

**Memorandum**

FEB 19 1997

Date

From Deputy Inspector General
for Audit Services

Subject Report on the Financial Statement Audit of the Indian Health Service for Fiscal Year 1995
(A-17-95-00050)

To Luana L. Reyes
Acting Director of Headquarters Operations
Indian Health Service

The attached report presents the results of the certified public accounting firm Clifton, Gunderson L.L.C. (CG) in its audit of the Department of Health and Human Services, Indian Health Service (IHS) statement of financial position (balance sheet) for the fiscal year (FY) ended September 30, 1995. The Office of Inspector General exercised technical oversight and quality control over the audit.

We engaged CG to audit the statement of financial position and to express an opinion on that statement. The firm issued a disclaimer of opinion on the IHS statement of financial position because of several matters which limited the scope of CG's work. Most significantly, property and equipment balances were not supported by adequate documentation as of September 30, 1995. In addition, documentation was not available to support the balances of advances, deferred revenue, accounts payable, other liabilities, and components of net position for September 30, 1995.

As part of the audit engagement, CG also rendered separate reports on internal controls and on compliance with laws and regulations. In the report on internal controls, CG noted four material weakness and five reportable conditions. The four material weaknesses, which resulted in the disclaimer indicated above, are as follows:

- Property and equipment cost balances (\$636,356,000) were not reliable or supported by adequate documentation;
- Accounts receivable balances (\$20,000,000) in the general ledger could not be adequately supported;
- Deferred revenue amounts (\$48,000,000) could not be supported by adequate documentation; and
- Accounts payable reconciliations were not performed on a timely basis.

In addition, CG noted the following five reportable conditions:

- Treasury fund accounts were not reconciled in a timely manner;
- Inventory at various hospitals was not counted or valued as of September 30, 1995;
- Goods and services received at the end of the year were not being accrued in the appropriate year;
- Commissioned corps leave balances and accrued leave amounts were not available or recorded in IHS's financial statements; and
- Security access and administrative controls of IHS financial systems need improvement.

In the report on compliance with laws and regulations, CG noted no instances of noncompliance required to be reported under Government Auditing Standards. In our oversight of the audit, we found nothing to indicate that CG's work is inappropriate or that CG's reports cannot be relied upon.

The IHS management has concurred with all of the findings and recommendations identified during the FY 1995 audit. We are encouraged by IHS management's responsiveness to the issues and to the progress being made as the audit of the FY 1996 financial statements proceeds.

We want to thank you for the courtesy and cooperation your staff extended to CG and our staff during the audit. If you wish to discuss the report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities on (202) 619-1157.


Thomas D. Roslewicz

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REPORT ON THE
FINANCIAL STATEMENT AUDIT
OF THE
INDIAN HEALTH SERVICE
FOR FISCAL YEAR 1995**

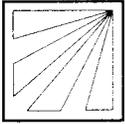


THOMAS D. ROSLEWICZ
Deputy Inspector General
for Audit Services

FEBRUARY 1997
A-17-95-00050

**DEPARTMENT OF
HEALTH AND
HUMAN SERVICES,
INDIAN HEALTH
SERVICE**

**INDEPENDENT
AUDITOR'S REPORT
AND FINANCIAL
STATEMENT
September 30, 1995**



To the Office of Inspector General
of the Department of Health and Human
Services and the Board of Governors of
the Department of Health and Human Services

Independent Auditor's Report

Executive Summary

We were engaged to audit the accompanying statement of financial position of the Department of Health and Human Services, Indian Health Service (IHS) (the "Principal Financial Statement") as of September 30, 1995. This financial statement is the responsibility of IHS management.

A summary of our findings is presented below. The findings are discussed in more detail in other sections of this report.

- ◇ Because of the significance of the matters discussed in the following Report on Statement of Financial Position, the scope of our work was not sufficient to enable us to express an opinion on the Statement of Financial Position as of September 30, 1995.
- ◇ We noted four material internal control weaknesses and five other matters considered reportable conditions. Such matters are described in this report.
- ◇ We noted no material noncompliance with the selected provisions of applicable laws and regulations tested; and
- ◇ We noted no material conflicts with management's report on internal controls prepared under the Federal Managers' Financial Integrity Act of 1982.

Report on Statement of Financial Position

We were engaged to audit the accompanying statement of financial position of IHS as of September 30, 1995. This financial statement is the responsibility of IHS management.

IHS has not maintained adequate documentation to support cost balances of property and equipment as of September 30, 1995. In addition, supporting documentation for certain account balances relating to advances, deferred revenue, accounts payable, other liabilities and components of net position at September 30, 1995 are not available. IHS's records do not permit the application of other auditing procedures to these accounts.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Financial Position as of September 30, 1995.

Report on Compliance With Laws and Regulations

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under Government Auditing Standards.

Report on Internal Controls

Our tests of applicable internal controls and compliance were performed to determine our auditing procedures for expressing an opinion on the Principal Financial Statements and to report our findings resulting from our controls and compliance testing and not to express, and we do not express, separate opinions about the adequacy of the internal control structure or compliance with laws and regulations.

Because of inherent limitations in any internal control structure, losses, noncompliance or misstatement may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

A reportable condition is a matter coming to our attention related to a significant deficiency in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more 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 as defined above.

We noted certain matters involving the financial reporting internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. We have summarized these reportable conditions below. We believe that certain of these reportable conditions are material weaknesses in internal control and are summarized below.

We also noted other matters involving the financial reporting internal control structure and its operation that we reported to management of IHS in a separate letter dated May 14, 1996.

REPORTABLE CONDITIONS

1. YEAR-END TREASURY FUND RECONCILIATIONS

IHS has not performed timely detailed reconciliations of all the general ledger balances to the Statement of Transactions, SF 224, during the year. Only 3 of the 15 appropriations at the area offices were reconciled timely as of September 30, 1995.

Recommendation

We recommend that Treasury Fund accounts be reconciled monthly and that balance differences be investigated and resolved in a timely manner.

Auditee Response

The IHS concurs that the Treasury Fund must be reconciled monthly. Listing of reconciliations are being kept by the Program Support Center (PSC) and forwarded to the IHS Division of Resources Management (DRM). For fiscal year (FY) 97 the IHS has one accounting point not in compliance. They have hired outside help to complete their reconciliation. Oklahoma has also volunteered a person to help the accounting point or any other having problems with cash reconciliation.

2. OPERATING SUPPLIES & MATERIALS

Even though inventory was capitalized at IHS's supply service centers located around the country, inventory at various hospitals was not counted or valued for capitalization at September 30, 1995. Approximately \$7,500,000 in inventory was estimated for those hospitals and such amount has been reflected in the financial statements at September 30, 1995.

Recommendation

We recommend that the capitalization policy for hospital operating supplies and materials be applied consistently for all hospitals. This could be achieved either through a physical count and valuation of items on hand at the end of the year, or by an estimate similar to that used at September 30, 1995.

Auditee Response

The IHS inventory usage tapes being handled in Albuquerque were not entered into the system during the year on a monthly basis. This has been taken care of for FY 97. This will give us a better financial report for FY 97.

3. ACCRUED LIABILITIES

We noted several instances where goods or services received as of the end of the year are not being properly accrued in the appropriate fiscal year. The following table summarizes the adjustments needed to accounts payable at September 30, 1995:

Underaccrual for goods and services received	\$ 6,999,996
Overaccrual for goods and services received	<u>(898,202)</u>
Net understatement of accounts payable	<u>\$ 6,101,794</u>

The financial statements, provided to us by IHS management, have been adjusted as of September 30, 1995.

The net understatement relates to vendor contracts for which goods or services received as of September 30, 1995 were not accrued. Goods or services received under these arrangements were not expensed in the accounting system until paid.

Recommendations

We recommend the following:

- a. The obligation of the contract under which the invoices are received should have no effect on the timing of recording the liability for financial statement purposes. We recommend that the premise and rationale for the accrual of expenses be emphasized to those assisting in the gathering of information for the close of the accounting records. This is especially important at the end of the fiscal year. The distinction between accrual basis accounting and obligation/budget accounting must be emphasized. In addition, the finance division should solicit input from the various branches to assist them in making year-end accruals.
- b. Expenses should only be accrued when the goods or services are received. If certain object codes require automatic accrual for budgetary purposes, these accruals should be reviewed periodically and especially at year-end to adjust for financial statement purposes.

Auditee Response

Division of Fiscal Services (DFS) will again include in their year-end closing instructions a request for receiving documents for all services provided during the last month of the fiscal year. These receiving documents will be used as the source documents for year-end accruals. Invoices received at DFS before fiscal year end, which are due for payment after the fiscal year ends, will be reviewed for accrual activity as well.

4. ANNUAL LEAVE - COMMISSIONED CORP. PERSONNEL

At September 30, 1995, an accrued liability for annual leave of \$28,500,000 was not reflected in IHS's financial statements. However, there were no reports available to substantiate the accrual amount or to identify leave amounts available to individual commissioned corp. personnel. Accordingly, such accrual was based on broad assumptions of commissioned corp. leave balances and average wages.

Recommendation

We recommend that individual commissioned corp. leave balances be reconstructed to support an annual leave liability amount. Procedures should be established to periodically update the leave balances so that adjustments can be made at least annually to the balance recorded in the financial statements.

Auditee Response

Division of Commissioned Personnel (DCP) supports the concept of a centralized recording system for commissioned officer leave. DCP plans to move to a centralized and automated leave record keeping system. However, the design, development and subsequent implementation of such a system has been delayed due to the lack of funds and personnel. At this point, it is unlikely that such a system will be available within the next 2 - 3 years. In any case, such a system will require completion of the migration from the Wang system to a relational data base system before the design work, systems development and testing, and subsequent implementation of such new application can be accomplished.

5. ELECTRONIC DATA PROCESSING

At Headquarters-East, the Department of Fiscal Services (DFS) of the Health Resources And Service Administration (HRSA) maintains several accounting systems for the Indian Health Service. DFS has contracted with Parklawn Computer Center (PCC) to operate computerized financial applications at PCC's data center. Also, IHS is processing several accounting systems at Headquarters-West's regional offices and at medical facilities.

We have noted that the security access and administrative controls of IHS's financial systems need improvement as follows:

At Headquarters-East

- Some Resource Access Controls Facility (RACF) coordinators have implemented the RACF security software without requiring users to periodically change passwords. Users can keep the same passwords for years.

- Users can access applications with someone else's ID and attempt to compromise the password. Since there is no maximum invalid access attempts limitation in the application software, users can enter passwords until they guess the correct password.
- Health Accounting System (HAS) has outdated manuals. They are an important control mechanism because they inform the users of the features of the system, and assist programmers in making changes to programs that might affect other aspects of the system. We understand that PCC plans to implement a new accounting system to replace HAS; however, this implementation may take several years while DFS still uses the old system that remains not adequately documented.
- OMB Circular A-130, Management of Federal Information Resources, states that there must be a periodic risk access and re-certification every three years. Management has not performed periodic reviews for several years for the payroll interface, PHS Financial Management System, and Health Accounting System applications.
- There is no specific document or process requiring the personnel office to notify PCC for transferred or terminated employees. As a result, IHS is exposed to the risk that disgruntled former employees could destroy or change data or programs.
- There is no contingency plan for Health Accounting System (HAS) and PHS Financial Management System. As a result, IHS may not be sufficiently prepared to handle potential business interruptions resulting from prolonged computer outages, emergencies, or disasters.

At Headquarters-West

- Headquarters-West does not follow its own System Development Life Cycle (SDLC). The SDLC requires that all applications must be certified. The following applications have not been certified:
 - 1166 Payment Program
 - 3780 Data Transmission
 - Administrative Resource Management System (ARMS)
 - Contract Health Management Information (CHMIS)

Area offices and medical facilities use these systems to process production information. Programmers and operations managers maintain these programs outside the SDLC controls. Federal government and private sector best practices for systems development efforts require the use of a formal SDLC in order to minimize the risks associated with developing, purchasing, maintaining and implementing systems.

- Programmers and area offices have access to production libraries for non-certified programs. For non-certified programs, the programmer implements changes directly to production applications and data files. In addition, MUMPS is an interpreted language. Programmers send source code with all applications and application changes. As a result, all programmers

and area operations managers have access to production libraries. In addition, each of the 12 area offices can also change the applications and in turn the field office passes programs to 360 facilities.

- Headquarters-West Computer Center has no disaster and continuity plan. A good contingency plan will take into account all types of disastrous events impacting both the information system processing and the end user.
- There is no specific document or process requiring the personnel office or the employee's office to notify Headquarters-West for transferred or terminated employees. As a result, IHS is exposed to the risk that disgruntled former employees could destroy or change data or programs. The user ID's of employees who are leaving IHS services must be deleted or made inactive.
- At Headquarters-West we found doors to the wire closets left open and uninterruptive power supply (UPS) unprotected. The closets store sensitive components necessary for the continued operation of the Data Center. The closets were left open to provide adequate ventilation. Disgruntled employees or non-knowledgeable maintenance personnel could halt the information flow or cause harm to the equipment.
- No Information System Security Officer (ISSO) is effectively assigned and supported by Headquarters-West management. Headquarters-West consists of various divisions with no overall security management to coordinate, monitor, maintain or develop security policies, procedures and approaches. IHS management has developed a vertical structure of divisional responsibility and reporting rather than a site-based structure in spite of the fact that many activities such as computer support are trans-divisional and require comprehensive security management.

Recommendations

We recommend that IHS develop policies and procedures to:

- a. Implement the change password feature of RACF to force all users to periodically change their passwords and to modify financial applications to inherit the RACF ID.
- b. Update the HAS manuals.
- c. Instruct the Personnel Departments to notify DFS and PCC departments of all terminated and transferred employees.
- d. Implement the requirements of OMB A-130 for payroll interface, PHS Financial Management System, and Health Accounting System applications. In February 1996, a revision to OMB A-130 was issued to require an independent review or audit of the security controls in each application at least every three years.

- e. Develop a disaster recovery plan and coordinate the plan with the PCC computer faculty disaster plan.
- f. Certify all financial systems at Headquarters-West and ensure that all systems be controlled by the SDLC.
- g. Prevent programmers at Headquarters-West and area operations personnel from access production libraries. We also recommend that only the Software Certification and Review Branch (SCRB) be able to move programs into the production library after the user and SCRBR approve program changes.
- h. Develop and test a disaster recovery plan at Headquarters-West Computer Center in accordance with FIPS PUB 87, "Guidelines For ADP Contingency Planning."
- i. Coordinate Headquarters-West and Personnel Division efforts and develop a specific policy on departed employees. Such a policy would be more effective and better comply with FIPS PUB 112.
- j. Provide adequate ventilation and add grills to the wire closet doors and vents to the ceiling of the room at Headquarters-West. We also recommend those protect the UPS or move the UPS into a protected and secure area.
- k. Appoint an overall Headquarters-West security official with the responsibilities to encompass site-wide responsibilities.

Auditee Response

The IHS has taken steps to correct the deficiencies identified in this report that are the direct responsibility of this Agency. In some cases, the deficiencies noted are the responsibility of other Federal agencies whose services are being provided to the IHS.

Items relating to Headquarters East:

- The Parklawn Computer Center/Information Technology Services (PCC/ITS) staff support the Resource Access Controls Facility (RACF) on the mainframe and do not require periodic password changes. The IHS PCC/ITS coordinator has implemented the periodic change for all registered IHS users and the change will occur every 90 days. In addition, PCC/ITS has implemented a report mechanism that notifies the IHS PCC/ITS coordinator when a specific user-id has been attempted more than three times. Over the past year, Headquarters East has been notified only two times and in both instances it was an IHS employee who forgot their password.
- The Program Support Center (PSC) and PCC/ITS are responsible for updating the Health Accounting System (HAS) manuals. IHS, along with other Agencies, are strictly users of the HAS residing at PCC/ITS.

- The payroll interface, PHS Financial Management System, and Health Accounting System applications are a PSC and PCC/ITS responsibility. The IHS has completed their own A-130 requirement on applications developed and maintained by the IHS.
- The PCC/ITS has identified as their contingency plan for the HAS and PHS Financial Management System off-site storage located in New Jersey.

Items relating to Headquarters West:

- The IHS is in the process of certifying all financial systems developed in Albuquerque and will ensure that all systems be controlled by the SDLC.
- The IHS operates in a distributed computing environment where systems belong to Area and field offices. Programmers and Area Office personnel do not have uncontrolled access to production libraries. Access is controlled by the system owners which are Area and field offices. Source code for applications is distributed to allow Area and field offices to make modifications to meet their local requirements. Albuquerque does not have sufficient resources and expertise to support modifications to meet local requirements.
- The IHS has developed a disaster recovery plan for the Albuquerque Computer Center which is in the process of being reviewed. A plan is anticipated to be implemented in the near future.
- The IHS has ordered services from the GSA to correct ventilation concerns and to move the UPS into a protected and secure area. Completion of these services is anticipated to be no later than December 31, 1996.
- The Office of Information Resources Management, Headquarters West, has appointed an Information Systems Security Officer with responsibilities for information technology security. Physical security of the facility is the responsibility of the building management.

MATERIAL WEAKNESSES

The following material weaknesses in internal control, summarized below, were collectively responsible for the disclaimer of opinion on IHS's financial statements at September 30, 1995.

6. PROPERTY, PLANT & EQUIPMENT

IHS has not maintained reliable property, plant and equipment records. Amounts reported in the financial statements at September 30, 1995 are summarized (in thousands) as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 421	\$ -	\$ 421
Structures, facilities & improvements	496,250	207,625	288,625
Equipment	<u>139,685</u>	<u>56,493</u>	<u>83,192</u>
Totals	<u>\$ 636,356</u>	<u>\$ 264,118</u>	<u>\$ 372,238</u>

Even though a detailed subsidiary listing of property, plant and equipment was available, we were unable to obtain appropriate documentation of the acquisition cost, date of purchase\in-service date or the property's useful life.

We also noted the following matters regarding the accounting for property:

- * Legal ownership of certain structures and facilities, included in the detailed listing, was not determinable.
- * Based on a sample of disbursements for property related items that were expensed in the accounting records, we noted several instances where such items were incorrectly expensed instead of being capitalized.
- * We selected several items of equipment for observation from the Consolidated Memorandum Receipt (CMR) report. During our observation at various area offices, we noted several items that were obsolete or not functional. Such items were not fully depreciated on the CMR, and therefore were overvalued. In addition, other pertinent descriptive information was in error (i.e. serial number, description, etc.).
- * We noted errors in the accounting for trade-in of equipment.
- * Asset lives assigned for certain property categories were not consistent with that recommended by the HHS accounting (i.e. computer equipment -10, telephone - 15, copiers - 10, certain vehicles -6), which recommends using IRS designated useful lives.

As a result of these matters, individual asset cost and accumulated depreciation at September 30, 1995 could not be accurately determined.

Recommendation

We recommend that IHS comply with Title 2 of GAO's Policy and Procedures Manual which requires each Federal agency to control physical quantities of government owned property and its location, enable periodic independent verification of the accuracy of the accounting records through periodic physical counts and provide a basis for determining asset values. Compliance would include setting and implementing reasonable capitalization policies, obtaining adequate documentation of property ownership, original acquisition cost, date of purchase\in-service date and useful life. If documentation is unavailable, management should consider obtaining an independent appraisal of such property. In addition, management must obtain legal interpretation of ownership of certain structures and facilities currently reflected in the financial statements. Once this process is complete, the accounting records should be adjusted to reflect new cost and accumulated depreciation values, measures taken to properly maintain and update property records, and quarterly reconciliations performed between the property subsidiary records and that recorded in the general ledger. Such procedures should be completed within one month of the applicable reporting period.

Auditee Response

The IHS cannot comply with this recommendation on our old facilities. We can obtain records for all newly constructed buildings from FY 91 forward. These will be supplied to the auditors for their review.

A memo went to all Area Directors to review the current real property records and agree or adjust the record for our FY 97 audit. The IHS is supplying a new report with data from FY 91 forward in which depreciation will be calculated.

7. ACCOUNT RECEIVABLE BALANCES UNSUPPORTED

We noted several instances in the areas of accounts receivable and advances (both asset & liability) where adjustments to reported amounts were necessary, indicating the need for improvement in accounting policies and procedures. In summary, several account balances in the general ledger could not be adequately supported with documentation or by explanation by management. A summary of some of the issues noted are as follows:

- We noted a lack of detailed schedules supporting amounts included in the general ledger. At September 30, 1995, the accuracy of certain asset advances, net of related advance liabilities, reported in the financial statements aggregating approximately \$20,000,000, was not determinable.
- We noted a lack of Medicare/Medicaid accruals at certain accounting points.
- We noted a lack of accrual for private insurance recoveries for certain Indian beneficiary patients.

- We noted a lack of elimination of intra-entity transactions.
- We noted a lack of allowance for doubtful accounts and related write-off during the year. At September 30, 1995 approximately \$1,300,000 was written off the accounting records. Such amount should have been recorded throughout the year. The allowance amount at September 30, 1995 was not determinable.
- We noted an error in reporting a bank account (Sun West) as an asset and related recording of activity in certain advance accounts.
- We noted that older asset advances were grouped together without a resulting trail of activity. This grouping does not allow management to assess the ultimate collectibility from the recipient.
- With respect to PL -93-638 Contracts, management could not resolve the following matters:
 - whether these contracts should reside on Payment Management System (PMS) or Advance Payment System (APS)
 - proper assignment and implementation of responsibility for clearance of residual balances on APS
 - proper accounting for contract close-out audits on contracts that have been dormant for several years
 - possibility of collecting advances for “638 contracts” given Section 8 “Carryover Funding” and other provisions of the Act.
- With respect to advances, the following matters were noted:
 - Certain transactions for Accounting Point 60, occurring after the preparation of the SSF 224 report, were recorded in general ledger account 272. Accounting Point 60 uses this account as a temporary holding area for these transactions; however, such transactions are not being removed from the 272 account on a timely basis.
 - Cash transfers of \$9,000,000, net of advances, to a bank acting as an imprest fund under the Fiscal Intermediary Program, were not recorded properly.
 - The account attributable to the Fiscal Intermediary (#2718) was not adequately separated in the accounting records from the HRSA 3rd Party draft system. This situation resulted in an adjustment to the accounting records for approximately \$1,200,000.
 - IHS processes PMS grant data for advances on a total basis rather than on an individual grant document basis. In addition, there is no reconciliation of individual grants to the control amounts provided by PMS. Accounting for reimbursement offset of advances is not performed in a timely manner. Accordingly, grant advances were initially overstated by \$180,000,000 at September 30, 1995. The financial statements were adjusted accordingly.
- For 37 of 60 accounts receivable transaction documents tested, billing dates ranged from 32 to 318 days subsequent to the date of service. This delay resulted in 6 transactions being reported in the wrong reporting period.

- Intra-governmental and governmental transactions originating at certain accounting points were not classified properly. Transactions not generated from journal vouchers were not adequately reviewed by supervisory personnel.
- A Medicaid receivable (\$500,000) was not properly reduced in the accounting records upon receipt of payment.
- We noted that payments received as of September 30, 1995 for services provided in 1995 were recorded in the wrong fiscal year.

Recommendations

In general, we recommend that IHS management emphasize, to all individuals responsible for business transactions, the importance of accurate financial reporting. Procedures should be established at headquarters, area offices and service units to document transactions entered in the accounting system and to perform reconciliations of reported amounts. In addition, compositional analysis of account balances should be done at least on a quarterly basis. More specific recommendations are as follows:

- a. Management should take a more active role in the preparation of the financial statements and related supporting schedules in support of amounts reported. IHS management has ultimate responsibility for amounts reported including gathering of supporting documentation.
- b. Management should assure that area offices record transactions properly as provided in the accounting manual. This may mean a “re-education” of the key individuals in the area office and service units of how transactions are to be recorded and supported by documentation.
- c. Consideration should be given to accounting for PMS related grants on a subsidiary-control ledger basis, to properly account for or support reported receivable/advance amounts and actively subsequent to the end of the year.
- d. Management should develop and implement policies and procedures specific to IHS for the estimating and recording allowance for doubtful accounts and write-off of uncollectible or other amounts deemed uncollectible to the agency throughout the year. Such policy should include the review of all accounts receivable greater than one year.
- e. Management should consider implementing policies to assure prompt billing for services rendered.
- f. Management should develop procedures to assure proper classification of receivables and proper liquidation upon receipt of funds.

Auditee Response

- a. Management has been working with PSC on financial statements.

- b. The financial management officers at each area office know how to enter receivables and what support documentation to keep. The problem is the old APS system and its unreconciled balances.
- c. The IHS treats PMS entries as disbursements, not receivables. Starting with FY 97, the IHS will make payments to Tribes and PMS will be out of the picture.
- d. The IHS has a new draft policy on receivables and how to write them off, which will be signed closing FY 97. There is a policy on write-offs but nothing for allowance for doubtful accounts.

e&f. These policies are now in place.

8. UNEARNED REVENUE

IHS has received advances from several government agencies under contract for the performance of construction of new facilities or other land improvements. Prior to the audit of IHS's financial statements, such advances had been recorded in unexpended appropriations accounts in the general ledger, and, ultimately as a component of Net Position in the financial statements. In addition, once management was able to provide us with a listing of such advances (aggregating \$48,000,000), supporting documentation was not available to support the amounts listed.

Recommendation

The agency should develop procedures to track the receipt and expenditure of special funding for construction projects and report appropriate amount of unearned revenue in the annual financial statements. The tracking should be maintained at the main offices of IHS.

Auditee Response

The IHS is testing the use of undelivered orders by project with the Office of Environmental Health and Engineering (OEHE) to see if this can resolve this issue properly with auditors and OEHE.

9. RECONCILIATION OF ACCOUNTS PAYABLE DETAIL

Reconciliation of accounts payable by accounting point (Open Document Listing to General Ledger) were not performed during the year. At September 30, 1995, the General Ledger balance for accounts payable exceeded the amount reported in the ODL by \$16,919,000. Based on our analysis it appears that the majority of the difference relates to three area office accounting points. The amount reflected in the financial statements represents the ODL amount.

Recommendation

We recommend that management continue its research of the aforementioned difference noted at September 30, 1995 and adjust the amount reported in the financial statements at September 30, 1995 accordingly, if necessary. In addition, IHS should also perform monthly reconciliations of accounts payable (ODL to the general ledger control accounts) by area office accounting point and that differences be resolved in a timely manner.

Auditee Response

The IHS Finance officers will certify their accounts properly as of September 30, 1996. Last year some FMO's did not follow procedures for year-end closing. This problem will be resolved for FY 96. Currently all accounting points but one are certifying monthly. The one that is not has hired people on contract to reconcile this problem.

In preparation for the FY 96 audit, DRM has sent E-mail to all FMO's reminding them to reconcile cash, receivables, payables, undelivered orders and equipment on a monthly basis. DFS has kept record of this and reported to DRM monthly.

Management's Responsibilities

Management is responsible for:

- I. designing and maintaining an effective internal control structure.
- II. preparing the financial statements in conformity with the basis of accounting described in the Summary of Significant Accounting Policies accompanying the financial statements.
- III. complying with laws and regulations including those that do not necessarily affect financial transactions or financial reporting.

Auditor Responsibilities and Methodologies

Our responsibilities are:

- To report the results of our related tests of IHS's financial reporting internal control structure to the extent that its inadequate design or ineffective operation, if applicable, could materially affect the Fund's financial statements taken as a whole.
- To obtain an understanding of the internal control structure policies and procedures and assess the control risks applicable to IHS's reported performance measure data, but not to test the underlying data.

- To report the results of our related tests of IHS's compliance with (1) applicable laws and regulations that could materially affect the financial statements examined by us, taken as a whole, and (2) those specified in OMB Bulletin 93-06.

To fulfill these responsibilities, we:

- I. Obtained an understanding of the IHS's financial reporting internal control structure policies and procedures in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements;
- II. Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- III. Assessed the accounting principles used and significant estimates made by management;
- IV. Evaluated the overall presentation of the financial statements;
- V. Evaluated and tested the operation of the relevant internal control structure policies and procedures designed by management to provide reasonable, but not absolute, assurance that the above management objectives are met for the following significant cycles, classes of transactions, and account balances:
 - A. Revenue and receipts
 - B. Purchases and disbursements
 - C. Payroll
 - D. Property
 - E. Inventory
- VI. Obtained an understanding of the Fund's internal control structure and assessed control risk for data in the Fund's reported performance measures;
- VII. Tested compliance with selected provisions of the following laws and regulations that may materially affect the financial statements or are specified in OMB Bulletin 93-06:
 - A. Antideficiency Act
 - B. Federal Managers' Financial Integrity Act of 1982
 - C. Single Audit Act of 1984
 - D. Fair Labor Standards Act of 1938
 - E. Civil Service Retirement Act of 1930
 - F. Civil Service Reform Act of 1938
 - G. Prompt Payment Act
 - H. Debt Collection Act of 1982
 - I. Federal Employees' Compensation Act
 - J. Federal Employees' Life Insurance Act of 1980
 - K. Federal Employees' Retirement System Act of 1986

VIII. Compared the IHS's most recent FMFIA report on internal controls dated November 13, 1995 with the results of our tests of internal controls.

This report is intended for the information of management of IHS, the Department of Health and Human Services Office of Inspector General, and OMB. However, this report is a matter of public record and its distribution is not limited.

Clifton Henderson L.L.C.

Baltimore, Maryland
May 14, 1996

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE**

**FINANCIAL STATEMENT
September 30, 1995**

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**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
STATEMENT OF FINANCIAL POSITION
As of September 30, 1995
(Dollars in Thousands)**

ASSETS

Entity Assets:

Intragovernmental assets:	
Funds with U.S. Treasury (Note 1)	\$ 1,233,963
Accounts receivable	2,009
Advances to other agencies (Note 2)	35,487
Governmental assets:	
Accounts receivable, net	489
Advances (Note 2)	24,756
Cash in bank	1,553
Operating supplies & materials, net	23,933
Property, plant and equipment, net (Note 3)	<u>372,238</u>
Total Entity Assets	<u>1,694,428</u>
Total Assets	\$ <u>1,694,428</u>

LIABILITIES AND NET POSITION

Liabilities:

Liabilities covered by budgetary resources:

Intragovernmental liabilities:	
Accounts payable (Note 4)	10,266
Accrued payroll benefits	7,971
Other funded	10,687
Deferred revenue and financing sources	48,227
Governmental liabilities:	
Accounts payable (Note 4)	36,698
Accrued payroll and benefits	<u>27,134</u>
Total liabilities covered by budgetary resources	140,983

Liabilities not covered by budgetary resources:

Governmental liabilities:	
Accrued payroll and benefits	3,175
Accrued workers compensation (Note 5)	41,648
Accrued annual leave	<u>57,285</u>
Total liabilities not covered by budgetary resources	<u>102,108</u>
Total Liabilities	<u>243,091</u>

Net Position (Note 6):

Balances:

Unexpended appropriations	3,095,371
Invested capital	396,171
Cumulative results of operations	(1,938,097)
Future funding requirement	<u>(102,108)</u>
Total net position	<u>1,451,337</u>

Total Liabilities and Net Position **\$ 1,694,428**

This financial statement should only be read in connection with the
accompanying summary of significant accounting policies
and notes to financial statement.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
September 30, 1995
(Dollars in Thousands)**

BASIS OF PRESENTATION

This financial statement has been prepared to report the financial position of the Indian Health Service (IHS), as required by the Chief Financial Officers Act of 1990. It has been prepared from the books and records of IHS in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) Bulletin 94-01, and IHS's accounting policies which are summarized in this note.

ENTITY

IHS is one of eight agencies of the Department of Health and Human Services' (HHS) Public Health Service which is a Cabinet agency of the Executive Branch of the United States Government. IHS is responsible for providing comprehensive health services to American Indian and Alaska Native people.

The financial statements are combined and presented in three fund classes - Appropriated, Revolving, and Trust. All intra-agency balances have been eliminated. The financial totals are comprised of the following Appropriations/Funds with related symbols and period of fund availability:

Appropriated Funds

Indian Health Services	75 0390 Annual
Indian Health Services	75 0390 Multi-Year (0/1, 1/2, 2/3, 3/4, 4/5, 5/6)
Indian Health Facilities	75X0391 Indefinite
Operation & Maintenance of Quarters	75X5071 Indefinite

Revolving Funds

Consolidated Working Fund, Grants for Research	75X3921 Indefinite
Medicare/Medicaid	75 0390 Multi-Year (0/2, 1/3, 2/4, 3/5, 4/6, 5/7)

Trust Fund

Contributions, Indian Health Facilities	75X8073 Indefinite
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**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
September 30, 1995
(Dollars in Thousands)**

The IHS structure is composed of 12 regional administrative units called Area Offices, which oversee local Service Units at hospitals and clinics. Administrative management support functions include acquisition, financial, personnel material, and facilities management. The IHS Administrative Area Offices are located at:

Aberdeen, South Dakota	Billings, Montana	Oklahoma City, Oklahoma
Alaska Area Native Health Service	California	Phoenix, Arizona
Albuquerque, New Mexico	Nashville, Tennessee	Portland, Oregon
Bemidji, Montana	Navajo, Arizona	Tucson, Arizona

In addition, there is a Headquarters-East operations located in Rockville, Maryland and a Headquarters-West operations located in Albuquerque, New Mexico.

BUDGETS AND BUDGETARY ACCOUNTING

Financing sources are provided through congressional appropriations on an annual, multi-year and no-year basis. Appropriations are used to finance operating expenses and purchase property and equipment as specified by law. Appropriations are also received to meet program obligations.

BASIS OF ACCOUNTING

Transactions are recorded using the accrual basis of accounting 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.

FUNDS WITH U.S. TREASURY

Cash receipts and disbursements are processed by the U.S. Treasury. The Funds with U.S. Treasury are available to pay current liabilities and finance authorized purchase commitments.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
September 30, 1995
(Dollars in Thousands)**

OPERATING MATERIAL AND SUPPLIES

IHS operating material and supplies (inventories) are comprised of unissued pharmaceuticals, medical supplies, and general housekeeping items maintained in supply service centers (warehouses) and medical facilities. The warehouses are located in Ada, Oklahoma, Anchorage, Alaska, Gallup, New Mexico and Portland, Oregon. The inventories on hand at September 30, 1995 are stated at the lower of cost (using weighted-average cost method) or market value. The recorded values are adjusted for the results of physical inventories taken annually in accordance with a cyclical counting plan that is coordinated with the Supply Management Division located in Albuquerque, New Mexico (Headquarters-West).

PROPERTY AND EQUIPMENT

Property and equipment is valued at cost. Equipment is capitalized if the initial acquisition cost is \$5 or more and has a useful life of 2 years or more. Expenditures for major additions, replacements, and alterations are capitalized. Normal repairs and maintenance costs are expensed as incurred.

IHS occupies and owns hospitals, offices, housing and other facilities across the United States. Depreciation on equipment, buildings and improvements is computed using the straight line method based on the useful life of the assets with one-half year's depreciation taken in year of acquisition. Property and equipment is depreciated as follows: Equipment over useful lives ranging from 5 to 15 years, ADP Software for 15 years and structures, facilities and improvements over 30 years. Useful lives are determined using the Veterans Affairs Federal Supply Catalog classification system.

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 to annually reflect current pay rates of accumulated annual leave earned but not taken. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick and other types of nonvested leave are expensed as taken.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
September 30, 1995
(Dollars in Thousands)**

RETIREMENT PLAN

IHS employees participate in three different retirement plans. Civil service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) (for most employees hired after December 31, 1983). Commissioned Corps personnel participate in the retirement plan for Uniformed Services. IHS does not report CSRS, FERS, Uniformed Services 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.

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. Personnel Compensation and Benefits comprise approximately 34 percent of IHS total current year operating expenses.

OBLIGATIONS RELATED TO CANCELED APPROPRIATIONS

In Fiscal Years 1995 and 1994, the IHS reported to the OMB and Treasury \$9,007 and \$16,525 of obligational write-offs, respectively.

This information is an integral part of
the accompanying financial statement.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
NOTES TO FINANCIAL STATEMENT
September 30, 1995
(Dollars in Thousands)**

NOTE 1 - FUNDS WITH U.S. TREASURY

	<u>Obligated</u>	<u>Unobligated</u>		<u>Total</u>
		<u>Available</u>	<u>Restricted</u>	
Trust Fund	\$ 76,016	\$ 544	\$ -	\$ 76,560
Revolving Funds	58,264	35,143	4,342	97,749
Appropriated Funds	<u>956,180</u>	<u>63,226</u>	<u>40,248</u>	<u>1,059,654</u>
Total	<u>\$ 1,090,460</u>	<u>\$ 98,913</u>	<u>\$ 44,590</u>	<u>\$ 1,233,963</u>

Balances by Fund Type:

Trust

Contributions, Indian Health Facilities \$ 76,560

Revolving

Grants for Research 6,619

Medicare and Medicaid 91,130

Appropriated

Indian Health Facilities 442,892

Indian Health Services 611,167

Rents & Charges, Oper. & Maint. of Quarters 5,595

Total \$ 1,233,963

NOTE 2 - ADVANCES

Intragovernmental Advances represents advances issued from the Payment Management System (PMS) for tribal contracts and grants. The advances are recorded in the Health Accounting System monthly, based on the net disbursements reported by Treasury. Such advances are relieved upon the spending of such funds by the grantee for stated program purposes. In addition, intragovernmental advances also include an advance allocation to the Service and Supply Fund for billed services completed.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
NOTES TO FINANCIAL STATEMENT
September 30, 1995
(Dollars in Thousands)**

NOTE 2 - ADVANCES (CONTINUED)

Governmental Advances include IHS open tribal contracts issued from the DHHS - Health Resources Services Administration (HRSA) Advance Payment System that have not been transferred to the PMS and/or liquidated by area offices. It also includes the transfer of funds to a fiscal intermediary in the Albuquerque Area Office to process orders for health care. HRSA subsequently bills the cognizant Area Office for the health care provided.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

<u>Classes of Fixed Assets</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 421	\$ -	\$ 421
Structures, facilities, & leasehold improvements	496,250	207,625	288,625
Equipment	<u>139,685</u>	<u>56,493</u>	<u>83,192</u>
Total	<u>\$ 636,356</u>	<u>\$ 264,118</u>	<u>\$ 372,238</u>

NOTE 4 - DEFERRED REVENUE AND FINANCING SOURCES

Deferred revenue and financing sources represents advances received from other government agencies under contract for the performance of construction of new facilities or other land and building improvements.

NOTE 5 - WORKERS' COMPENSATION LIABILITY

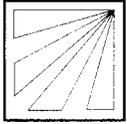
The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for IHS's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by IHS. These future workers' compensation estimates were generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. This DOL estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next 23 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 7% in year one and thereafter. Based on information provided by the Department of Labor, the Division of Accounting and Fiscal Policy of the Department of Health and Human Services determined that the estimated liability of IHS as of September 30, 1995 was \$41,648.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
INDIAN HEALTH SERVICE
NOTES TO FINANCIAL STATEMENT
September 30, 1995
(Dollars in Thousands)**

NOTE 6 - NET POSITION

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
Unexpended Appropriations:				
Unobligated, Available	\$ 101,500	\$ 124,380	\$ 2,547,642	\$ 2,773,522
Unavailable	(161,116)	(51,753)	(653,706)	(866,575)
Undelivered Orders	<u>30,110</u>	<u>48,431</u>	<u>1,109,883</u>	<u>1,188,424</u>
Subtotal	(29,506)	121,058	3,003,819	3,095,371
Invested Capital	-	(8,249)	404,420	396,171
Cumulative Results of Operations	154,560	94,181	(2,186,838)	(1,938,097)
Future Funding Requirements	<u>(3,120)</u>	<u>(281)</u>	<u>(98,707)</u>	<u>(102,108)</u>
Total	<u>\$ 121,934</u>	<u>\$ 206,709</u>	<u>\$ 1,142,694</u>	<u>\$ 1,451,337</u>

This information is an integral part of
the accompanying financial statement.



**Clifton
Gunderson L.L.C.**
Certified Public Accountants & Consultants

U.S. Department of Health and Human Services
Indian Health Service
Washington, D.C.

We have completed the audit of the Indian Health Service (IHS) for the year ended September 30, 1995. In connection with our audit, we have issued a report dated May 14, 1996 that included internal control structure matters noted in our audit. During the course of our audit, we also had the opportunity to observe the various accounting, operating and procedural matters as they related to IHS. Based on our audit, we would like to make the following observations and suggestions.

GENERAL

1. POLICY AND PROCEDURE MANUAL

Existing Condition: The Department of Health and Human Services (DHHS) accounting manual does not address accounting issues specific to IHS and no supplemental manual has been developed to address the unique accounting issues facing IHS.

Recommendation: Develop a comprehensive accounting policy and procedures manual specific to IHS and supplemental to the DHHS accounting manual. A detailed policy and procedures manual will provide guidance to management and staff in recording both recurring and unique transactions and minimize the risk of preparing inaccurate financial statements.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

2. GENERATING FINANCIAL REPORTS

Existing Condition: The financial statements of IHS are prepared by the Program Support Centers Division of Fiscal Services (DFS) using a data base program application generated from the Health Accounting System (HAS). Once the account balances are input from HAS in the database, various journal entries are posted to reflect proper allocation of expenses and other reclassifications.

Recommendation: We recommend that DFS management implement new accounting software as soon as possible that will automatically generate financial statements directly from the transaction data already in the accounting system. New software will facilitate the preparation of both monthly and year end financial statements for IHS.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

Members Of



AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS

ACCOUNTS RECEIVABLE AND ADVANCES

3. SEGREGATION OF DUTIES - BILLING/CASHIER

Existing Condition: During our visits to various selected area offices, we noted that cash receipts and billing functions are performed by the same individual at certain locations (accounting points 47,53 and 54). We have been informed that this situation could exist at other accounting points not visited by us during the audit.

Recommendation: Adequate segregation of duties or compensating controls would help prevent errors and/or irregularities in transactions processing. We recommend that IHS implement procedures to assure segregation of duties in the billing, cashier, and accounts receivable transactions processing at all accounting points.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

4. ACCOUNTS RECEIVABLE GENERAL LEDGER - SUBSIDIARY RECONCILIATION

Existing Condition: During our visits to various area offices, we noted instances where reconciliations of accounts receivable subsidiary detail to the general ledger were not being performed on a regular or timely basis. We also noted that individual bills are only compared to the SHR 803 subsidiary ledger on an annual basis.

Recommendation: Regular and timely reconciliation procedures will assist management in identifying errors in posting to the accounting records. We recommend that subsidiary to detail reconciliation procedures be implemented immediately on a monthly basis. In addition, such reconciliation procedures should be monitored and reviewed by financial management to ensure timely investigation and resolution of differences.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

OPERATING SUPPLIES AND MATERIALS

5. RECONCILIATION OF BALANCES

Existing Condition: The perpetual record of operating supplies and materials was not reconciled to the general ledger control account during the year. Accordingly, the amount in the general ledger was reduced by \$1,707,000 at September 30,1995 to reflect the amount shown in the perpetual record report.

Recommendation: We recommend that inventory perpetual records be reconciled to general ledger control accounts on a monthly basis during the year with differences investigated and adjustments made accordingly in a timely manner.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

PAYROLL

6. ANNUAL LEAVE REPORTS

Existing Condition: During our tests of annual and sick leave balances we noted several instances where amounts reported on the Leave and Earnings Statement did not agree to records maintained by the timekeeper (i.e. Form HHS 564).

Recommendation: We recommend that periodic comparisons of leave reports to source documents be made with adjustments made, if necessary, to reflect appropriate employee balances.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

7. PERSONNEL FILE DOCUMENTATION

Existing Condition: During our review of personnel folders, we noted several instances where certain forms to substantiate payroll deductions were missing and records included in the files were incomplete.

Recommendation: We recommend that personnel files be reviewed periodically to ensure inclusion of all necessary forms and related documents.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

8. FINANCIAL REPORTING OF PAYROLL LIABILITIES

Existing Condition: Accrued liabilities related to payroll accounts are included in the Open Document Listing (ODL), grouped with Accounts Payable related accounts in the general ledger and, ultimately combined in the Fund's internal financial statements.

Recommendation: Federal Accounting Standards Advisory Board (FASAB#1) requires the breakout of payroll related liabilities from Accounts Payable and reported as Other Liabilities (either as intra-governmental or governmental). We recommend that the ODL segregate payroll related liabilities and that a separate general ledger account be established to record these payroll related liabilities.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

9. PHYSICAL SECURITY OVER PAYROLL REPORTS

Existing Condition: The Privacy Act of 1974 gives Federal employees several rights with regard to records containing information with their name or some other identifier. We noted a general lack of security and accountability over certain payroll related reports. In addition, certain payroll reports could not be located for our review.

Recommendation: We recommend that the Privacy Act of 1974 be reemphasized to appropriate individuals and procedures be established to control payroll report accessibility and accountability.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

FMFIA

10. DEBT COLLECTION ACT

Existing Condition: The Debt Collection Act of 1982 (the Act) requires the agency to charge interest to Non-Federal customers for account balances that have been outstanding greater than 30 days. We noted several instances where Non-Federal customers are not charged an appropriate amount of interest pursuant to the Act. Also, the SSF 220-9 sent to Treasury for the 4th quarter of 1995 showed no interest and penalties on delinquent accounts. The Debt Management Branch which compiles the SSF 220-9, indicated that no interest and penalty data was reported to HAS by IHS and therefore, none was reported on the SSF 220-9.

Recommendation: The agency may be able to collect additional funding by properly charging interest in accordance with the Act. We recommend that procedures be established to properly capture data related to interest and penalty on delinquent accounts receivable. Such data should be included in the SSF 220-9. In addition, management should begin charging and accruing interest pursuant to the provisions of the Act.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

11. MANAGEMENT CONTROL REVIEW

Existing Condition: The Management Control Review and Reports Tracking System report dated August 10, 1995 indicated that 18 of the 37 Management Control Areas (MCA) had not had management control reviews (MCRs) performed. In addition, the lapse

of time from the date of the MCR to the date of the Management Control Review Report (MCRR) often exceeded 30 calendar days. During our audit we noted the following matters:

- The tracking system does not show all MCRs that have been performed.
- Other types of reviews/audits that could provide alternative reviews to MCRs are not always recorded in the tracking system.
- The MCR reports were not finalized in a timely manner. We noted that it often it took more than 30 days to process the report after the reviews are completed.
- Some MCAs may not be appropriate for inclusion in the IHS Management Control Plan.
- Some managers may have misinterpreted some MCAs or believe that the management control area should have been assigned elsewhere.

Recommendation: The IHS Manual, Part 5, Chapter 16 requires control reviews of all MCAs on a minimum of five year cycle, and finalization of MCRs within 30 calendar days of the review.

We recommend that IHS management:

- a) develop procedures to ensure that the management control & reports tracking system record all MCRs and that related reviews be documented as a substitution for MCRs.
- b) Process the MCR reports within thirty days.
- c) Review current MCAs to determine if they are still applicable, adequately defined and properly assigned.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

ELECTRONIC DATA PROCESSING

12. EXCESSIVE INVALID LOG-IN ATTEMPTS

Existing Condition: A user can enter excessive log-in attempts before that user ID is revoked. During the current year, Information Technology Services has reduced the maximum invalid log-in attempts. We concur with that reduction; however, further improvement is needed.

Recommendation: We understand the difficulty in implementing stringent controls for users not accustomed to security discipline. However, we recommend that further log-in attempt reductions be made. FIPS PUB 112 entitled, "Password Usage" indicates that "a maximum of three attempts is considered adequate for typical users of a computer system."

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

13. TSO TIME OUTS INTERVALS

Existing Condition: The time interval for inactive terminal deactivation for Time Sharing Option (TSO) is excessive for non-data center personnel.

Recommendation: We recommend that Information Technology Services (ITS) develop a plan to reduce the time intervals for inactive terminals for non-data center personnel.

Management Response: We agree with existing condition situation and are in process of implementing procedures to comply with the stated recommendation.

We would be happy to discuss the items contained in this letter.

Sincerely,

CLIFTON GUNDERSON L.L.C.



William H. Oliver
Member

WHO/dll

cc: Office of Inspector General
U.S. Department of Health & Human Services