



December 28, 2010

TO: Thomas R. Frieden, M.D., M.P.H.
Director
Centers for Disease Control and Prevention

FROM: /Daniel R. Levinson/
Inspector General

SUBJECT: Review of the Centers for Disease Control and Prevention's Accountability for Property (A-04-07-01054)

The attached final report provides the results of our review of the Centers for Disease Control and Prevention's accountability for property. We initiated this review based on a congressional request.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-04-07-01054 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE
CENTERS FOR DISEASE CONTROL AND
PREVENTION'S ACCOUNTABILITY
FOR PROPERTY**



Daniel R. Levinson
Inspector General

December 2010
A-04-07-01054

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Department of Health & Human Services, Centers for Disease Control and Prevention (CDC), maintains various types of accountable property (property) in the United States and overseas. As of September 30, 2007, CDC's Property Management System (property system) listed 49,837 items totaling \$350 million as located in the United States.

Accountability for Government Property

CDC's Procurement and Grants Office (PGO), which is responsible for managing CDC property in accordance with Federal requirements, contracts for an annual physical inventory of property. The PGO Property Accountable Officer should document all transactions that affect property received, on hand, and disposed of. The physical control of property in each jurisdiction, or custodial area, is the responsibility of Property Custodial Officers employed in various CDC centers.

Prior Office of Inspector General Audit

In a 1995 report (A-15-94-00020), we found deficiencies in CDC's property accountability. We recommended that CDC strengthen management controls by (1) resolving the status of missing property, (2) reconciling the physical inventory results to the property system and the property system to the general ledger, (3) separating key property management duties to maintain an adequate system of checks and balances, (4) conducting a comprehensive management control review, and (5) establishing and promoting the use of a hotline for the anonymous referral of information on property at risk.

Congressional Request

We initiated this audit based on a congressional request.

OBJECTIVE

Our objective was to determine whether CDC's property system was accurate and complete.

SUMMARY OF FINDINGS

CDC's property system was neither accurate nor complete. Of 200 items sampled from the property system, we located 185. We could not locate the 15 remaining items. Based on these sample results, we estimated that CDC had lost or misplaced approximately \$8.2 million worth of Government property as of September 30, 2007. Furthermore, CDC did not add all newly acquired property to the property system. Of 200 sampled purchase orders paid during FY 2007, CDC had appropriately added 171 property items to the property system. For the 29 remaining items, CDC either had not added the items to the property system or had recorded the items in the property system at amounts less than the purchase costs. Based on these sample results, we

estimated that the property system was understated by approximately \$1.5 million for purchases made during FY 2007.

These inaccuracies occurred because CDC did not always adjust the property system to reflect the results of the annual physical inventory and did not barcode all newly acquired property for entry in the property system. Based on these continuing problems with property accountability, we concluded that CDC had not fully implemented the recommendations in our prior report to strengthen management controls over property.

RECOMMENDATIONS

We recommend that CDC improve its controls over property by:

- adjusting the property system based on annual physical inventory results and removing from the property system any lost or missing property, including the estimated \$8.2 million worth that we identified;
- ensuring that all newly acquired property items, including at least \$1.5 million worth of items acquired in FY 2007, are barcoded and correctly added to the property system; and
- reconciling the general ledger to the property system to identify any outstanding discrepancies and resolving such discrepancies.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In its comments on our draft report, CDC concurred with our recommendations. The complete text of CDC's comments is included as Appendix E.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Accountability for Government Property	1
Prior Office of Inspector General Audit	1
Congressional Request.....	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	4
LAWS AND GUIDANCE	4
INACCURATE AND INCOMPLETE PROPERTY SYSTEM	5
Missing Property Still in the Property System.....	5
Purchases Not Included in the Property System or Included at the Incorrect Value.....	5
INADEQUATE CONTROLS FOR UPDATING THE PROPERTY SYSTEM	5
Annual Physical Inventory Results Not Used To Adjust the Property System	5
Newly Acquired Property Not Barcoded.....	6
CONCLUSION	6
RECOMMENDATIONS	7
CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS	7
APPENDIXES	
A: PROPERTY SAMPLING METHODOLOGY	
B: PROPERTY SAMPLE RESULTS AND ESTIMATES	
C: PURCHASE ORDERS SAMPLING METHODOLOGY	
D: PURCHASE ORDERS SAMPLE RESULTS AND ESTIMATES	
E: CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS	

INTRODUCTION

BACKGROUND

The Department of Health & Human Services (HHS), Centers for Disease Control and Prevention (CDC), maintains various types of accountable property (property)¹ in the United States and overseas. As of September 30, 2007, CDC's Property Management System (property system)² listed 49,837 items totaling \$350 million as located in the United States.

Accountability for Government Property

CDC's Procurement and Grants Office (PGO), which is responsible for managing CDC property in accordance with Federal requirements, contracts for an annual physical inventory of property. The PGO Property Accountable Officer (Accountable Officer) should document all transactions that affect property received, on hand, and disposed of. The physical control of property in each jurisdiction, or custodial area, is the responsibility of Property Custodial Officers (Custodial Officers) employed in various CDC centers.

During fiscal year (FY) 2007, CDC was transitioning from the stand-alone property system to the Property Management Information System (PMIS).³ The PMIS was designed to interface with the Integrated Contract Expert, which was CDC's purchasing system, and with the HHS-wide Unified Financial Management System (financial system).

Prior Office of Inspector General Audit

In a 1995 report,⁴ we found that items unaccounted for during CDC's FY 1992 inventory remained unaccounted for in the FY 1993 inventory. Additionally, we found that CDC did not:

- have policies and procedures for resolving the status of missing property,
- properly reconcile the property system to the general ledger,
- have adequate separation of duties, or

¹ The HHS *Logistics Management Manual* (LMM), dated June 7, 2007, subchapter E, part 103-27.5002, defines "accountable property" as "[p]ersonal property with an acquisition value of \$5,000 or more with a useful life expectancy of more than 2 years, sensitive items (weapons, including tranquilizer guns; portable personal computers; and other items designated as sensitive by a component of HHS), and leased property, without regard to value."

² The property system was designed to list the status of each property item (on hand, idle, in storage, on loan, etc.), as well as the item description, barcode, serial number, manufacturer, acquisition cost, acquisition date, purchase order number, Federal stock classification, user name, and location.

³ CDC completed the transition to the PMIS in May 2008.

⁴ *Review of the Centers for Disease Control and Prevention's Resolution of Unaccounted for Property* (A-15-94-00020).

- conduct a comprehensive management control review of property every 5 years as required by the HHS *Material Management Manual*.⁵

We recommended that CDC strengthen management controls by (1) resolving the status of missing property, (2) reconciling the physical inventory results to the property system and the property system to the general ledger, (3) separating key property management duties to maintain an adequate system of checks and balances, (4) conducting a comprehensive management control review, and (5) establishing and promoting the use of a hotline for the anonymous referral of information on property at risk.

Congressional Request

We initiated this audit based on a congressional request.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether CDC's property system was accurate and complete.

Scope

Our audit covered (1) the approximately \$350 million worth of property listed in the property system as located in the United States as of September 30, 2007, and (2) property purchase orders totaling \$8.9 million that were paid during FY 2007.

We limited our assessment of internal controls to CDC's property management activities and those financial management activities related to accounting for property.

We conducted fieldwork at CDC's offices in Atlanta, Georgia; Cincinnati, Ohio; Morgantown, West Virginia; Pittsburgh, Pennsylvania; Fort Collins, Colorado; and Hyattsville, Maryland.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed our 1995 report;
- reviewed CDC's policies and procedures to gain an understanding of its internal controls related to our audit objective;

⁵ The current HHS *Material Management Manual* does not require a management control review of property every 5 years.

- interviewed CDC officials responsible for internal controls over the property system;
- attempted to verify the existence of property included in the property system by:
 - obtaining from the property system a list of property as of September 30, 2007, and excluding all items listed as located outside the United States;
 - selecting from the 49,837 property items listed as located in the United States a stratified random sample of 200 items: 100 items valued at less than \$5,000, 70 items valued at \$5,000 to less than \$400,000, and all 30 items valued at \$400,000 or more (Appendix A);
 - performing a physical inventory of each sampled property item by barcode, serial number, location, make, and model; and
 - estimating the value of missing property listed in the property system as located in the United States (Appendix B);
- attempted to verify the completeness of the property system by:
 - obtaining from the financial system a file of the 992 property purchase orders paid during FY 2007;
 - selecting from the file of property purchase orders a stratified random sample of 200 purchase orders: 92 purchase orders valued at \$1,000 to less than \$20,000 and all 108 purchase orders valued at \$20,000 or more (Appendix C);
 - attempting to track the 200 sampled purchase orders from the financial system to the property system; and
 - estimating the value of property purchased in FY 2007 that was not recorded or that was improperly recorded in the property system (Appendix D);
- attempted to reconcile the general ledger to property system records;
- interviewed the Accountable Officer and CDC contractor officials to gain an understanding of the procedures used to conduct the FY 2007 physical inventory; and
- discussed our preliminary findings with CDC officials.

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

FINDINGS AND RECOMMENDATIONS

CDC's property system was neither accurate nor complete. Of 200 items sampled from the property system, we located 185. We could not locate the 15 remaining items. Based on these sample results, we estimated that CDC had lost or misplaced approximately \$8.2 million worth of Government property as of September 30, 2007. Furthermore, CDC did not add all newly acquired property to the property system. Of 200 sampled purchase orders paid during FY 2007, CDC had appropriately added 171 property items to the property system. For the 29 remaining items, CDC either had not added the items to the property system or had recorded the items in the property system at amounts less than the purchase costs. Based on these sample results, we estimated that the property system was understated by approximately \$1.5 million for purchases made during FY 2007.

These inaccuracies occurred because CDC did not always adjust the property system to reflect the results of the annual physical inventory and did not barcode all newly acquired property for entry in the property system. Based on these continuing problems with property accountability, we concluded that CDC had not fully implemented the recommendations in our prior report to strengthen management controls over property.

LAWS AND GUIDANCE

Pursuant to "Public Buildings, Property, and Works" (40 U.S.C. § 524(a)(1)), "Each executive agency shall ... maintain adequate inventory controls and accountability systems for property under its control" The HHS *Financial Accounting Policy Manual*, part 1-30-20A(2), requires that agencies record all acquisitions and disposals of property in the general ledger control accounts and subsidiary property management records. This manual, part 1-30-20F, also requires that missing property be documented with all known facts and be referred to a designated individual or Board of Survey for determination of responsibility.⁶ Such determination should be used to adjust the property and financial records.

Section F of PGO's *Material Management Activity Guidance* requires that PGO barcode property and add it to property records upon receipt. Any items acquired through exchange or trade-in must be coordinated through PGO, and the purchase orders must include sufficient information to allow accurate barcode information to be entered in the property system. GAO's *Standards for Internal Control in the Federal Government*, page 14, states: "Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into."

⁶ A Board of Survey consists of three or more members appointed quarterly by CDC management to inquire into the circumstances of missing property.

INACCURATE AND INCOMPLETE PROPERTY SYSTEM

CDC's property system included items that we could not locate and did not include, or included the incorrect value of, some newly acquired items.

Missing Property Still in the Property System

CDC did not always adjust its property system to account for missing property. Specifically, we could not locate 15 of 200 items sampled from the items listed in the property system. Examples of missing items included an enterprise storage array with an acquisition cost of \$1.8 million and a video conference system with an acquisition cost of \$900,000.

Based on our sample results, we estimated that CDC had not adjusted its property system for approximately \$8.2 million worth of lost or misplaced Government property as of September 30, 2007.

Purchases Not Included in the Property System or Included at the Incorrect Value

CDC did not correctly add all property acquired in FY 2007 to its property system. Of 200 items sampled from the purchase orders that CDC paid during FY 2007, 17 items were not added to the property system and 12 items were recorded in the property system at amounts less than the purchase costs.

For example, a microplate reader with a purchase cost of \$36,828 was processed through the financial system but was not added to the property system. In addition, a microscope was recorded in the property system as having a purchase cost of \$31,866; however, the purchase order showed a total cost of \$61,872. The purchase order contained a number of additional components for the microscope, but the purchase cost recorded in the property system did not reflect those additional components.

Based on our sample results, we estimated that property in the property system was understated by approximately \$1.5 million for purchases made during FY 2007.

INADEQUATE CONTROLS FOR UPDATING THE PROPERTY SYSTEM

CDC's property system was not accurate and complete because CDC did not adjust the property system based on physical inventory results and did not barcode all newly acquired property.

Annual Physical Inventory Results Not Used To Adjust the Property System

Missing property remained in the property system because CDC did not use the results of the annual physical inventory to adjust the property system. After conducting the annual inventory, CDC's contractor compared the inventory results with information recorded in the property system and generated an exception report listing those items that were either located and not in the property system or not located and in the property system. The contractor provided the exception report to the Custodial Officers to determine the actual disposition of the property.

The Custodial Officers researched the property exceptions and, for missing items, submitted their findings to PGO. However, PGO did not always use the findings to adjust the property system.

Newly Acquired Property Not Barcoded

CDC did not include all newly acquired property in the property system and included the incorrect value of some items because the items lacked barcodes when they arrived at CDC's warehouse before distribution.

- Some new items were upgrades to existing items, but the purchase orders for the upgraded items did not contain the barcodes of the existing items. Consequently, when CDC received the upgraded items, the property system could not link the items to the existing items. CDC did not add the upgraded items to the property system because individually they did not reach the dollar threshold for inclusion.
- In some instances, components that were valued below the dollar threshold for inclusion in the property system were purchased and assembled into new, multiple-component items; however, neither the components nor the end product was barcoded. Thus, these acquisitions were not entered in the property system. For other multiple-component items, some components were entered in the property system at cost because they exceeded the dollar threshold, but the remaining components were not added to the system. Thus, the multiple-component items were recorded in the property system at amounts less than the total purchase costs.
- Some items were acquired by employees who contacted vendors directly and used existing items as trade-ins. PGO did not barcode the items and add them to the property system because the employees who traded the property did not inform PGO of the transactions.
- One item delivered to CDC was not barcoded and added to the property system because it remained in its shipping crate awaiting installation by the vendor.

As of April 30, 2008, the general ledger and the property system did not reconcile. Financial Management Office⁷ personnel stated that they were unaware that the general ledger and the property system had ever been completely reconciled. Had CDC reconciled the general ledger to the property system, it might have recognized that newly acquired property was not added to the property system or was added at an incorrect value.

CONCLUSION

In our 1995 report, we recommended that CDC take several steps to strengthen management controls over property. Our current audit showed continuing problems with accounting for property as required by Federal law and departmental guidance. These continuing problems

⁷ CDC's Financial Management Office is responsible for providing financial services, budgetary and legislative guidance, and quality assurance support.

suggest that CDC has not fully implemented the recommendations in our previous report. CDC's property system still does not provide a reliable accounting of property.

RECOMMENDATIONS

We recommend that CDC improve its controls over property by:

- adjusting the property system based on annual physical inventory results and removing from the property system any lost or missing property, including the estimated \$8.2 million worth that we identified;
- ensuring that all newly acquired property items, including at least \$1.5 million worth of items acquired in FY 2007, are barcoded and correctly added to the property system; and
- reconciling the general ledger to the property system to identify any outstanding discrepancies and resolving such discrepancies.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In its comments on our draft report, CDC concurred with our recommendations. CDC stated that it had improved and implemented certain property system policies and procedures and was developing other enhancements to ensure appropriate receipt, barcoding, inventory, and disposition of Federal property. In addition, CDC requested a list of the 15 sampled items that we could not locate. The complete text of CDC's comments is included as Appendix E.

We will provide the requested list to CDC.

APPENDIXES

APPENDIX A: PROPERTY SAMPLING METHODOLOGY

OBJECTIVE

Our sampling objective was to estimate the value of accountable property (property) listed in the Centers for Disease Control and Prevention (CDC) Property Management System (property system) that we could not locate.

POPULATION

The population consisted of items listed in the property system as located in the United States as of September 30, 2007.

SAMPLING FRAME

The sampling frame consisted of 49,837 property items totaling \$349,964,366 that were listed in the property system as located in the United States as of September 30, 2007. We stratified the sampling frame as follows:

Stratum	Value of Property Item	Number of Items in Sampling Frame
1	\$0 through \$4,999.99	36,270
2	\$5,000 through \$399,999.99	13,537
3	\$400,000 or more	30
Total		49,837

SAMPLE UNIT

The sample unit was a property item.

SAMPLE DESIGN

We used a stratified random sample.

SAMPLE SIZE

We selected 200 property items as follows:

Stratum	Number of Items	Dollar Value
1	100	\$160,016
2	70	1,822,286
3	30	22,411,725
Total	200	\$24,394,027

SOURCE OF RANDOM NUMBERS

We used the Office of Inspector General (OIG), Office of Audit Services (OAS), statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE ITEMS

We consecutively numbered the items in each stratum. After generating the random numbers for strata 1 and 2, we selected the corresponding frame items. We selected all 30 items in stratum 3.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the value of missing property items.

APPENDIX B: PROPERTY SAMPLE RESULTS AND ESTIMATES

Sample Results

Stratum	Sample Size	Value of Sample	Number of Missing Items	Value of Missing Property
1	100	\$160,016	9	\$14,845
2	70	1,822,286	4	0 ¹
3	30	22,411,725	2	2,767,524 ¹
Total	200	\$24,394,027	15	\$2,782,369

Estimated Value of Missing Property

Limits Calculated for a 90-Percent Confidence Interval

Point estimate	
Stratum 1	\$5,384,361
Stratum 2	0
Stratum 3	2,767,524
Total	\$8,151,885
Lower limit	
	\$5,148,893
Upper limit	
	11,154,877

¹ Because OAS sampling policy requires a minimum of six sample units with the characteristic of interest (i.e., a missing item) in a stratum for estimation purposes, we did not estimate the value of missing property for stratum 2. This policy does not apply to stratum 3 because we reviewed 100 percent of the items in the sampling frame for stratum 3.

APPENDIX C: PURCHASE ORDERS SAMPLING METHODOLOGY

OBJECTIVE

Our sampling objective was to determine whether property shown on CDC's paid purchase orders was entered in CDC's property system.

POPULATION

The population consisted of purchase order transactions of \$1,000 or more that were recorded in the Unified Financial Management System (financial system) as paid during fiscal year (FY) 2007.

SAMPLING FRAME

We created our sampling frame from a list of 1,486 purchase orders for property (object codes 31xxx) that were recorded in the financial system as having been issued and paid during FY 2007. We eliminated 494 transactions with payments less than \$1,000. The resulting sampling frame consisted of 992 purchase order transactions totaling \$8,922,382. We stratified the sampling frame as follows:

Stratum	Value of Purchase Order	Number of Items in Sampling Frame
1	\$1,000 through \$19,999.99	884
2	\$20,000 or more	108
Total		992

SAMPLE UNIT

The sample unit was a purchase order transaction.

SAMPLE DESIGN

We used a stratified random sample.

SAMPLE SIZE

We selected 200 purchase order transactions as follows:

Stratum	Number of Items	Dollar Value
1	92	\$467,311
2	108	4,480,974
Total	200	\$4,498,285

SOURCE OF RANDOM NUMBERS

We used the OIG/OAS statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE ITEMS

We numbered the items in stratum 1 consecutively from 1 to 884. After generating the random numbers, we selected the corresponding frame items. We selected all 108 items in stratum 2.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the value of property purchased in FY 2007 that was not recorded or that was improperly recorded in the property system.

APPENDIX D: PURCHASE ORDERS SAMPLE RESULTS AND ESTIMATES

Sample Results

Stratum	Sample Size	Value of Sample	Number of Unrecorded and Improperly Recorded Property Items	Value of Unrecorded and Improperly Recorded Property
1	92	\$467,311	13	\$86,113
2	108	4,480,974	16	651,547
Total	200	\$4,498,285	29	\$737,660

**Estimated Value of
Unrecorded and Improperly Recorded Property**
Limits Calculated for a 90-Percent Confidence Interval

Point estimate	
Stratum 1	\$827,433
Stratum 2	651,548
Total	\$1,478,980
Lower limit	\$1,085,635
Upper limit	1,872,326

APPENDIX E: CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

OCT 21 2010

TO: Daniel R. Levinson
Inspector General
Department of Health and Human Services

FROM: Director, Centers for Disease Control and Prevention
Administrator, Agency for Toxic Substances and Disease Registry

SUBJECT: Office of Inspector General's Draft Report: *"Review of the Centers for Disease Control and Prevention's Accountability for Property"* (A-04-07-01054)

The Centers for Disease Control and Prevention (CDC) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report entitled, *"Review of the Centers for Disease Control and Prevention's Accountability for Property."*

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

It is important to recognize that the timing of the draft OIG report occurs approximately two years after CDC, with the help of the OIG, had already identified and implemented process improvements. These improvements include: establishment of a Property Task Force; identification of a staff member within each center, institute, and office to serve as their property accountability officer; establishment of a position for a full time property management officer; implementation of the Department of Health and Human Services' (HHS) Property Management Information System (PMIS); establishment of training requirements for all property management staff and implementation of controls ensuring training was accomplished; and increased senior leader emphasis on property management throughout CDC.

In summary, CDC concurs with the recommendations of the OIG report. Over the past two years, CDC has implemented measures that coincide with these recommendations. Regarding OIG findings, CDC's technical comments on the draft report are also attached. We appreciate your consideration of the comments contained in this memorandum and the technical comments as you develop the final report. The responses below will address each OIG recommendation, noting areas where enhancements are already in place.

Page 2 - Daniel R. Levinson

CDC Responses to OIG Recommendations:

OIG Recommendation: Adjusting the property system based on annual physical inventory results and removing from the property system any lost or missing property, including the estimated \$8.2 million worth that [the OIG] identified.

CDC Response: CDC concurs with this recommendation, and CDC makes needed adjustments in its property system based on physical inventory results. CDC's 2009 inventory accounted for 99% of all assets in PMIS, and the 2010 is currently at 99.98% complete with only 13 items out of 55,566 left to reconcile.

Regarding the estimated \$8.2 million worth of property identified by the OIG during the course of the review, please see CDC technical comments below.

OIG Recommendation: Ensure that all newly acquired property items, including at least \$1.5 million worth of items acquired in FY 2007, are bar coded and correctly added to the property system.

CDC Response: CDC concurs with this recommendation. CDC has completed multiple physical inventory cycles with the numerous process improvements in place. The physical inventory process includes the application of property management internal controls such as reviews of all purchase orders by inventory management and receiving staff to identify property requiring barcodes and improved financial reconciliation processes that ensures both financial and property records for object class 31 property are synchronized.

CDC's Information Technology and Services Office (ITSO) has implemented several automated tools to assist with accounting for the vast number of information technology equipment over the past couple of years. For instance, ITSO utilizes network tools that scan and identify any and all equipment that connects to CDC's network. In FY 2010, ITSO located and reported on 25,648 assets.

There are also a number of other enhancements under development to ensure appropriate receipt, bar coding, inventory, and, disposition of federal property. For example, the revised CDC Warehouse Policy, nearing completion, improves current procedures and processes to ensure appropriate receipt and accountability for all acquisitions. The Procurement and Grants Office Multi-agency Standard Operating Procedures include property acquired through these processes. The establishment of a Logistics Management Branch (LMB) Helpdesk will enable CDC to request LMB assistance with all phases of the property life cycle and is currently operating in a limited capacity. When completed, the Helpdesk will direct CDC requests to the appropriate LMB personnel for management of Accountable Property.

OIG Recommendation: Reconcile the general ledger to the property system to identify any outstanding discrepancies and resolving such discrepancies.

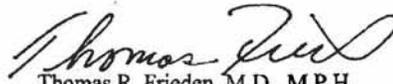
Page 3 - Daniel R. Levinson

CDC Response: CDC concurs with this recommendation.

As of May 1, 2008, CDC has been completing reconciliations with respect to property in accordance with HHS' Financial Reconciliation Interim Policy (PM-2008-4; 04-22-2008). This policy requires completion within 30 days of the end of the quarter a reconciliation of the standard general ledger accounts covering property, plant, and equipment. Furthermore, CDC completes the reconciliation monthly, which is in addition to the policy requirement.

The reconciliation is between the Unified Financial Management System (UFMS) and PMIS. Each month the following items are identified: (1) purchases in the general ledger not in the property system, (2) purchases in the property system not in the general ledger, and (3) purchases in both systems with different values. In accordance with policy, CDC researches and tracks discrepancies and/or out-of-balance relationships between UFMS and PMIS.

We are happy to discuss any of these comments with you. Please direct any questions regarding these comments to Mr. Mike Tropauer by telephone at (404) 639-7009 or by e-mail at iggao@cdc.gov.


Thomas R. Frieden, M.D., M.P.H.

Attachments

TECHNICAL COMMENTS OF THE CENTERS FOR DISEASE CONTROL AND PREVENTION ON THE HHS INSPECTOR GENERAL'S REPORT ENTITLED: REVIEW OF THE CENTERS FOR DISEASE CONTROL AND PREVENTION'S ACCOUNTABILITY FOR PROPERTY (A-04-07-01054)

Page i, paragraph under SUMMARY OF FINDINGS; Page 4, paragraph 1

The report states that 15 items of 200 could not be located and estimates that the value of CDC's lost or missing equipment to be \$8.2 million. Given the significant difference between lost property and missing property (not inventoried) and the fact that CDC has conducted multiple inventories since the audit, the opportunity exists to more clearly distinguish between which of the 15 items were lost and which were missing (not inventoried). Recommend the listing of 15 items be provided to CDC for assessment of their status in the Property Management Information System (PMIS).

Page 1, footnote 1

Multiple versions of the Logistics Management Manual exist. For clarity, recommend the date of the version used be included in the footnote.

Page 5, paragraph 1

The statement "Examples of missing items included an **enterprise server**..." is technically incorrect. Please change this to read "...an enterprise **storage array**..." The equipment that could not be located at the time the auditors were at CDC was purchased via a Lease to Own Purchase. The equipment was returned after completion of the lease but the property system had not yet been updated.