

Our audit also covered \$97 million of CDC payments, which consisted of 4,076 UFMS payment line items (payments) that CDC made for new property during fiscal year (FY) 2013. From these 4,076 payments, we selected a stratified random sample of 128. We obtained documentation from CDC for the 128 payments and reconciled them from UFMS to the property system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our scope and methodology; Appendix B contains Federal requirements; and Appendixes C, D, E, and F contain our statistical sampling methodologies and sample results and estimates.

FINDINGS

The data in CDC's property system were neither accurate nor complete. Of the 250 existing property items that we selected for our sample, we located 245.⁸ We also found 14 property items with a total cost of \$3.1 million that were not barcoded or accurately recorded in the property system. On the basis of these sample results, we estimated that \$29.2 million⁹ of CDC existing property was at a greater risk of being lost or misplaced. Human error was responsible for CDC's failure to ensure that existing property was barcoded or accurately recorded in the property system.

In addition, CDC did not record in the property system all new property acquired during FY 2013. Of 128 sampled payments that CDC made for new property in FY 2013, CDC correctly barcoded and recorded in its property system property items associated with 114 payments. For the 14 remaining payments for property items, CDC either (1) had not barcoded or had not recorded the items purchased in the property system or (2) had recorded the items purchased in the property system with incorrect prices. On the basis of these sample results, we estimated that the cost of property purchased in FY 2013 totaling \$96.7 million was understated by approximately \$5.9 million¹⁰ in the property system. These deficiencies occurred because CDC personnel had made clerical errors when they manually entered the cost of property into the property system. Also, although CDC performed a monthly reconciliation of its property system with UFMS, the reconciliation was not complete. CDC's reconciliation was incomplete because it included only property items with costs of \$25,000 or more. By limiting the monthly reconciliation process to property with costs of \$25,000 or more, CDC excluded from its

⁸ CDC had performed Boards of Survey and classified the remaining five items as missing.

⁹ The 90-percent confidence interval for this estimate ranges from \$12,632,665 to \$68,605,360.

¹⁰ The 90-percent confidence interval for this estimate ranges from \$2,894,324 to \$11,022,188.

reconciliation process 95 percent of its property items, which represented 41 percent of the total inventory costs in the property system.

If CDC had performed a complete reconciliation, it would have determined that the property items that it purchased with the 14 payments were not in the property system or were entered with the incorrect purchase price and would have made appropriate corrections.

Furthermore, CDC did not always remove from its property system property that it had identified as missing because its Determining Authority did not make final decisions on the Reports of Survey.¹¹ Without the final Reports of Survey, CDC could not complete the removal process by adjusting CDC's property records. As of October 28, 2014, CDC had \$23.1 million in property that it had classified within the property system as "Pending Report of Survey."¹² HHS policy requires that Reports of Survey be resolved within 90 days of their initiation. Because CDC had not taken final action to remove the missing property the cost of property recorded in CDC's property system could be overstated by as much as \$23.1 million.

EXISTING PROPERTY NOT ALWAYS BARCODED OR ACCURATELY RECORDED IN THE PROPERTY SYSTEM

Federal statutes require that "[e]ach executive agency ... maintain adequate inventory controls and accountability systems for property under its control ..." ("Public Buildings, Property, and Works," 40 U.S.C. § 524(a)(1)). In addition, HHS's guidance on property management programs states that "the most fundamental aspect of accountability is the accuracy of property records" (*Program Support Center Personal Property Policy Guide*, May 2004, page 20). In addition, HHS policy states that all accountable property should be identified with an HHS decal/barcode number, and an office that receives personal property should provide receiving documents to financial, property, and procurement management offices that include a complete description of the item, including its barcode/decal number (*HHS Logistics Management Manual*, (July 2009) parts 3.20.3, page 50 and 3.1.14, page 39).

CDC did not ensure that existing property was barcoded¹³ and accurately recorded in the property system. Of the 250 existing property items in our sample, CDC accurately recorded 236 in the property system but did not accurately record the remaining 14. Specifically:

- 12 property items with a total cost of \$2,183,570 were barcoded, but the property system contained inaccurate data (such as make, model, and serial number) and
- 2 property items with a total cost of \$942,162 were accurately recorded in the property system but were not barcoded.

¹¹ For purposes of this report, missing property refers to property that is lost, missing, damaged, destroyed, or stolen.

¹² CDC has an account within its property system titled "Pending Report of Survey." CDC uses this account to accumulate the cost of all missing property that has not gone through CDC's Report of Survey process.

¹³ Barcodes provide a method to track information about property items. A barcode may contain information such as storage location, make, model, and serial number.

On the basis of our sample results, we estimated that about \$29.2 million of CDC's \$411 million of property was at risk of being lost, misplaced, or otherwise unavailable when needed because the property was not barcoded or accurately recorded in the property system.

Human error was responsible for the inaccurate recording of existing property in the property system. CDC's property control procedures required personnel from CDC's Material Management Activity to manually enter new assets into the property system.¹⁴ Manual data entry increases the risk of incorrect information being entered into the property system. For example, one item was recorded in the property system with a correct barcode and serial number. However, CDC incorrectly described the item in the property system as an "Applied Biosystems Apparatus" when the item was actually a "Peak Scientific Nitro Generator." This incorrect description was a clerical error.

NEWLY ACQUIRED PROPERTY NOT ALWAYS BARCODED OR ACCURATELY RECORDED IN THE PROPERTY SYSTEM

Federal statutes require that "[e]ach executive agency ... maintain adequate inventory controls and accountability systems for property under its control ..." ("Public Buildings, Property, and Works," 40 U.S.C. § 524(a)(1)). HHS requires that agencies record all acquisitions and disposals of property in the general ledger control accounts and subsidiary property management records (*HHS Financial Accounting Policy Manual* (the Manual), § 1-30-20A(2)). The Manual requires source documents to "disclose the unit acquisition cost or other value at which the property is to be recorded..." (§ 1-30-00). HHS also requires that property records contain property acquisition costs (*HHS Logistics Management Manual*, part 3.16.2, page 49).

CDC did not always record or accurately record in its property system the amount that it actually paid for property in FY 2013. Of 128 sampled payments that CDC made for property acquired in FY 2013, CDC barcoded and accurately recorded in the property system the property it purchased with 114 payments. However, for the remaining 14 payments, CDC did not:

- record the acquisition costs or barcode property associated with 7 payments totaling \$513,263 or
- record the acquisition costs accurately for property associated with 7 payments, understating recorded property costs by \$284,362.

For example, CDC paid \$72,168 for laboratory equipment. However, we could not find a record in the property system for this equipment.

On the basis of our sample results, we estimated that CDC did not record in the property system \$5,866,245 in FY 2013 payments for property.

¹⁴ Some equipment CDC purchases is barcoded by the vendor using a set of CDC barcode numbers. Errors can occur when equipment is sent directly to the end user, who must then enter the data manually into the property system.

These deficiencies occurred because CDC personnel had made clerical errors when they manually entered costs into the property system. Also, while CDC performed a monthly reconciliation of its property system with UFMS in accordance with the *HHS Financial Reconciliation Interim Policy*, the reconciliation was not complete as described below under the heading “Incomplete Reconciliation of the General Ledger With the Property System.”

If CDC had performed a complete reconciliation, it would have realized that the property items it purchased with the 14 payments were not in the property system or were entered at the incorrect purchase price and would have had the opportunity to make appropriate corrections.

Incomplete Reconciliation of the General Ledger With the Property System

In our 2010 audit report, we recommended that CDC “improve its controls over property by ... reconciling the general ledger [with] the property system to identify any outstanding discrepancies and resolving such discrepancies.” We stated, “Had CDC reconciled the general ledger to the property system, it might have recognized that newly acquired property was not added to the property system or was added at an incorrect value.” In written comments to the draft of our 2010 report, CDC stated that it reconciled the property system with UFMS every month.

During our current audit period, CDC performed an incomplete reconciliation of the general ledger with the property system. Specifically, CDC included in its reconciliation only property items with costs of \$25,000 or more. As of September 30, 2013, CDC’s property system included 57,037 items with costs of less than \$25,000, for a total cost of \$184,356,141. Even though it was following the *HHS Financial Reconciliation Interim Policy*, by limiting the monthly reconciliation process to property with costs of \$25,000 or more, CDC excluded from its reconciliation process 95 percent of its property items, which represented 41 percent of the total inventory costs in the property system.

CDC did not reconcile all property from the general ledger with the property system because it told us it believed that our prior recommendation was to comply with the *HHS Financial Reconciliation Interim Policy*. This policy requires that HHS operating divisions, such as CDC, reconcile their property system’s records to Property, Plant, and Equipment General Ledger accounts that contain only capital assets. The intent of our prior and current recommendations, however, was that CDC use information from the general ledger to ensure that the property system was complete and accurate.

Property Purchases Were Not Automatically Recorded in the Property System and Controls Were Lacking

CDC officials said that property items were not always recorded in the property system because UFMS was not directly linked to the property system. This allowed some property to be received without being recorded in the property system, especially in instances in which: (1) property was not received through LMSO facilities, (2) property was directly delivered to the purchaser, or (3) property was purchased with a credit card. According to CDC officials, CDC

did not have effective controls to ensure that property was recorded in the property system at the price actually paid rather than the purchase order price.

MISSING PROPERTY NOT ALWAYS REMOVED FROM THE PROPERTY SYSTEM

Federal statutes require agencies such as CDC to maintain adequate inventory controls and accountability systems for property under its control (“Public Buildings, Property, and Works,” 40 U.S.C. § 524(a)(1)), and the Manual requires that missing property be documented with all known facts and referred to a designated individual or Board of Survey for determination of responsibility (§ 1-30-10F). The Board of Survey determinations should be used to adjust the property records.¹⁵ HHS policy also requires that Reports of Survey be resolved within 90 days of their initiation (*HHS Logistics Management Manual*, Appendix A).

CDC did not always remove from its property system property items that it identified as missing because its Determining Authority did not make final decisions on the Reports of Survey. Without the final Reports of Survey, CDC could not complete the removal process by adjusting CDC’s property records. As of October 28, 2014, CDC had \$23.1 million in missing property that it classified in the property system as “Pending Report of Survey.” Although CDC established Boards of Survey, it had not completed Reports of Survey, as required, so that it could remove missing property from the property system. CDC had not completed the Reports of Survey because, from October 2012 through November 2013, a Determining Authority had not reviewed the Reports of Survey and made the final decisions needed to complete the removal process by adjusting CDC’s property records. As a result, the cost of property included in CDC’s property system could be overstated by as much as \$23.1 million.

In addition, CDC’s policies and procedures did not contain a timeliness requirement for completion of Reports of Survey, which may have inhibited CDC’s ability to comply with HHS’s 90-day resolution policy.

RECOMMENDATIONS

We recommend that CDC:

- ensure that existing property is barcoded and correctly identified in the property system;
- ensure that all property is added correctly to the property system, that the property system is reconciled to the general ledger, and that the property system is adjusted to resolve any discrepancies; and
- complete Reports of Survey within HHS’s 90-day time limit and remove property from the property system that the Reports of Survey identify as missing.

¹⁵ “Adjusting the property records” requires removing items from the property system on the basis of the Report of Survey (*Program Support Center Personal Property Policy Guide*, May 2004, page 25).

CDC COMMENTS AND OIG RESPONSE

In written comments on our draft report, CDC did not concur with our first recommendation, partially concurred with our second recommendation, and concurred with our third recommendation. Although CDC concurred with our third recommendation that Reports of Survey be completed within the HHS 90-day time limit, it commented the newly revised HHS Logistics Management Manual, which is awaiting final clearance, will extend the timeframe from 90 days to 120 days. CDC further stated that it had always maintained a Determining Authority for the Report of Survey process.

In addition, CDC disagreed that this audit repeated the findings from our 2010 audit of CDC's property system. CDC pointed out that it had strengthened internal controls and implemented process improvements that corrected earlier findings. It further disagreed that \$29.2 million of property was at risk of being lost or misplaced and that the inventory was understated by \$5.9 million.

We considered CDC's comments but, for the reasons described below, maintain that all of our recommendations are valid.

RECOMMENDATION 1

CDC Comment 1

CDC stated that it "has enhanced its ability to appropriately identify, barcode, and inventory Federal property." CDC said it uses three methods to identify property in its system: a barcode, a serial number, and a nomenclature. CDC also said that any one of these methods provided sufficient information to identify and account for property.

CDC said, "Since the audit findings, CDC has corrected all noted administrative data errors and replaced all unintentionally removed barcodes...."

OIG Response 1

We relied on Federal statutes and HHS property management guidance (quoted earlier in the report and in Appendix B) to conduct our audit. These criteria require accurate inventory controls and, specifically, the use of barcodes to reduce the possibility of human error and maintain accountability of property.

A serial number is a unique identifier that CDC records in the property system at the time that it receives property. Because serial numbers are often inaccessible because of the size and placement of a property item, barcodes facilitate the item's identification. Barcoding also helps reduce the risk of property being lost or misplaced in cases in which a serial number is inaccessible or missing or in which an item's nomenclature is unclear. Our findings that (1) property items valued at almost \$1 million were not barcoded and (2) property items valued at over \$2 million had make, model, or serial numbers that were inaccurately recorded in the

property system provide evidence that CDC still needs to improve its barcoding and property accountability systems.

In regard to CDC's comment that it had corrected data errors and replaced missing bar codes, we did not verify that CDC had done so because such verification was not within the scope of our current audit.

CDC Comment 2

CDC said that our findings on the 2007 and 2013 inventory audits and the associated circumstances were not the same, thus making our repeated conclusions and statistical estimates unwarranted. CDC also said that it disagreed that \$29.2 million of the 2013 inventory was at risk of being lost or misplaced and that the 2013 inventory was understated by \$5.9 million.

OIG Response 2

We understand CDC's comment that the findings from the 2007 and 2013 audits are not the same. The audits in 2007 and 2013 had similar conclusions and were based on separate statistical estimates for each audit. Specifically, in both the 2007 and 2013 audits, we reported that CDC either had not added items to the property system or had recorded items in the property system at amounts less than the purchase costs. We developed our current estimate of \$29.2 million for property at risk of being lost or misplaced and our current estimate that CDC's inventory may have been understated by \$5.9 million on the basis of the actual number of errors we identified in the current audit. Therefore, our conclusions and statistical estimates are warranted.

RECOMMENDATION 2

CDC Comment 1

CDC agreed with the first part of our recommendation to ensure that all property is correctly added to the property system. However, it stated that this audit did not repeat the findings from our 2010 audit of its property system. CDC pointed out that it had strengthened internal controls and implemented process improvements that corrected earlier findings.

OIG Response 1

One of our prior audit findings was that CDC did not add all newly acquired property to the property system. Specifically, CDC either had not added some items to the property system or had recorded items in the property system at amounts less than the purchase costs. In our current audit we reported that CDC did not always record or accurately record in its property system the amount that it actually paid for property. Therefore, these findings in both audits were the same.

CDC Comment 2

CDC did not concur with the second part of our recommendation concerning the reconciliation of the general ledger to the property system. CDC described in detail its compliance with the U.S. Department of the Treasury's U.S. Standard General Ledger (USSGL) accounting and HHS Financial Reconciliation Interim Policy (PM-2008-4; 04-22-2008). Specifically, CDC stated that the property system does not add assets to the general ledger but provides only such data as depreciation, retirement, and transfer costs.

In addition, CDC stated that it would continue to reconcile the UFMS accounting system and the property system for assets that meet the \$25,000 or greater capitalization threshold.¹⁶ CDC said that differences would "continue to be researched, tracked, and aged" in the UFMS and the property system according to HHS reconciliation guidance.

OIG Response 2

We agree that CDC is required to follow the USSGL accounting and HHS Financial Reconciliation Interim policies. However, our recommendation is not related to or affected by these policies.

CDC may have misinterpreted the intent of our recommendation to reconcile the general ledger to the property system. We agree that the property system does not add assets to the general ledger. The intent of our recommendation was that CDC should use information from the general ledger to ensure that the property system was complete and accurate. Our recommendation was twofold. First, the recommended reconciliation should ensure that CDC included purchased property in the property system. Second, the recommended reconciliation should ensure that property is included at the correct acquisition cost. In view of CDC's comments, we clarified our draft report finding under this report's heading, "Incomplete Reconciliation of the General Ledger With the Property System," and the related recommendation to communicate that the recommended reconciliation should allow CDC to use asset information from the general ledger to correct errors in the property system.

CDC stated in its response to the 2007 audit report that they were performing a monthly reconciliation of the property system and UFMS. The reconciliation that CDC was performing was not designed to identify and correct errors in the property system. Instead, CDC performed a monthly reconciliation required by the *HHS Financial Reconciliation Interim Policy* that was limited to capital property (typically property valued over \$25,000).

Our findings show that CDC's monthly reconciliation was not sufficient to accomplish the objective of the current or prior audit recommendation because it does not include the majority of CDC's property purchases. For example, CDC's reconciliation did not identify 14 items of property, 9 of which were valued at over \$25,000, that were not entered in the property system or were entered at the incorrect purchase price. We also identified a piece of laboratory equipment

¹⁶ The "capitalization threshold" is the minimum acquisition value (\$25,000) that identifies an asset as a "capital asset." Capital assets include nonexpendable items with an expected useful life of 2 years or longer and with an acquisition value of \$25,000 or greater. CDC enters capital assets into capital accounts on its general ledger.

costing \$72,168 that was not recorded in the property system. CDC corrected the property record after we brought this omission to its attention during our audit fieldwork in September 2014.

CDC also made corrections to items that we reported as incorrectly valued in the property system. For example, CDC made a correction to a computer server that was originally valued at \$0.00 in the property system to a corrected value of \$22,125. CDC made this correction after we brought the error to its attention during our audit fieldwork in July 2014.

These examples demonstrate that CDC's current reconciliation process does not allow it to make our recommended corrections to its property system. Therefore, we maintain that our second recommendation is valid.

RECOMMENATION 3

CDC Comment

CDC agreed with our recommendation to complete Reports of Survey within HHS's 90-day time limit and remove property from the property system that the Reports of Survey identify as missing. However, CDC commented that the newly revised HHS Logistics Management Manual, which is awaiting final clearance, will extend the timeframe from 90 days to 120 days. CDC further stated that it had always maintained a Determining Authority (a chief management official of each HHS operating or staff division) for the Report of Survey process. For CDC, its Chief Operating Officer is the Determining Authority.

OIG Response

We agree that CDC policy establishes that its Chief Operating Officer is the default Determining Authority. However, as discussed on page 7 of this report, no one at CDC had made decisions on the Reports of Survey or completed the removal process by adjusting CDC's property records from October 2012 through November 2013.

CDC also provided technical comments, which we addressed as appropriate. CDC's comments, excluding the technical comments, are included in their entirety as Appendix G.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$411 million of CDC's existing property that was located in the 48 contiguous United States as of September 30, 2013.

Our audit also covered \$97 million of payments that CDC made for new property during FY 2013.

We limited our review of internal controls to CDC's property management activities and those financial management activities related to accounting for property. We conducted fieldwork from February 2014 through January 2015 at CDC's offices in Atlanta, Georgia; Cincinnati, Ohio; Morgantown, West Virginia; Pittsburgh, Pennsylvania; Fort Collins, Colorado; and Hyattsville, Maryland.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations, HHS guidance, and CDC policies and procedures;
- reviewed our prior audit report (A-04-07-01054);
- interviewed CDC officials to determine policies, processes, and procedures related to its controls over the property system;
- determined whether CDC's property system accurately managed existing property by:
 - obtaining from the property system a list of accountable property located in the 48 contiguous United States as of September 30, 2013,
 - selecting a stratified random sample of 250 property items from the 50,946 property items located in the 48 contiguous United States (Appendix C), and
 - performing a physical inventory of each sampled property item and verifying that its barcode, serial number, location, make, and model agreed with CDC's property system;
- estimated the cost of property located in the 48 contiguous United States that was not accurately added to the property system (Appendix D);
- determined whether property acquired during FY 2013 was accurately reflected in the property system by:

- obtaining from UFMS a file containing 4,076 payments for property that CDC purchased during FY 2013,
- selecting from the 4,076 payments a stratified random sample of 128 payments (Appendix E), and
- reconciling the 128 payments from UFMS to the property system;
- estimated the cost of accountable property that was not added or was inaccurately added to the property system for FY 2013 (Appendix F);
- determined whether CDC reconciled the general ledger with the property system; and
- discussed our findings with CDC officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS

40 U.S.C. § 524(a)(1)

“Each executive agency shall ... maintain adequate inventory controls and accountability systems for property under its control...”

HHS FINANCIAL ACCOUNTING POLICY MANUAL

Section 1-30-00

Source documents are required to “disclose the unit acquisition cost or other value at which the property is to be recorded.”

Section 1-30-10F

Missing property will be documented with all known facts and be referred to a designated individual or Board of Survey for determination of responsibility. Such determination will be used to adjust the property and financial records.

Section 1-30-20A(2)

Agencies record all acquisitions and disposals of property in the general ledger control accounts and subsidiary property management records.

HHS PERSONAL PROPERTY POLICY MANUAL

Part V Property Accountability Records

The most fundamental aspect of accountability is the accuracy of the property records. An accountable record for each item that an agency owns or leases must be established and maintained.

HHS LOGISTICS MANAGEMENT MANUAL POLICY AND PROCEDURES

Part 3.1.14, “Receiving Reports”

The “financial, property, and procurement management offices” must be notified of property receipt, and “Receiving documents shall ... include ... Barcode/Decal number.”

Part 3.16.2, “Data Elements”

Accountable property records must contain property acquisition cost.

Part 3.20.3, “Marking Property”

All accountable property should be identified with an HHS barcode/decal number.

Appendix A

“The Report of Survey must be completed within 90 days ... A completed report of survey with all contents and support documents will have a complete audit trail and can withstand any scrutiny of an audit.”

FINANCIAL RECONCILIATIONS INTERIM POLICY

Personal and real property subsidiary records must be reconciled to the general ledger at least quarterly, but monthly is recommended.

APPENDIX C: STATISTICAL SAMPLING METHODOLOGY—PROPERTY

POPULATION

The population consisted of property with a cost of \$5,000 or greater or property classified as sensitive (i.e., computers, cell phones, cameras, VCRs, televisions, printers, scanners, and central processing units) and listed in CDC’s property system as of September 30, 2013.

SAMPLING FRAME

CDC’s Inventory Management Specialist sent us an Excel file containing a list of property items from CDC’s property system. This file contained 60,241 property items, with a total cost of \$451,333,673, that were in the property system as of September 30, 2013.

We removed all property items located outside of the 48 contiguous States as indicated by the organization code, building location code, and resolution location code. We also removed items that were disposed of between October 1, 2013, and February 28, 2014.

The remaining 50,946 property items, with a total cost of \$410,932,992, was our sampling frame.

SAMPLE UNIT

The sample unit was a property item.

SAMPLE DESIGN

We used a stratified random sample containing three strata organized by property purchase cost:

Table 1: Random Sample Strata

| Stratum | Range of Property Cost | Number of Items | Total Cost of Inventory |
|----------------|-------------------------------|------------------------|--------------------------------|
| 1 | \$0 through \$1,999.99 | 33,495 | \$35,373,313 |
| 2 | \$2,000 through \$399,999.99 | 17,395 | 341,399,058 |
| 3 | \$400,000 and above | 56 | 34,160,621 |
| | Total | 50,946 | \$410,932,992 |

SAMPLE SIZE

We selected a sample of 250 property items. The sample size by stratum was:

Table 2: Sample Size by Stratum

| Stratum | Sample Size |
|---------------------|--------------------|
| 1 | 100 |
| 2 | 94 |
| 3 | 56 |
| Total Sample | 250 |

SOURCE OF RANDOM NUMBERS

We generated the random numbers using the Office of Inspector General, Office of Audit Services (OIG/OAS) statistical software.

METHOD FOR SELECTING SAMPLE UNITS

We consecutively numbered the property items within strata 1 and 2. After generating the random numbers for these strata, we selected the corresponding items. We selected all property items in stratum 3.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the cost of unrecorded or inaccurately recorded property that is at a greater risk of being lost or misplaced. We then calculated a two-sided, empirical likelihood based confidence interval for this estimate using a 90-percent confidence level.

APPENDIX D: SAMPLE RESULTS AND ESTIMATES—PROPERTY

Table 3: Sample Results

| Stratum | Frame Size | Total Value of Frame | Sample Size | Total Value of Sample | Items With Inaccurate Records | Cost of Items With Inaccurate Records |
|----------------|-------------------|-----------------------------|--------------------|------------------------------|--------------------------------------|----------------------------------------------|
| 1 | 33,495 | \$35,373,313 | 100 | \$105,577 | 2 | \$1,843 |
| 2 | 17,395 | 341,399,058 | 94 | 1,259,109 | 6 | 138,267 |
| 3 | 56 | 34,160,621 | 56 | 34,160,621 | 6 | 2,985,622 |
| Total | 50,946 | \$410,932,992 | 250 | \$35,525,307 | 14 | \$3,125,732 |

Table 4: Estimated Cost of Property With Inaccurate Records
Limits Calculated for a 90-Percent Confidence Level

| | |
|----------------|--------------|
| Point estimate | \$29,189,765 |
| Lower limit | 12,632,665 |
| Upper limit | 68,605,360 |

APPENDIX E: STATISTICAL SAMPLING METHODOLOGY—PURCHASE

POPULATION

The population consisted of payments that CDC made for property during the period October 1, 2012, through September 30, 2013.

SAMPLING FRAME

CDC's Chief of Accounting Branch, Office of the Chief Financial Officer, sent us an Excel file containing a list of payments that CDC made for property during FY 2013 with object class code 31XXX. This file contained 10,391 payments totaling \$97,773,099.

We removed all payments that had corresponding offsets (e.g., returns, refunds, warranty). We removed all payments that had \$0 net payment amounts for FY 2013. We also removed payments of less than \$1,000.

The remaining 4,076 payments, totaling \$96,669,993, were our sampling frame.

SAMPLE UNIT

The sample unit was a payment.

SAMPLE DESIGN

We used a stratified random sample containing three strata organized by payment:

Table 5: Random Sample Strata

| Stratum | Range of Payments | Number of Items | Payments |
|----------------|-------------------------------|------------------------|---------------------|
| 1 | \$1,000 through \$49,999.99 | 3,737 | \$30,447,934 |
| 2 | \$50,000 through \$499,999.99 | 311 | 41,491,504 |
| 3 | \$500,000 and above | 28 | 24,730,555 |
| | Total | 4,076 | \$96,669,993 |

SAMPLE SIZE

We selected a sample of 128 payments. The sample size by stratum was:

Table 6: Sample Size by Stratum

| Stratum | Sample Size |
|---------------------|--------------------|
| 1 | 50 |
| 2 | 50 |
| 3 | 28 |
| Total Sample | 128 |

SOURCE OF RANDOM NUMBERS

We generated the random numbers using the OIG/OAS statistical software.

METHOD FOR SELECTING SAMPLE UNITS

We consecutively numbered the payments within strata 1 and 2. After generating the random numbers for these strata, we selected the corresponding items. We selected all payments in stratum 3.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the cost of any unrecorded or improperly recorded property payments. We then calculated a two-sided, empirical likelihood based confidence interval for this estimate using a 90-percent confidence level.

APPENDIX F: SAMPLE RESULTS AND ESTIMATES—PURCHASE

Table 7: Sample Results

| Stratum | Frame Size | Total Value of Frame | Sample Size | Total Value of Sample | Payments Inaccurately Recorded in Property System | Payments Inaccurately Recorded in Property System |
|----------------|-------------------|-----------------------------|--------------------|------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| 1 | 3,737 | \$30,447,934 | 50 | \$319,921 | 5 | \$60,206 |
| 2 | 311 | 41,491,504 | 50 | 6,507,709 | 4 | 120,506 |
| 3 | 28 | 24,730,555 | 28 | 24,730,555 | 5 | 616,913 |
| Total | 4,076 | \$96,669,993 | 128 | \$31,558,185 | 14 | \$797,625 |

Table 8: Estimated Payments Inaccurately Recorded
Limits Calculated for a 90-Percent Confidence Level

| | |
|----------------|-------------|
| Point estimate | \$5,866,245 |
| Lower limit | 2,894,324 |
| Upper limit | 11,022,188 |

APPENDIX G: CDC COMMENTS



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30329-4027

TO: Gloria L. Jarmon
Deputy Inspector General for Audit Services

FROM: Director
Centers for Disease Control and Prevention

DATE: January 25, 2016

SUBJECT: Office of Inspector General's draft report, "Centers for Disease Control and Prevention's Property System Data Were Neither Accurate Nor Complete" (A-04-14-03546)

The Centers for Disease Control and Prevention (CDC) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report, "Centers for Disease Control and Prevention's Property System Data Were Neither Accurate Nor Complete." Thank you for reviewing this important issue.

CDC is committed to excellent stewardship of government property, to using the U.S. Department of Health and Human Services (HHS) Property Management Information System (PMIS) as our official System of Record for property, and to ensuring that our use of PMIS is in accordance with the HHS Logistics Management Manual (LMM).

As stated in the draft, the objective of this report was to determine whether CDC's property system was accurate and complete. The draft identified three findings related to overall property management and provided three recommendations to address these findings.

In our opinion, this audit of CDC's 2013 inventory does not repeat findings from the prior OIG audit of CDC's 2007 inventory; the two audits involve a different set of issues. It is important to recognize the draft OIG report comes approximately two years after CDC had addressed and strengthened internal controls, as well as implemented process improvements that corrected all earlier audit findings. These improvements accomplished the following:

- Standardized our annual inventory procedures, ensuring 100 percent of property is inventoried and reconciled;
- Established Agency Property Management Stewards consisting of over 800 primary and alternate property custodians;
- Established web-based property management training that is mandatory for all newly-assigned property stewards;
- Implemented internal controls (i.e., waiver process for credit card purchases) to ensure accountability of all property purchases and deliveries that occur outside CDC's standard warehouse and logistics operation;

- Added critical elements about property management to the property management stewards’ annual performance plans;
- Instituted the Property Management “Help Desk” that commits to a 48-hour turnaround on property inquiries;
- Leveraged CDC automated technology (e.g., Remote Identification Verification Technology, NETSCAN, Property Reporting Tool); and
- Acknowledged efficient property management through the annual “Excellence in Property Management” recognition ceremony.

In addition, since 2011 CDC has made a concerted effort to reduce the overall Reports of Survey (ROS). The ROSs were at an all-time high in 2011 at 419. In 2015, CDC had 136 ROSs.

The following table shows our achievements after implementing 100 percent annual inventories.

| Fiscal Year | Items Entering the Report of Survey Process | Boards of Survey Held |
|--------------|---------------------------------------------|-----------------------|
| 2011 | 419 | 8 |
| 2012 | 279 | 9 |
| 2013 | 250 | 11 |
| 2014 | 373 | 9 |
| 2015 | 136 | 6 |
| 2016 to date | 21 | 2 |

We partially concur with some of the recommendations and non-concur with the remaining recommendations. In summary, even though CDC concurs with the recommendations of the OIG report, we accounted for all property. During the past two years, CDC has implemented measures that addressed or resolved these recommendations. The responses below will address each OIG recommendation, noting areas where initiatives are already in place. We appreciate your consideration of our comments in this memorandum and our technical comments as you develop the final report.

CDC Responses to OIG Recommendations

OIG Recommendation No. 1: Ensure that existing property is barcoded and correctly identified in the property system.

CDC non-concurs with the recommendation. CDC supports the government’s requirement to properly identify and account for personal property and has completed numerous annual inventories to implement safeguards to ensure accurate information is annotated in the property system. Of the 250 assets sampled, only three were not barcoded, and those assets either had a serial number or a categorization from which CDC could accurately identify them.

Our annual physical inventory and reconciliation process includes validating barcode, serial number, and nomenclature of all assets in the system. If administrative inaccuracies exist, they will be addressed per asset during the next physical inventory.

CDC has enhanced its ability to appropriately identify, barcode, and inventory federal property. CDC uses three criteria to identify and annotate property in its property management system:

- a barcode label number
- a serial number
- a categorization (commonly referenced as a nomenclature)

The existence of any one of these three criteria in the system provides the agency adequate information to identify and account for personal property. In addition, we restructured our Inventory Management section to streamline property input to help ensure we maintain adequate support for property input. This initiative facilitates increased internal reviews and quality assurance sampling of data entries. Since the audit findings, CDC has corrected all noted administrative data errors and replaced all unintentionally removed barcodes due to normal fair, wear and tear usage. The OIG's findings on the 2007 and 2013 inventories and the associated circumstances are not the same, making the OIG's repeated conclusions and statistical projections unwarranted. Although we cannot absolutely preclude human error in PMIS data entry, CDC has applied substantial resources since 2010 to conduct 100 percent inventories each year to ensure that all property is accounted for and that PMIS data is accurate. CDC disagrees that \$29.2 million of the 2013 inventory was at risk of being lost or misplaced, and we disagree that the 2013 inventory was understated by \$5.9 million.

OIG Recommendation No. 2 (Part A): Ensure that all property is added correctly to the property system.

CDC concurs with the recommendation. CDC recently published its updated *Personal Property Management Policy* that includes internal control measures to ensure non-routine acquisition procurements are approved, tracked, and entered in the personal property management system. These internal control measures also help capture and report unique personal property that requires delivery to locations other than the CDC warehouse.

OIG Recommendation No. 2 (Part B): Ensure that the general ledger and property systems are reconciled and that discrepancies between the two systems are resolved.

CDC non-concurs with the recommendation. CDC understands the goal of the above recommendation is to ensure a complete universe of assets for appropriate accountability and reporting. However, the U.S. Department of the Treasury's (Treasury) U.S. Standard General Ledger (USSGL) accounting does not allow for the distinction of accountable assets below the capitalization threshold into a separate USSGL account for reconciliation purposes. Specifically, Treasury established USSGL account series to identify capitalized personal property subsidiary records above an established materiality threshold for each agency (e.g., \$25,000 or greater for HHS personal property). This account series records these assets separately for tracking,

reconciliation, and depreciation purposes. In turn, CDC reconciled and resolved differences for this account series in accordance with HHS Financial Reconciliation Interim Policy (PM-2008-4; 04-22-2008) prior to the 2010 report. For those accountable assets below the capitalization threshold, they are expensed in USSGL account series 6100 along with other non-property activity as part of daily operations. The Accounts Payable and Purchase Order subsidiaries feed the general ledger, based on the object class provided, with the obligating document, which determines if the asset is expensed or capitalized. The PMIS does not feed the assets to the general ledger, but instead feeds depreciation, retirement, and transfer costs. PMIS is also used to identify purchases above the capitalization threshold that should have been accounted for in USSGL account series 1750. As a result, the general ledger cannot be used to validate the universe of all accountable assets, only capitalized assets.

CDC will continue to reconcile the Unified Financial Management System accounting system and the PMIS inventory system for assets meeting the \$25,000 or greater capitalization threshold. Reconciling differences will continue to be researched, tracked, and aged according to HHS reconciliation guidance.

OIG Recommendation No. 3: Complete Reports of Survey within HHS’s 90-day time limit and remove property from the property system that the Reports of Survey identify as missing.

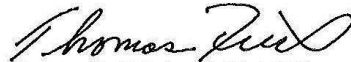
CDC concurs with the recommendation. The newly revised LMM has been approved and is awaiting clearance from the HHS Office of the Assistant Secretary for Public Affairs. The LMM has been revised to extend the timeframe from 90 days to 120 days for the Reports of Survey. Based on our processes, CDC has regularly communicated to HHS our concern regarding the 90-day time limit for processing lost, damaged, or stolen personal property. HHS has accepted and validated the agency’s concern in their new draft LMM, dated January 2015. This change will afford all Operating Divisions (OPDIV) the option of submitting a time-limit extension and waiver when there are extenuating circumstances.

CDC would like to clarify our determining authority (DA). CDC has always maintained a DA for the Report of Survey process. Per the HHS LMM, “The Determining Authority is the chief management official of each HHS OPDIV and STAFFDIV. This official may appoint an executive assistant or principal administrative or management officer to serve as the determining authority as long as the officer is not the Property Management Officer (PMO).” The agency’s Chief Operating Officer (COO) is the official DA, and CDC has always had a DA. From October 2012 to November 2013, the COO maintained DA because of an organizational restructuring in the Office of the COO. Once the new structure was official, the COO delegated DA to the Office of Safety, Security, and Asset Management director, who reports to the COO. All identified personal property noted in the pending Reports of Survey account has been adjudicated, processed and properly removed from the agency’s personal property records.

We have provided technical comments on the draft report in the attachment. CDC appreciates your consideration of the comments shared in this memorandum and our technical comments as you develop the final report. We are happy to discuss any of these comments with you. Please

Page 5 – Gloria L. Jarmon

feel free to direct any questions regarding the comments to Ms. Priscilla Patin at (404) 639-7094 or iggao@cdc.gov.



Thomas R. Frieden, MD, MPH

Attachment