DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date AUG 3 1 1993

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Review of the Fiscal Year 1992 Financial Statements for the Public Health Service's Service and Supply Fund (A-15-93-00010)

To Philip R. Lee, M.D.
Assistant Secretary for Health

The attached report prepared by KPMG Peat Marwick (KPMG), independent public accountants, under contract with the Department of Health and Human Services' (HHS) Office of Inspector General (OIG), presents the results of their audit of the Public Health Service's (PHS) Service and Supply Fund (Fund) financial statements for the Fiscal Year (FY) ended September 30, 1992. The report indicates significant opportunity for improving financial management within the Health Services and Resources Administration's Division of Fiscal Services.

The Chief Financial Officers Act requires that the audit report be prepared in accordance with Government Auditing Standards and the Office of Management and Budget's Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

The KPMG auditors did not express an opinion on the Fund's statement of financial position because they were not able to satisfy themselves regarding the reported balances for all of the Fund's assets and equity and 65 percent of its liabilities as of September 30, 1992. The KPMG found that the Fund did not perform certain internal control procedures and maintain adequate accounting records. This did not allow KPMG to successfully apply routine or alternative audit procedures to attest to these account balances. In addition, the lateness in receiving PHS funding for this audit resulted in there being insufficient time to complete all audit procedures. These conditions also precluded KPMG from expressing an opinion on the Fund's statements of operations, cash flows and budget and actual expenses.

Early funding of the Fund's future financial statement audits would effectively improve the planning and coordination for such audits between OIG, contracted auditors and PHS financial management staff. Also it would allow PHS time to make needed corrections to the financial statements prior to the audit being finalized. The auditors would then be able to adjust their opinion to reflect the corrected financial statements. Thus, early funding would result in a better report card on the audited PHS financial statements and consequently more useful and reliable financial management information.

The OIG, in its audit of the Fund's financial statements for FY 1991, identified problems similar to those identified by KPMG. The attached report includes a schedule of the FY 1991 findings and the status of ongoing corrective action.

The KPMG noted that the Fund's management provided KPMG revised financial statements after the audit was completed which included significant revisions not coordinated with or explained to the auditors as required by Chapter 5-20-10 of the HHS Departmental Accounting Manual.

The report on internal controls and compliance contains recommendations for corrective action. The KPMG has incorporated comments by Fund officials within the report. We would appreciate receiving written comments and a status report on progress in implementing the recommendations within 60 days from the date of this memorandum. If you wish to discuss this report, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301) 443-3583.

Attachment

cc:
Kenneth S. Apfel, Chief Financial Officer
Department of Health and Human Services

Anthony L. Itteilag, Chief Financial Officer
Public Health Service

John C. West, Chief Financial Officer
Office of the Assistant Secretary for Health

Lloyd H. Fagg, Director
Division of Fiscal Services
Health Resources and Services Administration

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE FISCAL YEAR 1992 FINANCIAL STATEMENTS FOR THE PUBLIC HEALTH SERVICE'S SERVICE AND SUPPLY FUND

AUGUST 1993 A-15-93-00010

DEPARTMENT OF HEALTH & HUMAN SERVICES

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Subject Review of the Fiscal Year 1992 Financial Statements for the Public Health Service's Service and Supply Fund (A-15-93-00010)

To Philip R. Lee, M.D.
Assistant Secretary for Health

The report prepared by KPMG Peat Marwick (KPMG), independent public accountants, under contract with the Department of Health and Human Services' (HHS) Office of Inspector General (OIG), presents the results of their audit of the Public Health Service's (PHS) Service and Supply Fund (Fund) financial statements (pages D-13 to D-25) for the Fiscal Year (FY) ended September 30, 1992. The KPMG opinion on the Fund's financial statements (pages B-1 to B-3) and report on internal controls and compliance with laws and regulations (pages C-1 to C-14) indicate significant opportunity for improving financial management within the Health Services and Resources Administration's Division of Fiscal Services.

The Chief Financial Officers Act requires that the audit report be prepared in accordance with Government Auditing Standards and the Office of Management and Budget's Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

The KPMG auditors did not express an opinion on the Fund's statement of financial position because they were not able to satisfy themselves regarding the reported balances for all of the Fund's assets and equity and 65 percent of its liabilities as of September 30, 1992. The KPMG found that the Fund did not perform certain internal control procedures and maintain adequate accounting records. This did not allow KPMG to successfully apply routine or alternative audit procedures to attest to these account balances. In addition, the lateness in receiving PHS funding for this audit resulted in there being insufficient time to complete all audit procedures. These conditions also precluded KPMG from expressing an opinion on the Fund's statements of operations, cash flows and budget and actual expenses.

In their report on internal controls and compliance, the KPMG auditors noted the following:

- *Property, Plant and Equipment (PP&E)* - There are no controls in place to ensure that the Fund's property management system supports the PP&E general ledger accounts. The Fund's PP&E schedules lacked continuity and did not contain complete and adequate information. Such schedules also were not periodically reviewed for accuracy or reconciled monthly with the general ledger. Therefore, the Fund could not demonstrate that its property management system accurately accounts for acquisition cost, additions, disposals and depreciation of PP&E. In addition, Fund management did not provide sufficient supporting documentation for the assets listed in the Fund's property management records.

- Accounts Receivable/Revenue Recognition - Accounts receivable and revenue related to accounting services provided in the fourth quarters FY 1991 and 1992 were not recognized or recorded until the first quarter of the following FY. Since such services are offered on a cost recovery basis the expenses incurred and accrued by the Fund in the fourth quarter were not appropriately matched with the corresponding revenue. The net effect of not billing or estimating for fourth quarter services until the first quarter understated the amount the Fund reported on its FY 1992 financial statement for accounts receivable, revenues from the sales of goods and services and net position by $2.1 million.

- General Ledger/Financial Reporting System - Significant reconciliation effort was often required to ensure that financial system reports were accurate and in agreement with the general ledger. This would suggest that the Fund does not routinely reconcile general ledger balances with subsidiary accounts. In addition, the Fund does not perform monthly reviews of general ledger balances which could be helpful in identifying irregularities and analyzing variances from budget.

- Reconciliations of Fund Balance with Treasury - Monthly reconciliations to assure the Fund's recorded fund balance with Treasury agrees with the Department of the Treasury (Department) are not being performed. In addition, the Fund's September 30, 1992 reconciliation between fund balance with Treasury and the Department's out-of-balance schedule identified a $6.7 million debit and a $5.7 million credit reconciling adjustments for which Fund management had not provided adequate supporting documentation. Some of these adjustments were identified 6 months to 1 year earlier. This indicates that Fund management does not resolve such items in a timely manner.

- Inventory - The Fund has no policy for conducting physical counts of inventory held for resale at yearend. The Fund did not perform physical inventory counts at September 30, 1992. In addition, alternative procedures applied to test the accuracy of the perpetual inventory system indicated that this system could not be relied upon.

- *Accounts Receivable* - There are no policies or procedures which require the Fund to regularly review accounts receivable balances for discrepancies, overpayments, mispostings and collectibility. The Fund's aged accounts receivable report as of September 30, 1992 contained $1 million or 14 percent of the Fund's $7 million total accounts receivable which were over 180 days old. In addition, Fund management was not able to provide detailed documentation to support credit balances totaling $1.2 million.

- *Reconciliation between Budgetary and Proprietary Accounting* - Budgetary accounts are not being reconciled with proprietary accounts on a regular basis. As a result, KPMG found the Fund's budgetary accounts were out-of-balance by $21.3 million as of September 30, 1992. This condition may have been caused, in part, by adjustments made with a manual transaction code (e.g. code 399) which are made for proprietary accounts.

- *Capital Leases* - The Fund has not established policies and procedures to identify, record and report capital lease transactions. Fund management needs to review all current leases to evaluate whether the leased equipment should be capitalized and supported by detailed documentation.

- *Source Documentation* - A considerable amount of effort by the Fund's staff was needed to locate and assemble certain source documentation. Delays were attributed to difficulties in accessing documents located in various storage areas or on microfiche.

The OIG identified problems in all areas mentioned above in its audit of the Fund's financial statements for FY 1991, except for those pertaining to revenue recognition and physical inventory counts. One of the problems involved the need to better assure that Fund operations are covered under the requirements of the Federal Managers' Financial Integrity Act (FMFIA). This year auditors again were unable to verify that the Fund's operations had been covered under FMFIA. The KPMG noted that the FY 1992 FMFIA internal report for the fiscal operation supporting the Fund states that PHS had received certification that the general ledger is reconciled monthly to subsidiary ledgers. These subsidiary ledgers were for: accounts payable, undelivered orders, accounts receivable, advances, property, and inventory accounts. Although the FY 1992 FMFIA report determined that these reconciliations were performed, auditors found the reconciliation problems summarized above. A schedule of the FY 1991 findings and the status of ongoing corrective action is shown on page C-15.

The KPMG noted that the Fund's management provided KPMG revised financial statements after the audit was completed which included significant revisions not coordinated with, or explained to the auditors as required by Chapter 5-20-10 of the HHS Departmental Accounting Manual.

The report on internal controls and compliance contains recommendations for corrective action. The KPMG has incorporated comments by Fund officials within the report. We would appreciate receiving written comments and a status report on progress in implementing the recommendations within 60 days from the date of this memorandum. If you wish to discuss this report, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301) 443-3583.

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Financial Statements

Principal Deputy Inspector General and
The Assistant Secretary for Health
U.S. Department of Health and Human Services:

We were engaged to audit the statement of financial position of the Public Health Service's Service and Supply Fund (Fund) as of September 30, 1992, and the related statements of operations, cash flows, and budget and actual expenses for the year then ended. These financial statements are the responsibility of the Fund's management. The financial statements of the Fund for the year ended September 30, 1991 were audited by the Department of Health and Human Service's Office of Inspector General (DHHS-OIG). The DHHS-OIG report, dated June 30, 1992, contained a qualified opinion on the statement of financial position and disclaimed an opinion on the statements of operations, cash flows, and reconciliation to budget.

Accounting principles for Federal entities are currently being studied by the Federal Accounting Standards Advisory Board (the Board). These principles are to be promulgated by the Comptroller General, the Director of the Office of Management and Budget (OMB), and the Secretary of the Treasury, based on advice from the Board. In the interim, Federal agencies have been advised to follow the applicable accounting principles contained in agency accounting policy, procedures manuals, or related guidance. The summary of significant accounting policies included in Note 1 to the financial statements describes the applicable accounting principles prescribed by the Fund and used to prepare the financial statements, which are based on OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements." These comprise a comprehensive basis of accounting other than generally accepted accounting principles.

Limitations on our ability to apply certain procedures required by generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, precluded us from rendering an opinion on the financial statements referred to in the first paragraph. Specifically, the Fund did not maintain adequate accounting records during Fiscal Year 1992, particularly with respect to property, plant, and equipment; accounts receivable; fund balances with the U.S. Treasury; and inventory. In addition, we were unable to apply audit procedures to accounts payable and equity records made available on, or immediately prior to, our July 2, 1993 agreed-upon fieldwork completion date. These matters are discussed in the succeeding paragraphs. It was impracticable for us to extend our procedures sufficiently to determine the extent to which the financial statements, as of and for the year ended September 30, 1992, may have been affected by these conditions.

The Fund's September 30, 1992 reconciliation of its fund balance with the U.S. Treasury included debit and credit adjustments of $6,704,687 and $5,722,208, respectively, representing reconciling items for which the Fund's management had not provided adequate detailed support. Some of these reconciling items were six months to one year old and remained unresolved at the time of our review. In addition, during Fiscal Year 1992, these reconciliations were not performed on a monthly basis, as required. (This condition is further discussed in the Independent Auditors' Report on Internal Controls and Compliance, in the section titled Fund Balance with the U.S. Treasury.) The activity related to this balance affects all of the accompanying financial statements for the year ended September 30, 1992.

We were unable to audit the Fund's September 30, 1992 property, plant, and equipment net balance (stated at $19,287,000) because, as of the close of fieldwork, the Fund had not provided supporting documentation for certain assets of the Division of Fiscal Services. In addition, the property records used to identify, support, and annually update the general ledger otherwise contained numerous recordkeeping deficiencies. (This condition is further discussed in the Independent Auditors' Report on Internal Controls and Compliance, in the section titled Property, Plant, and Equipment.) Adjustments, if any, to the property, plant, and equipment net balance would affect all of the Fund's financial statements for the year ended September 30, 1992.

We were unable to audit the Fund's September 30, 1992 inventory balance (stated at $7,815,000) because the Fund's management did not perform a physical inventory count at or near the fiscal year end. The taking of such an inventory might have resulted in adjustments to the reported inventory balance. Alternative procedures performed to test the accuracy of the Fund's perpetual inventory system indicated that it could not be relied upon. (This condition is further discussed in the Independent Auditors' Report on Internal Controls and Compliance, in the section titled Inventory.) Adjustments to inventory, if any, would affect all of the Fund's financial statements for the year ended September 30, 1992.

We were unable to determine the appropriateness of the valuation of certain billed Accounts Receivable-Federal (stated at $2,976,000) and the accuracy of recorded cash collections. The September 30, 1992 accounts receivable balances contained significant (1) credit balances and (2) receivable balances greater than 180 days old. We were unable to satisfy ourselves as to the propriety of the recorded balances through alternative test procedures. In addition, we were unable to determine the validity of certain cost recovery, fee-for-service revenue adjustments of approximately $3,700,000 being made subsequent to the end of fieldwork. (This condition is further discussed in the Independent Auditors' Report on Internal Controls and Compliance, in the section titled Revenue Recognition.) Adjustments, if any, to the balance of accounts receivable would affect all of the financial statements for the year ended September 30, 1992.

We were unable to audit the Fund's September 30, 1992 net position (equity balance) because the Fund's management had not provided adequate detailed support as of the close of our fieldwork. The Fund's equity as of September 30, 1992 includes the following components and amounts:

- Appropriations, stated at $6,722,000,
- Cumulative results of operations, stated at $(4,524,000),
- Undelivered orders, stated at $17,707,000, and
- Invested capital, stated at $250,000.

Adjustments, if any, to these accounts would affect all the Fund's financial statements for the year ended September 30, 1992.

We were unable to determine if accounts payable (stated at $10,205,000) were properly stated as of September 30, 1992 because, as of the close of fieldwork, the Fund had not provided adequate detailed documentation to support the recorded balance. Adjustments, if any, to the balance of accounts payable would affect all of the financial statements for the year ended September 30, 1992.

The HHS Departmental Accounting Manual, Chapter 5-20-10, requires a work timetable indicating key target dates, which should be prepared and coordinated with all involved organizational components. On August 2, 1993, the Fund's management provided revised financial statements. These revised statements included significant revisions that were not coordinated with, or explained to, the auditors. For example, Accounts Receivable, Federal was changed from $3,341,000 to $7,011,000. Due to the lateness of the revisions, we were not able to audit the affected account balance.

Because of the significance of the matters discussed in the preceding paragraphs of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the Fund as of and for the year ended September 30, 1992.

The financial information presented in the Overview and Discussion and Analysis: Service and Supply Fund sections is not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements." We did not audit, and do not express an opinion on, such information.

This report is intended for the information of the Fund's management, the DHHS-OIG, and OMB. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick

July 2, 1993

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Internal Controls and Compliance

Principal Deputy Inspector General and
The Assistant Secretary for Health
U.S. Department of Health and Human Services

We were engaged to audit the financial statements of the Public Health Service's Service and Supply Fund (Fund) as of and for the year ended September 30, 1992, and have issued our report thereon dated July 2, 1993, in which we disclaimed an opinion.

Except as discussed below and in our Independent Auditors' Report on Financial Statements, we conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Fund's internal control structure. The purposes of this consideration were to: (i) determine our auditing procedures for the purpose of expressing our opinion on the financial statements; and (ii) determine whether the internal control structure meets the objectives identified in the following paragraph. This consideration included obtaining an understanding of the significant internal control structure policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances.

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, Fund management, and the Department of Health and Human Services-Office of Inspector General (DHHS-OIG) have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions applicable to Fund operations are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with applicable accounting policies, and to maintain accountability over assets; and data supporting the reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General accounting and financial reporting
- Accounts receivable, revenues, and collections
- Property, plant, and equipment
- Purchasing, receiving, and inventory control
- Fund balance
- Accounts payable, disbursements, and operating expenses
- Payroll
- Performance measures

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the control procedures. Our review of controls for performance information was limited to obtaining an understanding of those controls designed to ensure the existence and completeness of the information.

Compliance with laws and regulations applicable to the Fund is the responsibility of the Fund's management. As part of attempting to obtain reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with certain provisions of the following laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by OMB and the Fund:

- Budget and Accounting Procedures Act
- Chief Financial Officers Act
- Antideficiency Act
- Prompt Payment Act
- Civil Service Reform Act
- Fair Labor Standards Act
- Civil Service Retirement Act
- Federal Employees' Health Benefits Act

Our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

As part of our review, we compared the Division of Fiscal Services' (DFS) FY 1992 Federal Managers' Financial Integrity Act (FMFIA) report's results with the results of the evaluation we conducted of the Fund's internal control structure.

We were unable to test the Fund's compliance with the Federal Employees' Compensation Act because, as of the close of our fieldwork, the Fund's management had not provided the necessary information and documentation.

We noted certain matters involving the internal control structure and its operation that we consider to be material weaknesses and reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB in Bulletin No. 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Fund's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Those conditions that we consider to be material weaknesses are included in Attachment 1. The conditions that we consider to be reportable conditions are included in Attachment 2. Attachment 3 presents the status of prior year audit findings and ongoing corrective action.

As required by OMB Bulletin No. 93-06, we reviewed management's process for evaluating and reporting on internal controls and accounting systems in accordance with the FMFIA, and compared the DFS' FY 1992 FMFIA report with the results of the evaluation we conducted of the Fund's internal control structure. We were unable to identify, and the FMFIA report did not indicate, the extent to which the Fund's internal control structure was included in the review.

Except as noted above, the results of our tests of compliance indicate that, with respect to the items tested, the Fund complied, in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that the Fund had not complied, in all material respects, with those provisions. As noted above, however, we could not test the Fund's compliance with the Federal Employees' Compensation Act.

We also noted other less significant matters involving the internal control structure and compliance with laws and regulations that we are reporting in a separate letter.

This report is intended for the information of the Fund's management, DHHS-OIG, and OMB. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick

July 2, 1993

Attachment 1 - Material Weaknesses

Property, Plant and Equipment (PP&E)

The Fund does not have an integrated property management system that supports the PP&E balance reported in the statement of financial position. The Fund's property management system is used to capture fixed asset purchases and disposals, calculate depreciation, and maintain a record of the details of all assets owned. In addition, these property records are used to support and annually update the general ledger's PP&E balance. We noted the following deficiencies in our review of the PP&E records:

- The Fund's management did not provide, as of the close of fieldwork, supporting documentation for assets (identified as software) comprising $6,384,907 of the Division of Fiscal Services' (DFS) $11,208,226 of total assets.
- Acquisition costs, depreciable lives, dates of acquisition, and serial numbers were not carried forward properly from Fiscal Year (FY) 1991 to 1992 on supporting schedules in several instances.
- Incomplete information was provided (for example, depreciable lives and acquisition years were not included on one supporting schedule and serial numbers were not included on other schedules).
- Current year depreciation expense was incorrectly calculated and accumulated depreciation was not rolled forward properly from the prior year.

The HHS Departmental Accounting Manual, Chapter 1-30-20, Section A, (dated 10/15/85) and GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2--Accounting (Title 2), Section P.40.13 provides that agency property records must capture all transactions affecting the agency's investment in property, including all acquisitions, disposals, and depreciation. In addition, Title 2, Appendix III requires that the agency implement controls to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions/data are ensured. The HHS Materiel Management Manual, Subpart 103-27.52 (dated 6/30/74) requires that the property management records and general ledger be integrated, such that pertinent data is entered simultaneously in both the property management and financial records. The Accounting Manual, Chapter 1-30-20, Section A.4, (dated 9/30/80) further requires that the general ledger and subsidiary property records be reconciled monthly.

Presently, each designated property accountability officer within the Fund provides the Fund's accounting personnel with acquisition and disposal information, however, the general ledger is only adjusted annually based on the results of the property accountability officers' annual inventories. A detailed analysis of the cause for the annual general ledger adjustment is not routinely performed. In addition, monthly reconciliations of the general ledger to the subsidiary property records are not being performed.

Based on the discrepancies noted above, the Fund could not demonstrate that its property management system accurately accounts for the acquisition cost, addition, disposal, and depreciation of PP&E.

Recommendation #1

We recommend that the Fund update the general ledger monthly, based on the information provided by the property accountability officers. As part of the monthly update, the general ledger should be reconciled to the subsidiary records. Additionally, we recommend that the Fund's accounting personnel review for accuracy the information provided by the property accountability officers. Finally, we recommend that the nature of and cause for annual general ledger adjustments arising from the property accountability officers' annual inventories be investigated and significant discrepancies resolved.

PHS Comments

The PHS officials stated that they will begin to perform quarterly reconciliations in FY 1994 and reconciliations will be done more frequently if significant differences arise.

Auditors' Response

As noted above, the HHS Departmental Accounting Manual requires that PP&E reconciliations be performed monthly.

Recommendation #2

We recommend that the Fund ensure that its property management records contain the following information:

- Property identification number
- Asset description
- Date of acquisition
- Date of transfer, if applicable
- Cost
- Location of the asset
- Estimated useful life, and salvage value, if any
- Method of depreciation
- Periodic depreciation and accumulated depreciation
- Vendor name
- Invoice number

Without the information listed above, it is difficult, if not impossible, for the Fund's personnel to locate supporting documentation for fixed assets listed in the Fund's property management records. Also, we recommend that DFS retain copies of all documentation supporting the property records in a permanent folder to support the property activity.

PHS Comments

PHS officials stated that complete documentation does exist and was available for examination. They also stated that activity managers will be requested to maintain more records and more detailed schedules beginning in FY 1993. They noted that the other problems noted were immaterial and that, with limited personnel resources, it is not cost-effective to research and correct individual errors.

Auditors' Response

We requested from Fund officials complete detailed documentation to support the acquisition of certain assets, however, such documentation was not provided as of the close of fieldwork. We had requested source documentation such as invoices, purchase orders and obligating documents, but had not received them as of close of fieldwork. For many assets, we only received journal vouchers, which by themselves, are not sufficient evidence.

The Fund subsequently provided additional PP&E documentation on July 29, 1993. Because this information was received subsequent to the July 2, 1993 agreed-upon fieldwork completion date, we were unable to consider this information.

PHS officials acknowledge that individual errors exist. The deficiencies noted in our review of the property management records are indicative of a lack of key accounting and internal controls that are essential to identifying, maintaining, and safeguarding PP&E, as well as providing for reliable and verifiable financial statement data.

Accounts Receivable/Revenue Recognition

Services provided by the Fund are offered on a cost recovery, fee-for-service basis. The Fund provides services to, among others, the following agencies/activities:

- Indian Health Service (IHS)
- Parklawn Computer Center (PCC)
- Health Resources and Services Administration (HRSA)
- Office of the Assistant Secretary for Health (OASH)
- Alcohol Drug Abuse and Mental Health Administration (ADAMHA)[1]

The Fund is not billing for services rendered in the fourth quarter until the first quarter of the subsequent year. The actual net effect of this activity is as follows:

4th Quarter '92 (posting 1st Quarter '93)	$12,689,671
4th Quarter '91 (posting 1st Quarter '92)	(10,576,762)
FY 1992 net effect (adjustment)	$ 2,112,909

We understand that the Fund estimates the service revenues, but does not record them in the general ledger or financial statements.

The HHS Departmental Accounting Manual, Chapter 4-20-00 (dated 9/30/88) requires accrual basis accounting, which recognizes revenues when earned and expenses when incurred. The Fund's FY 1991 and 1992 financial statements do not include accounts receivable at year end arising from the provision of services to its various customers. The accounts receivable and appropriated fund equity balances would be significantly different from reported balances if receivables and revenues were recorded in the proper fiscal year. We understand that the Fund was unable, due to time constraints, to compute the effect of not accruing certain expenses (such as professional services) associated with these fee-for-service revenues for FY 1992. In the prior year, as noted in the DHHS-OIG's 1991 Management Memorandum, the DFS did not accrue liabilities for the receipt of such services.

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[1] As of October 1, 1992, the name was changed to Substance Abuse and Mental Health Services Administration (SAMHSA)

Recommendation #3

We recommend that the Fund record, on the accrual basis, the accounts receivable, revenues, and expenses associated with professional services rendered, as required by the HHS Department Accounting Manual.

PHS Comments

PHS officials did not concur. They stated that the Fund's estimated fourth quarter service revenues were recorded in the general ledger prior to the close of the books and were therefore included in the financial statements.

Auditors' Response

We requested supporting documentation and journal postings to determine whether fourth-quarter revenue estimates were recorded as of the close of the books and included in the financial statements. We did not receive this information. In addition, we attempted to review the billed and unbilled accounts receivable accounts, which would indicate the recording of these estimates, but were unable to make a determination.

On August 2, 1993, the Fund's management provided the DHHS-OIG with revised financial statements. The Accounts Receivable, Federal account balance was changed from $3,341,000 to $7,011,000. Because the revisions of the financial statements were made subsequent to the July 2, 1993, agreed-upon fieldwork completion date, we were not able to audit the affected account balance.

Financial Reporting System

Review of General Ledger Accounts

We noted that several year-end adjustments made by the Fund were corrections resulting from incorrect postings of approved journal vouchers during the year and at year end. For example, accounts receivable - Federal was overstated by $803,423 at year end, as a result of an error on an approved journal voucher. This posting error was not discovered until year end when the financial statements were being prepared.

Such posting problems could be prevented if the individuals preparing the journal vouchers were to review available general ledger edit reports prior to posting. Such problems could also be detected if a monthly analytical review of general ledger balances for reasonableness were performed. The HHS Accounting Manual, Chapter 0-4-40, Section A.11.d and A.12.b requires the development and documentation of input, processing, storage and output controls, as well internal controls over the reliability and accuracy of such inputs, processing and outputs. In addition, the Accounting Manual incorporates Title 2, Appendix III, which requires that agencies' accounting processes and procedures include (1) input controls to detect erroneous and duplicate transactions and ensure control until corrected and (2) output controls to provide reasonable assurance that the output is correct and complete.

Recommendation #4

We recommend that the Fund implement a written procedure requiring the individuals who prepare and input the journal vouchers to review the edit reports to ensure proper posting of the journal vouchers to the general ledger.

Recommendation #5

We recommend that the Fund institute a written procedure requiring an accounting supervisor to perform a monthly review of general ledger balances to identify any irregularities. This would include investigating significant variances between actual and budgeted amounts and current and prior month actuals.

PHS Comments

PHS officials stated that these recommendations are not valid for this type of error. They stated that the incorrect journal voucher posting resulted from "human error" and that the DFS reconciliation process detected this error.

Auditors' Response

We disagree that the DFS reconciliation process detected these errors. These errors were identified as a result of the audit. As stated earlier, the original misposting could have been prevented or detected if additional control procedures were in place.

General Ledger Reconciliations

We observed that significant reconciliation effort was often required to ensure that financial system reports were accurate and in agreement with the general ledger. For example, the Health Accounting System's (HAS) printouts of the Fund's FY 1992 accounts receivable activity and (as discussed previously in the section titled Property, Plant & Equipment) a detailed listing of PP&E did not initially agree with the related general ledger balances. This would suggest that the Fund did not routinely reconcile general ledger balances with the subsidiary records.

The HHS Departmental Accounting Manual, Chapter 2-40-00, Section B.4., as well as Title 2, Appendix III, requires that general ledger accounts be reconciled with all subsidiary accounts and records to help substantiate and maintain the accuracy of account postings and balances. As previously noted, the requirement for PP&E is that reconciliations be performed monthly.

Recommendation #6

We recommend that the Fund implement policies and specific desk instructions for performing monthly reviews of general ledger balances, including a reconciliation of the general ledger balances with subsidiary accounts.

PHS Comments

PHS officials did not concur. They stated that DFS does perform reconciliations of various general ledger and supporting subsidiary records. They also stated that these reconciliations are performed in a timely manner.

Auditors' Response

We have added to this report the departmental requirement that PP&E reconciliations be done on a monthly basis. As for the timeliness of reconciliation performed, we refer to the FY 1992 FMFIA report, in which PHS received certification from each accounting point that the general ledger is reconciled to subsidiary ledgers for accounts payable, undelivered orders, accounts receivable, advances, property, and inventory accounts on a monthly basis. As indicated previously in the section titled PP&E and as stated by management under PHS Comments, the reconciliation of PP&E accounts was not done on a monthly basis. This raises a question as to the accuracy of the DFS' 1992 FMFIA report.

Reconciliations of Fund Balance with the U.S. Treasury

To determine the validity of the recorded fund balance with the U.S. Treasury, we requested documentation to support the reconciliations between the Fund's fund balance and Treasury's out-of-balance schedule. The HHS Departmental Accounting Manual incorporates Title 2, Appendix III, which requires that all financial transactions be supported with pertinent documents and source records. In addition, the Accounting Manual, Chapter 2-40-00, Section B.2. (dated 12/17/68) requires that agencies reconcile general ledger balances with subsidiary records or third party information (Treasury reports) on a monthly basis. As of the close of our fieldwork, the Fund's management had not provided adequate support for debit and credit adjustments of $6,704,687 and $5,722,208, respectively, that were included on the September 30, 1992 reconciliation (Journal Voucher #FSS-92-002 and Journal Voucher #FSS-92-027). In addition, some of these reconciling items, which are six months to one year old, remain unresolved at the time of our review.

Recommendation #7

In order to properly reflect the amount of funds on hand with Treasury and to comply with departmental accounting requirements, we recommend that the Fund perform monthly reconciliations of the Department of the Treasury's schedules to the amount reported on the Fund's fund balance with Treasury.

PHS Comments

PHS officials did not concur. They stated that fund balance reconciliations are performed timely. They noted that two types of reconciliations are done, one at the appropriation account level and one at the agency location code level. The latter is done monthly.

Auditors' Response

We understand that reconciliations are performed at two levels, but it is the activity at the appropriation account level that is not being performed monthly. This reconciliation will ultimately affect, and is needed to support, the Fund's fund balance with Treasury.

Recommendation #8

We recommend that the Fund maintain documentation to fully support adjustments made to monthly reconciliations.

PHS Comments

PHS officials stated that the journal vouchers cited in the report are completely referenced and an audit trail for the specific documentation does exist.

Auditors' Response

The supporting documentation provided by Fund management consisted of the journal vouchers themselves, and did not contain source documents, with detailed descriptions, to permit independent verification of the propriety of the transactions.

Recommendation #9

We recommend that the Fund implement a policy requiring follow-up procedures by management to ensure that reconciliations are performed and reconciling items are properly identified and supported with adequate detailed documentation, before journal vouchers are approved for input.

PHS Comments

PHS officials did not specifically comment on this recommendation.

Inventory

The Fund did not count its inventory at Perry Point (the location site of its inventory) at year end. There is no clear requirement from the agency, or none was communicated to Perry Point, that an inventory count at or near year end is essential to reflect accurate inventory information. In the prior year, as noted in the DHHS-OIG's 1991 audit report, physical inventory counts and observations resulted in a $2.9 million adjustment to the general ledger.

Alternative procedures were applied to test the accuracy of the perpetual inventory system. Inventory counts were performed by tracing the actual inventory counts to the perpetual inventory records as of June 4, 1993. Of the 25 items sampled, 11 sample counts resulted in exceptions (the inventory counts did not agree to the perpetual records), which Perry Point management was unable to explain. This indicates that an inventory count would be necessary to reflect an accurate inventory balance at September 30, 1992, and that the perpetual inventory system could not be relied upon.

The Fund's management adjusted the general ledger balance as of September 30, 1992 for inventory to agree to the perpetual records provided by the Perry Point location. No cycle counts or interim testing of perpetual records was performed during the year, however, to permit reliance on the perpetual system in place.

Recommendation #10

We recommend that inventory counts be performed as near as possible to year end to support the accuracy, existence, and ownership of the inventory reported on the financial statements.

PHS Comments

Although PHS officials concurred with the intent of this recommendation, but asserted that the historical differences between the perpetual inventory records and physical inventory counts present strong evidence for reliance upon the perpetual inventory records.

Auditors' Response

Upon review of the Fund's historical information provided, it appears that a trend exists to indicate the discrepancy between the perpetual inventory and physical inventory records has grown (from approximately $1,000 in 1983 to almost $200,000 at the end of FY 1991). We question how this presents evidence for reliance on the perpetual records.

Attachment 2 - Reportable Conditions

Accounts Receivable

We noted that the Fund's September 30, 1992 accounts receivable balances contained significant (1) credit balances and (2) receivable balances greater than 1 year old. GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 4--Claims, Section 68, requires the Fund to actively review and follow up on accounts receivable balances. Because the predominance of the Fund's customers are Federal entities, it feels that collection is assured and has no policy requiring timely monthly reviews of its receivable balances.

During our testwork of accounts receivable, we noted that the Fund was carrying credit balances totaling $1,192,162, for which the Fund's management was unable to provide detailed documentation as to whether these credits were legitimate prepayments or overpayments, or whether they resulted from mispostings or credit adjustments. We further noted that a significant number of aged accounts receivable ($988,948 out of a test population of $3,844,208) over 180 days old remained uncollected. In addition, as with the DHHS-OIG's 1991 audit, our customer confirmation attempts resulted in a poor response rate. However, 2 of the 3 confirmation responses received did not agree with the Fund's recorded amount.

Recommendation #11

We recommend that the Fund's management implement policies and procedures to regularly review the receivable balances for discrepancies, overpayments, misposting of payments, and credit memos. In addition, we recommend that the Fund regularly review the aging of its receivables to assure that collection of receivables is aggressively pursued. Our policy and procedures suggestions include timely follow up with customers by telephone, mailing second requests invoices, management review for errors and omissions, and documenting follow up actions taken.

PHS Comments

PHS officials did not concur. They stated accounts receivable credit balances are reviewed periodically and corrections are made as necessary.

Auditors' Response

We reiterate that the age of the receivables and the large amount of credit balances, together with the inability to confirm the recorded balances, precludes independent attestation of the validity and reliability of the accounts receivable balance.

Budgetary Accounts

We noted during our review of the Fund's general ledger and reporting procedures that the Fund's budgetary (4000 series) accounts were out-of-balance by $21,274,603 as of September 30, 1992. The HHS Departmental Accounting Manual's chart of accounts, Chapter 4-20-00 (dated 9/30/88) implements the U.S. Government Standard General Ledger's (SGL) accounting system requirement that budgetary and proprietary accounts be self-balancing.

The Fund's management does not have policies and procedures to reconcile the proprietary and budgetary accounts on a regular basis. A related cause of this out-of-balance condition may be that the Fund's close-out procedures for proprietary accounts include a requirement for manual adjustments (transaction code #399 adjustments). In addition to the out-of-balance condition identified above, this condition could affect Fund management's ability to control the obligation of funds.

Recommendation #12

We recommend that the Fund's management establish and implement procedures to reconcile proprietary and budgetary accounts on a monthly basis.

PHS Comments

PHS officials did not concur. They stated that the Health Accounting System supports budgetary and proprietary accounting, but does not yet utilize the SGL. They further stated that the budgetary series of accounts may be out of balance, but the general ledger will balance.

Auditors' Response

The budgetary series of accounts is to be a separate, self-balancing group of accounts used for budgetary purposes only. When the budgetary accounts do not balance, but the general ledger does, the proprietary accounts themselves must be out of balance.

Capital Leases

The Fund's capital leases, related to the Parklawn Computer System, were entered into between 1988 and 1992. In Fiscal Year 1991, the OIG recommended capitalization of certain property, plant and equipment. These lease arrangements meet the capitalization criteria described in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," and were capitalized as property on the Fund's financial statements.

During our audit, we noted that the schedules provided by the Fund's management to support the capitalized leases were not prepared by the Fund's management, but by the DHHS-OIG staff in connection with the 1991 audit. The Fund has not established policies and procedures to identify, record and report capital lease transactions.

Recommendation #13

We recommend that the Public Health Service's Chief Financial Officer issue policies and procedures to financial management offices regarding properly recording and accounting for leases and requiring the financial management offices to review all current leases to evaluate whether the leased equipment should be capitalized and be supported by detailed documentation.

PHS Comments

PHS officials stated that the financial transactions related to the lease are recorded as obligations, expenses, and disbursements in the general ledger accounts. It is their understanding that the recording of this transaction as a capital lease in the general ledger is not necessary as long as it was presented as such in the financial statements.

Auditors' Response

We do not disagree with PHS comments, however, it is not responsive to the recommendation regarding the establishment of capital lease policies and procedures.

Source Documentation

We observed that a considerable amount of effort by the Fund's staff was needed to assemble source documents stored on microfiche (i.e., obligating documents and receiving reports) to support the sample items selected for testing. Delays were attributed to the fact that source documents are not packaged together and are located in various storage areas.

The HHS Departmental Accounting Manual incorporates the General Accounting Office's Standards for Internal Controls in the Federal Government, Specific Standard #1, which requires an agency to clearly document all transactions and have the documentation readily available for examination.

Recommendation #15

We recommend that the Fund implement a policy and procedure to accumulate related source documents in order to access information timely and alleviate the effort involved by the Fund's staff to search for this information when necessary.

PHS Comments

PHS officials did not concur. They stated that the accounting systems have become highly automated resulting in paperless systems and point-of-origin data entry. They stated that source documents will be located in the originating offices and that reliance on accounting records will entail microfilming and/or storage at the federal records center.

Auditors' Comments

We agree that accounting systems have become highly automated and require less paper for source documentation, however, the related source documentation or microfilm copies should be readily available to the Fund's staff and external auditors.

ATTACHMENT 3 - SCHEDULE OF PRIOR REPORT AUDIT FINDINGS AND ONGOING CORRECTIVE ACTION

Findings	Recommendations	Corrective Action and Target Date	Comments
Maintenance and review of accounts receivable account balances as to aging, collectibility and credit balances have not been adhered to.	The Fund's management should designate responsibility for assuring that accounts receivable are effectively managed and establish policies and procedures to assure that the collecting of receivables are aggressively pursued.	Implementation of an automated federal receivable module (in conjunction with knowledge of the Debt Management Branch) to improve controls over accounts receivable. October, 1992 (original); March, 1993 (revised)	As stated in Attachment 2-Reportable Conditions, the Fund's management continued to have problems in the maintenance and collectibility of its receivables.
Capital leases of certain equipment were not recorded in the Statement of Financial Position to conform with Title 2 and the Treasury's fiscal requirements.	The Fund's management establish policies and procedures for assuring that expenditures are capitalized when appropriate.	Establish policies and procedures for assuring that expenditures are capitalized. September, 1993	
Compliance with FMFIA Section 4 requires agencies review their accounting systems and report annually to the President and Congress as to conformity and compliance with principles, standards and related requirements prescribed by the Comptroller General. HRSA did complete a Section 4 review but it was not apparent that a review of the Fund's accounting controls was performed.	The Fund's management demonstrate the connection between FMFIA reviews and the Fund management's statement that the Fund has been subjected to FMFIA review and is completed as part of HRSA's financial reporting for fiscal year 1992 compliance with FMFIA.	Issue referred to the Assistant Secretary for Management and Budget for review. September, 1993	
The Fund's accounting officials were not adequately complying with Title 2 and department guidance requiring periodic reconciliations of accounts. As a result, we noted reconciliation problems in the Fund balance with Treasury, fixed assets and inventory accounts.	Develop and implement requirements for reconciling general ledger accounts and document how HRSA officials are assured that the accounts have been reconciled.	Develop guidance for reconciling accounts and augment the accounting staff responsible for reconciliations. September, 1993	As of September 30, 1992, a physical count had not been taken. The general ledger was adjusted to agree to the perpetual records, Fund balance with Treasury contained unsupported adjustments, and fixed assets general ledger balance did not agree to the subsidiary ledger.

Public Health Service

Financial Statements

FY 1992

Public Health Service

Introduction

The mission of the Public Health Service (PHS) is the improvement and advancement of the health of all citizens. PHS consists of eight agencies whose functions extend from basic research to disease prevention to provision of health services, and ensuring public safety through the regulation of foods, drugs, biologics, and cosmetics.

The Service and Supply Fund (SSF) supports the PHS agencies in accomplishing this mission by providing the business-type services that are necessary for day-to-day operations. The Chief Financial Officers Act of 1990 requires executive agencies to prepare financial statements for all accounts that involve substantial commercial activity, and the SSF was audited in FY 1992.

This year, the PHS Unconditional Gift Fund and the ADAMHA Royalty and Cooperative Research and Development Agreement (CRADA) account had financial statements prepared because of the commercial-like activity. The Royalty and CRADA accounts were included with the PHS report because it will be subsequently included in the NIH Financial Statements for Fiscal Year 1993 as a result of the reorganization of ADAMHA.

Public Health Service

Overview

The mission of the Public Health Service (PHS) is the improvement and advancement of the health of all citizens. To accomplish this mission, PHS programs are designed to:

- Develop knowledge leading to the prevention and treatment of disease;
- Control and promote health;
- Gather data that measure the status of the Nation's health;
- Improve the health care system;
- Assure the quality and accessibility of health care;
- Improve the mental health of the Nation;
- Assure safe and effective drugs and healthful foods;
- Respond to emergency health needs; and
- Expand health resources.

Since it's origin in 1798, PHS has been making important contributions to the Nation's health.

- The Marine Hospital Service was established in 1798 under the Treasury Department with the signing by President John Adams of an act for the relief of sick and disabled seamen. The first temporary hospital was started in rehabilitated barracks on Castle Island in Boston Harbor in 1799.
- Congress officially established the Public Health Service Commissioned Corps in 1889 along military lines with titles and pay corresponding to Army and Navy grades. The Commissioned Corps was established as a mobile force of professionals subject to duty anywhere upon assignment.
- The Hygienic Laboratory was established in 1891, the forerunner of the National Institutes of Health.
- After 141 years in the Treasury Department, the Public Health Service, in 1939, became part of the newly created Federal Security Agency, later to become the Department of Health, Education, and Welfare, and subsequently in 1980, the Department of Health and Human Services.
- In response to its increased responsibility, PHS has grown from a small nucleus of health professionals to more than 5,700 commissioned corps officers, plus 44,000 professional, technical, and support personnel in civil service, working in a wide variety of health programs.

PHS has undergone significant change in the last two decades. Through enactment of laws, Congress has placed increased responsibility upon PHS in the following sectors:

- Expanding research into the cause, treatment, control, and prevention of disease;
- Launching of frontal attacks on such major killers as cancer, heart disease, and AIDS;
- Promoting healthier lifestyles for all Americans;
- Supplying of health-professional assistance to local, State,

national, and international health organizations to cope with special health needs and challenges;
- Furthering of programs to treat mental illness, to promote better mental health, and to combat drug abuse, alcoholism, and other hazards to health;
- Furthering of food and drug programs to safeguard the health of the consuming public;
- Strengthening of communicable disease control at home and abroad;
- Enhancing the quality, appropriateness, and effectiveness of health care services and access to such services; and
- Promoting the responsible conduct of scientific research.

Organizationally, PHS operated through the Office of the Assistant Secretary for Health and eight major health agencies, which were as follows in FY 1992:

- Agency for Health Care Policy and Research (AHCPR);
- Agency for Toxic Substances and Disease Registry (ATSDR);
- Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA);
- Centers for Disease Control (CDC);
- Food and Drug Administration (FDA);
- Health Resources and Services Administration (HRSA);
- Indian Health Service (IHS); and
- National Institutes of Health (NIH).

On October 1, 1992, ADAMHA was reorganized. The research components were assigned to NIH, and the service components were organized as the Substance Abuse and Mental Health Services Administration (SAMHSA).

Executive Summary

PHS Service and Supply Fund

The Parklawn Computer Center (PCC) continues to be a large cross-servicing agent for automated data processing (ADP) services with other Federal agencies. Although HRSA is the largest customer of PCC within HHS (32.8 percent of PCC revenue), sales to other non-HHS customers has reached 16.5 percent. Cross-servicing will continue to be a significant part of the PCC operation.

The Division of Fiscal Services (DFS) of HRSA is involved in cross-servicing several HHS components. Significant efforts continue to be made to upgrade the financial system software to improve the accounting and fiscal services provided by DFS. New systems are being implemented to facilitate the requisitioning and receiving functions for the offices served by DFS and a comprehensive Travel Management System to assist travelers and to improve travel management and accounting.

PHS Unconditional Gift Fund

The financial statements for Fiscal Year 1992 for the Fund are included because of its business-like characteristics. PHS is responsible for overseeing Fund operations. The Fund receives gift monies from non-governmental organizations and friends of the PHS. No appropriated funding is provided to support the Fund's activities.

ADAMHA Royalty and Cooperative Research and Development Agreement (CRADA) Funds

The combined financial position and results of the Funds activities for Fiscal Year 1992 are included in the PHS presentation. The reorganization of ADAMHA, effective for Fiscal Year 1993, will have these accounts reported with the statements prepared by NIH for Fiscal Year 1993.

The National Institute of Mental Health, a division of ADAMHA, administers the CRADA Funds. The Royalty Program provides Federal support for treatment, prevention, research, and research training in the areas of alcohol, drug abuse and mental health. Patent Royalties generated are available to remunerate the scientist/inventor and enhance the laboratories where the efforts resulted in the patent. The CRADA is a agreement between ADAMHA and any private corporation or industry, university, etc. to conduct, in a collaborative effort, specified research or development which is consistent with program missions.

The Funds are special-type funds established by Public Law 99-502 (Federal Technology Transfer Act of 1986). The Programs are funded by reimbursements from non-Federal sources. No appropriated funding is provided to support the Funds' activities. Accounting services for the Funds are provided by the HRSA's Division of Fiscal Services.

Discussion and Analysis: PHS Service and Supply Fund

Mission

The PHS Service and Supply Fund (SSF) was established under authority of 42 U.S.C. 231, July 3, 1945. The purpose of the Fund is to provide consolidated financing and accounting for business-type operations involving the provision of common services and commodities to customers in the Public Health Service and other governmental entities. SSF does not, however, consolidate the activities administratively or organizationally. Each SSF activity is a component of one of the following PHS agencies: the Indian Health Service, the Food and Drug Administration, the Health Resources and Services Administration, and the Office of the Assistant Secretary for Health. The goal of the SSF management is to provide their customers with the proper mix of quality services, at a reasonable cost, and in a timely and responsive manner. The SSF Charter outlines the operations and management of the Fund, as well as the purpose, function, and membership of the SSF Board of Directors. The Board is responsible for making recommendations to the Director, Office of Management(OM)/OASH on all matters concerning activity budget requests, changes in the scope of operations of any activity, changes in charges and fees, policies and procedures governing the operations of the Fund, and any other appropriate items. The Chairperson of the Board is designated by the Director, OM/OASH, and is responsible for calling meetings, setting the agenda, and keeping all parties informed of issues and decisions.

Activities and Their Functions

Supply Distribution Sales

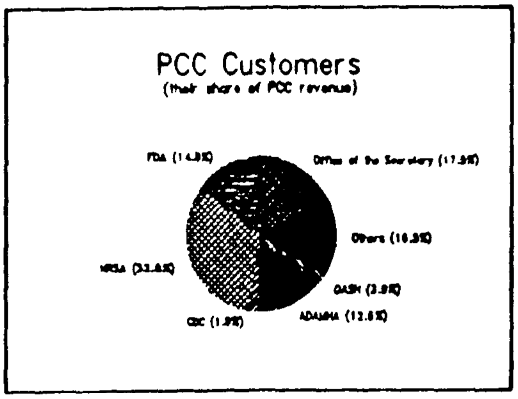
The IHS operates a full service medical supply depot located on the grounds of the Veterans Administration Hospital at Perry Point, Maryland. With a budget of $40 million, the depot generated 34% of the SSF revenue in FY 1992. The depot's activities include the purchase, receipt, storage, packing, distribution, shipping, and inventory control of drugs, chemical and medical supplies, hospital supplies, and special program needs. The depot maintains an inventory of approximately 3,000 different items. A supply catalog of various items and their unit prices has been established and is updated periodically. Approximately 58 percent of the items in inventory are purchased through shared procurements; therefore, the depot saves an average of 10 to 15 percent by purchasing larger quantities in cooperation with other agencies.

The depot provides support to over 1,500 customers on a worldwide basis and is an economical source of supply for all Federal customers. Because it is not a mandatory source of supply for any agency, the number and variety of customers reflects the competitive prices and services that are offered. Customers range from the nearby National Institutes of Health and St. Elizabeth's Hospital, to the geographically dispersed Indian Health Service and the U.S. Pacific Trust Territories. The Indian Health Service is the largest of all Perry Point customers, comprising 60 percent of Perry Point sales.

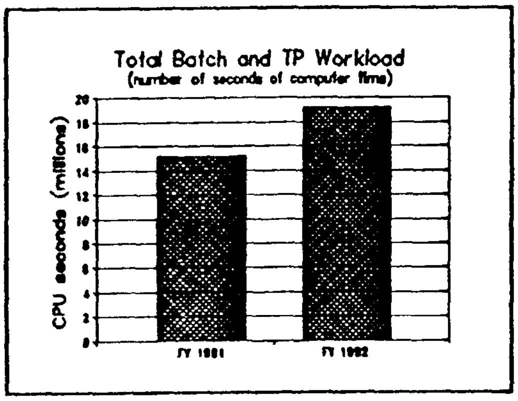
For any supply depot, the fill rate is the greatest indicator of the depot's ability to meet its customer's needs. The fill rate shows the percentage of orders that can be filled in a timely manner with existing stock. Perry Point has achieved its goal of a 96 percent fill rate. Other indicators of performance that are used by management are the inventory turnover of 4.85 days and the average turnaround time of 8 days for FY 1992.

Data Management Services
Parklawn Computer Center (PCC)

This FDA activity provides automated data processing (ADP) services for HHS and other Federal entities. With a budget of $17 million, the PCC generated 13% of the SSF revenue in FY 1992. The PCC provides its users with various ADP services, resources, technical support, and ADP planning assistance. The facility and services are offered on a cost recovery, fee-for-service basis. The PCC has established a schedule of the various services that are available, and it is updated annually by the PCC Steering Committee. The PCC participating agencies are very diverse, with the HRSA being the largest customer (see graph above right). "Other" customers include the Internal Revenue Service, the General Services Administration, the Social Security Administration, and several smaller organizations.



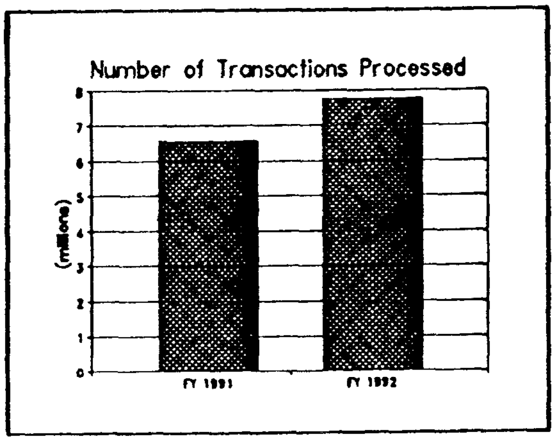
The greatest indicator of PCC workload is the number of seconds of computer time used in the course of a year. Because batch jobs and teleprocessing comprise 60% of the services provided by PCC, it is worth noting that the workload for these two services has increased dramatically over the past several years (see graph below). System availability has remained high throughout the period, and the increased workload allowed PCC to rebate $2.6 million to its customers in FY 1992 while continuing to reduce its rates for most services.



OASH-D&A-2

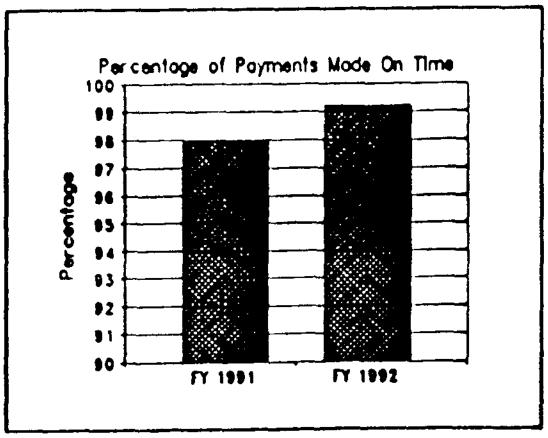
Division of Fiscal Services (DFS)

This HRSA activity provides accounting and fiscal services for HRSA, IHS, ADAMHA, AHCPR, OASH, the Administration for Children and Families, and the Office of the Secretary. The support services include: the prompt recording and liquidation of accounting transactions; the reporting of accounting information for management uses (both internal and external); the providing of full accounting services related to debt management and claims collection activities; and the provision of technical assistance to headquarters and field accounting activities relative to fiscal matters. With a budget of $15 million, DFS generated 12% of the SSF revenue in FY 1992. DFS bills its customers based on a step-down cost allocation methodology. The gross number of transactions processed by the Division has consistently increased over the past several years, increasing 18 percent in FY 1992 (see graph below).



Yet the number of payments made on time, as outlined in the Prompt Payment Act, has consistently increased (see graph above right).

Due to enhancements in the accounting system, late payment interest penalties dropped 53 percent in FY 1992.



Parklawn Services

This activity encompasses several functions in OASH which provide centralized services for the PHS agencies. The budget for Parklawn Services totalled $30 million, and this activity generated 32% of the SSF revenue in FY 1992.

1. <u>The Administrative Services Center</u> (ASC) is the largest function within Parklawn Services with an FY 1992 budget of $26 million. ASC provides the following services:
- Procurement and contract administration -- Out of over 600 contract actions, there were no sustained protests;
- Building management and other services for the 1 million square foot Parklawn Building and numerous satellite buildings; services include building maintenance, renovation, and repair, safety and security, cleaning etc.;
- Other central services such as operation of photocopy centers, telecommunications management,

OASH-D&A-3

operation of the health library, motor pool operations, parking management, mail and messenger services, etc.;
- Printing procurement and limited on-site printing;
- Personal property management and claims processing.

2. PHS Grants and Contracts provides review and audit of all PHS grants and contracts activities, policy and guidance related to grants and contracts to all PHS agencies, and monitoring and evaluation of procurement activities throughout the fiscal year.

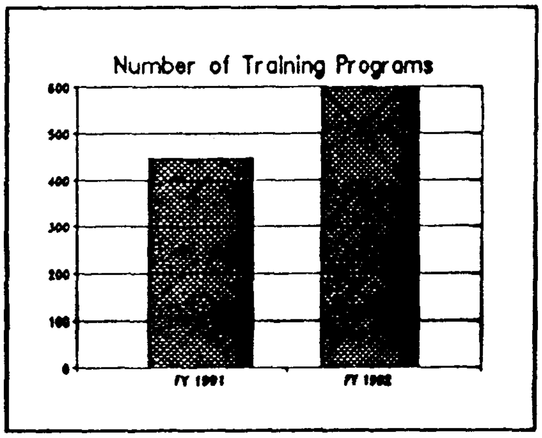
3. The Office of Emergency Preparedness (OEP) provides the development of plans, the coordination and management of the Federal response to a national health emergency, and the management of 42 Disaster Medical Assistance Teams. OEP has the lead in the Departmental response to a natural disaster, and provides a central focus for emergency preparedness efforts, and the management and oversight of all emergency response activities.

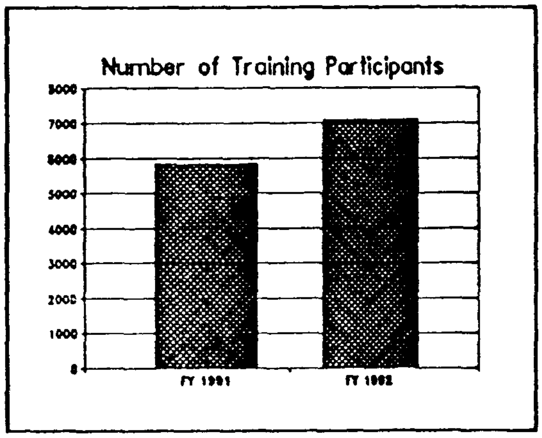
4. Public Health Reports provides staffing for the bimonthly publication Public Health Reports prepared in the Office of Public Affairs.

5. PHS Regional Management provides staff support to the Regional Health Administrators in the 10 regional offices.

Central Personnel Services

This OASH activity finances the staff which plans, conducts, and evaluates training programs in such areas as supervisory management, office skills and procedures, data technology, health and safety, and personnel management. With a budget of $2 million, CPS generated 3% of the SSF revenue in FY 1992. The training provided is demand-oriented and is restricted to the common training needs of the PHS activities and agencies within the Parklawn complex, and other organizations as appropriate.



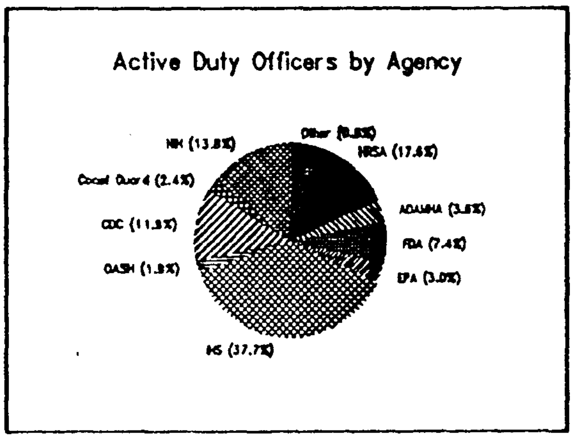


OASH-D&A-4

CPS expanded course offerings after experiencing a 15 percent increase in demand in FY 1992. In addition, staff maintains the Workforce Data System, a personnel data base reflecting employment and FTE statistical data which is provided to PHS agency officials on a monthly basis.

Division of Commissioned Personnel

Located within OASH, this activity provides a centralized and uniform commissioned personnel and payroll system across all organizations utilizing PHS Commissioned Officers. With a budget of $6 million, DCP generated 5% of the SSF revenue in FY 1992. Services provided include the processing of applications for the Corps, processing personnel orders and training applications, performing payroll functions, reviewing Officer Effectiveness reports, and reviewing and updating billets. There are currently 6,400 active duty officers (see graph below), 6,400 inactive reserve officers, 2,500 retirees, and 400 annuitants nationwide. In FY 1992, the number of applications to the Corps increased 32 percent and routine pay actions increased 15 percent over FY 1991.



Facilities Engineering Services

This OASH activity provides engineering oversight and service to the PHS agencies. With a budget of $1 million, this activity generated 1% of SSF revenue in FY 1992. All plans for construction, renovation, or improvement of PHS facilities are reviewed and evaluated. This activity is responsible for all real property management, energy conservation, environmental impact, pollution control, and physical security for all PHS facilities. In addition, they develop Rent estimates to the agencies for all GSA-assigned space, totalling over $130 million annually. In FY 1992, this office performed 23 investigations of handicapped accessibility complaints (up from 19 in FY 1991). As part of the Worldwide Inventory of Real Property, staff produced automated reports covering 263 PHS-owned properties and 290 direct-leased properties in accordance with GSA requirements for property management.

Federal Managers' Financial Integrity Act (FMFIA)

The PHS management control program is headed by the Director, OM/OASH. For the purpose of management control, this position carries the additional title of PHS Management Control Officer (MCO). The executive officer position in each of the health agencies is designated the agency Management Control Officer. There are many other personnel who are involved with the operation of the management control system in PHS. Generally, they are persons who are serving as control area managers. As such, they are directly responsible for the management controls in the programs, functions, or systems they manage. The scope and effect of the management control system thereby extends to personnel throughout the broad range of programs, systems, and administrative functions of PHS.

The PHS Management Control Program is composed of two principal components. There are:

1. Management Control Systems as governed by Section 2 of FMFIA and OMB Circular A-123, "Management Control systems"; and

2. Financial Management Systems as governed by Section 4 of FMFIA and OMB Circular A-127, "Financial Management Systems". Section 2 controls apply to all program and administrative Functions of PHS. Section 4 controls apply to PHS accounting systems.

The management controls over provisions of consolidated financing and accounting for business-type operations are reviewed under Section 4 of FMFIA. Additionally the activities that provide common administrative services and commodities to PHS, utilizing the resources of SSF are reviewed under Section 2.

During FY 1992 the PHS Internal Control Branch continued the onsite review of the financial offices in all PHS agencies. Updated guidance material is provided on an annual basis to each health agency and OASH financial management component. Each health agency has established an FMFIA Section 4 - Review Staff to perform a comprehensive reviews of the financial systems. The systems are fully documented in accordance with OMB Circular A-127, HHS and PHS guidance. Tests of the transaction processed are sampled and evaluated and made available for audit. A member of the Internal Control staff in PHS maintains continual contact with the review staffs of the health agencies. Each health agency documents their reviews of the systems in their organization. An OASH Internal Control staff member does a final review of all PHS systems prior to the development of the final report which is submitted by each PHS agency head to the Assistant Secretary for Health. The Internal Control staff in OASH performs independent reviews of the PHS systems and transmits each agency's report through the administrative levels to the Office of the Assistant Secretary for Health.

Upon approval by the Assistant Secretary for Health (ASH), the report is forwarded to the Office of the Secretary (OS). In FY 1993, the Payment Management System (PMS) activity has been organizationally assigned to PHS. PMS will be included in the Fiscal Year 1993 reviews.

There were management control reviews and other activities under Section 2 of FMFIA related to financial management controls including:

- Citation of a material weakness in cash management of imprest funds in the FDA, and

- Citation of a material weakness in advance payment systems in the IHS.

During Fiscal Year 1992, OASH staff conducted several management control reviews as part of a strategy to review the systems of internal accounting and administrative control.

A review was conducted to assure that all capitalized equipment and property, valued over $5,000, and non-capitalized equipment and property are purchased following related regulations and administrative controls. Additional reviews covered the personnel activity in the areas of performance management, labor management relations, and employee relations and services.

DHHS/OASH
PHS SERVICE AND SUPPLY FUND
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
(Dollars in Thousands)

	1992	RESTATED 1991
ASSETS		
Financial Resources:		
Fund Balances with Treasury (Note 2)	($501)	$8,672
Accounts Receivable, Net - Non-Federal	31	0
Inventories Held for Sale	7,815	6,592
Intragovernmental Items:		
Accounts Receivable, Federal	7,011	4,605
Other, Federal	14	9
Total Financial Resources	14,369	19,878
Non-Financial Resources:		
Property, Plant and Equipment, Net (Note 3)	19,287	18,368
Total Non-Financial Resources	19,287	18,368
Total Assets	$33,656	$38,246
LIABILITIES		
Funded Liabilities:		
Accounts Payable, Non-Federal	$8,243	$9,057
Accrued Payroll and Benefits	965	1,781
Lease Liabilities (Note 4)	2,016	4,195
Other Funded Liabilities, Non-Federal	60	2
Intragovernmental Liabilities		
Accounts Payable, Federal	1,962	2,757
Other Funded Liabilities, Federal	206	348
Total Funded Liabilities	$13,452	$18,139
Unfunded Liabilities:		
Accrued Leave	2,242	2,131
Total Unfunded Liabilities	2,242	2,131
Total Liabilities	$15,694	$20,270
NET POSITION		
Fund Balances: (Note 5)		
Revolving Fund Balances	20,204	20,106
Total Fund Balances	20,204	20,106
Less Future Funding Requirements (Note 6)	2,242	2,131
Net Position	17,962	17,976
Total Liabilities and Net Position	$33,656	$38,246

DHHS/OASH
PHS SERVICE AND SUPPLY FUND
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
(Dollars in Thousands)

	1992	RESTATED 1991
REVENUES AND FINANCING SOURCES		
Revenues from Sales of Goods and Services		
To the Public	$1	$0
Intragovernmental	102,950	84,959
Total Revenues and Financing Sources	$102,951	$84,959
EXPENSES		
Operating Expenses by Object Classification:		
Personal Services and Benefits	34,025	29,494
Travel and Transportation	1,530	929
Rental, Communication and Utilities	10,502	7,515
Printing and Reproduction	263	679
Contractual Services	15,631	13,250
Supplies and Materials	2,633	1,602
Equipment not Capitalized	1,703	944
Program or Operating Expenses (Note 7)	66,287	54,413
Cost of Goods Sold		
Intragovernmental	31,965	24,676
Depreciation and Amortization	4,116	3,672
Other Expenses (Note 8)	400	487
Total Expenses	102,769	83,248
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	182	1,711
Plus: Unfunded Expenses	400	487
Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	$582	$2,198
Net Position, Beginning Balance	17,976	16,265
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	182	1,711
Minus Non Operating Changes	(195)	0
Net Position, Ending Balance	$17,962	$17,976

The accompanying notes are an integral part of these statements.

DNNS/NRSA
PHS SERVICE AND SUPPLY FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
(Dollars in Thousands)

	1992	RESTATED 1991
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Provided		
Sales of Goods and Services	$101,336	$86,176
Total Cash Provided	101,336	86,176
Cash Used:		
Personal Services and Benefits	33,299	29,288
Travel and Transportation	1,138	8,070
Rent, Communications and Utilities	12,004	10,305
Printing and Reproduction	222	695
Other Contractual Services	14,647	11,093
Supplies and Materials	35,216	19,857
Other Operating Cash Used (Regions)	6,919	992
Total Cash Used	(103,445)	(80,300)
Net Cash Provided (Used) by Operating Activities	($2,109)	$5,876
CASH (USED) BY INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	(6,988)	(5,507)
Other Investing Cash (Used)	(76)	0
Net Cash (Used) by Investing Activities	($7,064)	($5,507)
Net Cash Provided (Used) by Operating, Investing and Financing Activities	(9,173)	369
Fund Balances with Treasury, Cash, and Foreign curency, Beginning	8,672	8,303
Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($501)	$8,672

The accompanying notes are an integral part of these statements.

DHHS/OASH
PHS SERVICE AND SUPPLY FUND (SSF)
STATEMENT OF BUDGET AND ACTUAL EXPENSES
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
(Dollars in Thousands)

	BUDGET			ACTUAL
		Obligations		
Program Name(s)	Resources	Direct	Reimbursed	Expenses
SSF	$114,490	$0	$109,498	$102,769
Totals	$114,490	$0	$109,498	$102,769

Budget Reconciliation:

Total Expenses		$102,769
Add:	Captital Acquisitions	6,988
	Other Expended Budget Authority	(753)
Less:		
	Other Unfunded Expenses	400
Accrued Expenditures		108,604
Less Reimbursements		101,336
Accrued Expenditures, Direct		$7,268

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies:

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Service and Supply Fund (the Fund), as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Fund in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) OMB Bulletin 93-02, and the Fund's accounting policies which are summarized in this note. These statements are therefore different from financial reports, also prepared by the Fund pursuant to OMB directives, that are used to monitor and control the Fund's use of budgetary resources.

Reporting Entity

The Public Health Service (PHS) is a part of the Department of Health and Human Services (HHS) which is a Cabinet agency of the Executive Branch of the United States Government. The PHS is responsible for a wide variety of health care programs including research and services. The Office of the Assistant Secretary for Health (OASH) is a component Agency of PHS.

The Service and Supply Fund (Symbol 75 X 4452) is managed by OASH. The Fund is responsible for administering the operations of a medical supply depot located at Perry Point, Maryland and providing data processing, accounting, facilities management and training services to various PHS agencies.

The Fund is a revolving-type fund, which recovers its costs through billings to customer PHS agencies and organizations. No appropriated funding is provided to support the Fund's activities. Accounting services for the Fund, as well as for all OASH activities, are provided by the Health Resources and Services Administration's (HRSA) Division of Fiscal Services.

The Fund is considered a separate reporting entity for financial reporting purposes to the U.S. Department of Treasury (Treasury). HRSA reports financial accounting

Reporting Entity (continued)

data for the Fund to the Treasury and also maintains the Fund's general ledger balances in HRSA's Health Accounting System.

Accounting Standards

These financial statements are presented in accordance with the accounting and reporting standards presented in OMB Bulletin 93-02 and supplemented by HHS's Departmental Accounting Manual.

Budgets and Budgetary Accounting

The Fund is governed by a Board of Directors comprised of representatives from the PHS agencies that are served by this Fund. Budgetary control for the Fund is provided by the oversight role of the Board of Directors. The Director, Office of Management (OM), OASH issues allotment documents in accordance with the annual apportioned budget. The allotters issue allowance documents to the Fund's Activity managers. The allotments and allowances delegates the budget authority so that Activity managers may enter into obligations; acquire goods and services and make payments in accordance to laws and regulations. The Fund's budgetary accounting transactions are serviced by HRSA's Division of Fiscal Services. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Basis of Accounting

Transactions are recorded using the accrual basis of accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The differences between the accrual basis of accounting for expenses and the cash basis recognition of budgetary outlays are presented in the Statement of Budget and Actual Expenses.

PHS SERVICE AND SUPPLY FUND

Revenues and Other Financing Sources

Revenues are generated from fees for services and commodities provided to PHS customers and other governmental entities. Activities that generated revenues include medical supply sales, automated data processing services, accounting and fiscal services and various centralized services.

Funds with the U.S. Treasury and Cash

The Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Collections of fees for supplies and services provided to customer agencies and operating outlays are recorded in the Health Accounting System. General Ledger cash balances are reconciled on a monthly basis with Treasury's balances.

Accounts Receivables

Accounts Receivables are comprised primarily of amounts due from Federal agency customers of the Supply Service Center. These agencies issue check payments for medical supplies upon receipt of the goods. The agencies are not part of Treasury's On-Line Payment and Collection OPAC System in which billing and collection is accomplished through electronic transfer.

The PHS SSF does not currently record an allowance for bad debts because all of its customers are federal agencies.

Inventories

Inventories are valued at cost. Cost is determined by using the weighted average valuation method. Inventories are maintained on a perpetual basis and adjusted to physical count on an annual basis. Adjustments for spoilage, breakage, and other variances are done on a monthly basis. Inventories consist principally of medical supplies and drugs for resale by the Supply Service Center located at Perry Point Maryland.

Property and Equipment (P & E)

The Fund's P & E includes office equipment; vehicles and other warehousing devices at the Supply Service Center and capital improvements to the warehouse facility. Equipment is capitalized at cost if the initial acquistion cost is $5,000 or more and a useful life of 2 years or more. Personal property transactions are maintained by the HRSA, IHS, OASH and FDA Property Management System. The useful life is assigned to each item by Agency property officials according to the Veterans Administration Federal Supply Catalog. Real property is depreciated using the straight line method over estimated useful lives ranging from 25 to 40 years. Equipment is depreciated using the straight line method over useful lives ranging, for most equipment, from 5 to 15 years. Amortization for intangible assets is computed on a straight-line basis with useful lives ranging from 5 to 10 years.

In addition to the property and associated depreciation recorded in the Health Accounting system and reported on the financial statements, there are leased automated data processing equipment contracts between the Parklawn Computer Center (the lessee), an activity of the Fund, and International Business Machines, Inc. (the lessor), which meet the General Accounting Office Title 2 and HHS Departmental Accounting Manual criteria for capital lease classification. The HRSA during the fiscal year records these costs as operating lease expenses in the Health Accounting System but reports the costs as the acquisition of an asset in the main body of the financial statements.

Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

Accounts Payable

Accounts Payable are comprised substantially of amounts due to commercial vendors of the Supply Service Center.

Accrued Liabilities

Accrued liabilities are largely comprised of amounts for rent, telephone, communications and utilities due to other Federal agencies and commercial vendors.

Unearned Revenue

Unearned revenue represents advances received from customers of the Service Supply Center prior to the sale of medical supplies and drugs. The cash advances are reported to Treasury as collections. The advances are primarily from the Pacific Basin Area territories and commonwealths. The advances are liquidated after the orders to the Supply Service Center are received and filled.

Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and reduced as taken. The balance in the accrued annual leave account is adjusted annually to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expended as taken but not accrued when earned.

Retirement Plan

The majority of the Fund's employees participate in the Civil Service Retirement System (CSRS), to which the Fund makes matching contributions equal to 7 percent of pay. The Fund does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings

Retirement Plan (continued)

plan which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, the Fund also contributes the employer's matching share for Social Security.

Payroll Processing

The HHS centralized payroll system (Accounting for Pay System) computes civilian employee benefits and is also used to process commissioned officer payroll data. Peronnel Compensation and Benefits comprise approximately 50% of the Fund's total operating expenses.

NOTE 2. Fund Balances with Treasury:

The negative fund position for FY 92 is due to an underestimate of fourth quarter billings for actual costs to be recovered through billings to agencies. The difference between actual and estimated amounts was collected in FY 93. There are no Cash or Foreign Currency balances.

FY 91 fund position is restated for a error correction of ($197) thousand found subsequent to issuance of the FY 91 statements. Accrued liabilities were also reduced by the adjustment.

NOTE 3. Property, Plant and Equipment, Net:

FISCAL YEAR 1992

(DOLLARS/THOUSANDS)

Classes of Fixed Assets	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Structures, Facilities, & Leasehold Improvements	>20 yrs	$ 167	$ 12	$ 155
Equipment	1 - 20 yrs	15,704	6,105	9,599
Assets Under Capital Lease	1 - 5 yrs	15,316	5,783	9,533
Total		$31,187	$11,900	$19,287

FISCAL YEAR 1991

(DOLLARS/THOUSANDS)

Classes of Fixed Assets	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Structures, Facilities, & Leasehold Improvements	>20 yrs	$ 168	$ 8	$ 160
Equipment	1 - 20 yrs	11,437	4,485	6,952
Assets Under Capital Lease	1 - 5 yrs	15,316	4,059	11,257
Total		$26,921	$8,552	$18,368

NOTE 4. Leases:

ENTITY AS LESSEE:

Capital Leases: (DOLLARS/THOUSANDS)

	FY 1992	FY 1991
Summary of Assets Under Capital Lease:		
Machinery and Equipment...........	$15,316	$15,316
Accumulated Amortization..........	$5,784	$4,060

Description of Lease Arrangements: There are 2 contracts for rental computer system equipment between the Parklawn Computer Center and IBM which meet the criteria for capitalized leases. Contract 282-87-0032 began in 1988 and ends in 1994 and effectively contains payments for 7 years although the contract is actually a series of one-year contracts renewable at the option of the Federal government at the end of each fiscal year.
Contract 213-88-0006 began in 1989 and ends in 1993 with 5 years of payments.

Future Payments Due:

Fiscal Year	
1993	$2,496
1994	412
Total Future Lease Payments	$2,908
Less: Imputed Interest	892
Executory Costs (e.g., taxes)	0
Total Capital Lease Liability	$2,016
Funded.........	$2,016
Unfunded.......	$0

PHS SERVICE AND SUPPLY FUND

NOTE 5. Fund Balances	FY 1992 (DOLLARS/THOUSANDS)	FY 1991 RESTATED

The revolving fund balance (equity) is made up of the following elements:

	FY 1992	FY 1991 RESTATED
Unexpended Appropriations:		
Unobligated, Available..............	$ 6,722	$ 2,529
Undelivered Orders	17,707	15,167
Invested Capital	250	294
Cumulative Results of Operations	(4,524)	1,757
Donations	0	508
Transfers	49	(148)
Accrued Unfunded Leave	(2,242)	(2,131)
Total	$17,962	$17,976

NOTE 6. Future Funding Requirements:

The balances represent the unfunded liability for accumulated civilian annual leave and PHS Commissioned Officers military leave.

NOTE 7. Program Operating Expenses: (ROUNDED/THOUSANDS)

	FY 1992	FY 1991 RESTATED
1. Supply Service Center	$ 3,715	$ 2,605
2. Parklawn Computer Center	13,384	12,219
3. Division of Fiscal Services	10,060	7,564
4. Parklawn Services	29,014	23,464
5. Division of Commissioned Personnel	5,237	4,659
6. Central Personnel Services	2,606	1,987
7. Regional Activities	2,271	1,915
Total Expenses	$66,287	$54,413

NOTE 8. Other Expenses:

Value of leave earned but unfunded less the value of leave used when funded (annual, sick, and compensatory).