United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

March 30, 2001

Memorandum

To: Director, National Park Service

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Independent Auditors Report on National Park Service Financial Statements for Fiscal Year 2000 (No. 01-I-305)

We contracted with KPMG, LLP, an independent certified public accounting firm, to audit the National Park Service's (NPS) financial statements for fiscal year 2000. The contract required that the audit be performed in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

To ensure the quality of the audit work performed, we monitored the progress of the audit at key points and reviewed KPMG's report and related working papers to ensure compliance with applicable standards. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the NPS's financial statements or on the conclusion about the effectiveness of internal controls or conclusions on compliance with laws and regulations. KPMG is responsible for the auditors report (see Attachment 1) and for the conclusions expressed in the report. However, our review showed that KPMG complied, in all material respects, with applicable standards and mandated requirements.

In its audit report dated January 12, 2001 (Attachment 1), KPMG issued an unqualified opinion on the NPS's financial statements. However, KPMG found two reportable material weaknesses in internal controls and six reportable conditions related to internal controls and financial operations. With regard to compliance with laws and regulations, KPMG found that the NPS did not fully comply with Federal Financial Management Improvement Act (FFMIA) requirements. Specifically, the NPS's financial management systems did not substantially comply with the U.S. Government Standard General Ledger at the transaction level and applicable Federal accounting standards. The report made 30 recommendations to correct the identified weaknesses.

Auditee Comments and Office of Inspector General Evaluation

In the February 28, 2001 response (Attachment 2) to the draft report, the NPS generally concurred with 27 recommendations and did not concur with 3 recommendations. As a result of the response, two recommendations (Nos. G.1 and G.3) were modified, and NPS concurred with the revised recommendations. Overall, we consider 1 recommendation resolved and implemented, 28 recommendations resolved but not implemented, and 1 recommendation unresolved. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and the unresolved recommendation will be referred for resolution (see Attachment 3).

The NPS also did not concur with some of the report's conclusions, including a finding that NPS was not in compliance with the FFMIA. Based on the NPS's response, the report was modified as deemed appropriate. However, we believe that the report's finding regarding noncompliance with the FFMIA is stated accurately, that is, that the NPS was not complying with the U.S. Government Standard General Ledger at the transaction level and with applicable Federal accounting standards. Examples cited in the report such as donations being recorded as appropriations used, as well as other posting model problems, resulted in adjustments of $288 million being made to the financial statements in order for them to be fairly stated. We believe that the need for these adjustments indicates that the NPS was not substantially complying with the U.S. Government Standard General Ledger at the transaction level, as required by the FFMIA.

Section 5(a) of the Inspector General Act (5 U.S.C app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of the NPS and the Office of Management and Budget and the Congress. However, this report is a matter of public record, and its distribution is not limited.

Attachments (3)

cc: Chief Financial Officer, National Park Service

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

Director, National Park Service:

We have audited the accompanying balance sheet of the National Park Service (NPS), a bureau of the Department of the Interior, as of September 30, 2000, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NPS as of September 30, 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the *Fiscal Year 2000 NPS Accountability Report* is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We did not audit the information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections, and, accordingly, we express no opinion on it. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information.

Our audit was conducted for the purpose of forming an opinion on the NPS's financial statements taken as a whole. The Other Accompanying Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the NPS's basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the NPS's financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the NPS's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable does not reduce to a relatively low level the risk that misstatements, 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. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters, discussed in Exhibits I and II, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions described in Exhibit I are material weaknesses. Exhibit II presents the other reportable conditions. Exhibit III presents the status of prior year audit findings. The material weaknesses identified in Exhibit I were not included in NPS's 2000 Federal Managers' Financial Integrity Act (FMFIA) of 1982 report.

We also noted other matters involving internal control and its operation that we have reported to the management of the NPS in a separate letter dated January 12, 2001.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests, performed as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, exclusive of Federal Financial Management Improvement Act (FFMIA) requirements, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of compliance with FFMIA section 803(a) requirements disclosed instances, described below, where the NPS's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level and applicable Federal accounting standards. The results of our tests disclosed no instances in which NPS's financial management systems did not comply with Federal financial management systems requirements.

OO.A Findings:

NPS's general ledger system is incorrectly structured such that it records non-appropriated transactions, such as donations, as Appropriations Used. NPS is currently working to resolve this condition. To properly reflect Appropriations Used in the NPS's general ledger for fiscal year 2000, NPS made a year-end adjustment of $235 million. Other posting problems exist in the general ledger in relation to reimbursable activity. A fund-by-fund cumulative results analysis performed as part of the audit identified $53 million of cumulative results of operations recorded in a fund intended to account for appropriated and reimbursable activity. NPS corrected this with another year-end adjustment.

NPS also has material weaknesses in internal controls identified in Exhibit I, indicating noncompliance with applicable Federal accounting standards.

Recommendations:

We recommend that NPS expedite procedures to adjust its financial system to properly account for non-appropriated activities and other posting problems at the transaction level and eliminate the need for material year-end adjustments to the financial statements by September 30, 2001.

NPS should also implement the recommendations to improve internal controls presented in Exhibit I of this report by September 30, 2001.

RESPONSIBILITIES

Management's Responsibility. The Chief Financial Officer's (CFO) Act of 1990 requires federal agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, NPS prepares annual financial statements. Management is responsible for:

- preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, and for preparing the other information contained in the *Fiscal Year 2000 NPS Accountability Report*
- establishing and maintaining internal controls over financial reporting
- complying with applicable laws and regulations, including FFMIA

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility. Our responsibility is to express an opinion on the financial statements of NPS as of and for the year ended September 30, 2000, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the NPS's internal control over financial reporting by obtaining an understanding of NPS's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls as defined by the FMFIA. The objective of our audit was not to provide assurance on the NPS's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

In addition, as required by OMB Bulletin No. 01-02, we considered the NPS's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section of the *Fiscal Year 2000 NPS Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on internal control related to performance measures.

As part of obtaining reasonable assurance about whether the NPS's financial statements are free of material misstatement, we performed tests of the NPS's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the NPS. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to perform tests of compliance with FFMIA section 803(a) requirements, which indicate whether the agency's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Distribution. This report is intended solely for the information and use of the NPS's management, the Department of Interior Office of Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 12, 2001

MATERIAL WEAKNESSES

OO.B Finding: Year-End Undelivered Order Deobligation and Accounts Payable Accrual Recognition Procedures Should be Strengthened

OMB Circular A-34, *Instructions on Budget Execution*, defines undelivered orders as "the amount of goods and services ordered by an account from another federal government account or the public but not yet received, i.e., the amount of orders for goods and services outstanding for which the liability has not yet accrued." Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, provides guidance relating to proper matching of expenses as "a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future"…and "that the expense is recognized in the period that the exchange occurs." As such, recorded undelivered orders should be reviewed at fiscal year-end to identify open undelivered orders for services that were received on or before year-end. In these cases, NPS should deobligate the undelivered order and accrue an expense. NPS may also receive invoices from vendors before and after year-end in relation to open contracts and agreements. Although the invoices may not be due or paid until after year-end, the expenses should be accrued if they relate to services received during the fiscal year.

Our testing of undelivered orders (UDO) balances as of September 30, 2000, identified UDOs that had not been deobligated, even though the related services were received before year-end. Some of these UDOs had no invoice from the vendor or the invoice was received subsequent to year-end. We also identified situations where the contract/agreement had expired, but the UDO balance was not deobligated, and where UDOs had no activity for over two years. In addition, we found cases where the UDO balance was not reduced for certain contracts even though the contract was complete and the holdback had been returned to the vendor.

We also tested disbursements made subsequent to fiscal year end to determine the completeness of accrued liabilities and found two exceptions where an accrual was not recognized at September 30, 2000, representing an overstatement of UDOs.

Finally, we tested recorded accounts payable balances and found balances that were incorrectly recorded as payables in the general ledger at September 30, 2000.

As a result of the exceptions noted, NPS reviewed all major contracts and agreements as well as UDOs with no activity for the past two years to determine correcting adjustments that were made to the accompanying financial statements as of September 30, 2000.

Recommendations

We recommend the following:

1. NPS should immediately review all UDOs and determine the validity of the recorded balances. Modifications should be obtained for expired contracts/agreements, if necessary, and all invalid UDO balances should be deobligated. All records of obligating documents such as contracts, grants, and interagency agreements, modifications to the initial obligations, and the support for the work that has been received such as receiving reports and vendor

invoices should be maintained in support of recorded balances. NPS should then repeat this review quarterly.

2. At year-end, NPS must implement additional UDO and accounts payable validation procedures. Specifically, NPS should ensure that invoices received prior to or subsequent to fiscal year end for services or products received prior to year-end, are properly recognized. At the time of the accrual, the related UDO should be deobligated. NPS should also establish adequate controls at year-end to ensure that only valid payable transactions for services received are entered in the general ledger.

3. NPS is involved with many procurement projects where invoices for services received prior to year-end may not be received for up to a year or more after year-end. To account for these situations, contracting officers of major projects should communicate with vendors for all major open procurements, and determine the amount of services received prior to year-end that should be accrued at year-end.

4. Finally, NPS should continue to work with the Department of the Interior National Business Center (NBC) and/or systems developer to investigate and correct the inaccurate contract holdbacks recorded in the general ledger.

00.C Finding: Controls Over Accounting for Personal Property Should be Improved

We encountered many difficulties during our audit of NPS's personal property.

In fiscal year 1998, NPS transitioned to a new personal property subsystem that interfaces with the general ledger. Since its inception, this subsystem has not been reconciled to the general ledger for recorded equipment balances. NPS indicated that the subsystem included over 400 equipment items below NPS's capitalization threshold, which contributed to the identified difference. Other differences identified included a capitalized heritage asset, duplicate items entered with different property numbers, other equipment items that should have been expensed, and items that were incorrectly excluded during the subsystem implementation. NPS made adjustments to the general ledger and the fixed asset subsystem to correct the errors identified above. NPS's Personal Property Management Handbook states the importance of monthly reconciliations between property accountability records and the general ledger with identified differences being resolved timely, to prevent errors, losses or irregularities.

We also reviewed operating expense transactions to test the completeness of capitalized equipment items and identified equipment items which had been incorrectly expensed. These equipment items were incorrectly assigned non-capitalized budget object codes and therefore were expensed.

As a result of a system conversion, NPS encountered systemic problems which prevented the monthly calculation of depreciation expense for all property from June until the end of the fiscal year. A formal service request to correct the identified error was not submitted to the Department of the Interior National Business Center until October 2000. NPS then made an adjustment to properly reflect depreciation expense for the year.

Recommendations

We recommend the NPS:

Ensure that the personal property subsystem is reconciled to the general ledger monthly, as prescribed in the NPS Personal Property Management Handbook. Such monthly reconciliations will force the correction of exceptions timely and minimize the possibility of misstatements on the NPS's financial statements. This process should also include a review of depreciation expense accounts.

Determine the reason for equipment valued below the capitalization threshold to be capitalized in the subsystem, and establish controls over the subsystem to prevent this from recurring in the future. The utility programs that are being developed to prevent the identified condition should be implemented quickly.

Strengthen controls over the assignment of budget object codes to ensure that agency assets valued over the capitalization threshold are capitalized. Procedures should be established to review the operating expense account monthly or quarterly to identify items that should have been capitalized. This review should be over budget object codes and other transaction codes which determines whether property items should be capitalized and ensures proper posting to the general ledger.

Ensure that financial system malfunctions are more proactively addressed and resolved.

REPORTABLE CONDITIONS

OO.D Finding: Preparation, Analysis, and Monitoring of Financial Information Should be Improved

During our review of the financial statements and our performance of detailed test work, we identified numerous findings relating to NPS's preparation, analysis, and monitoring of its financial information. This high level of findings supports the need for NPS to streamline and reengineer its current financial reporting processes. Further, since the Federal accounting environment will likely continue to generate new requirements and guidelines each year with which the NPS must adhere, the NPS faces an increased need to streamline its reporting processes.

NPS should have, but did not, perform various financial statement analyses to ensure that proper financial statement relationships exist (e.g., reconstructing the 'cumulative results of operations' balance, analyzing certain balances in the statement of financing, etc.) prior to submitting the financial statements to our audit procedures. These analyses, which were performed as an audit request, identified a significant reclassification entry from cumulative results of operations to unexpended appropriations.

The Accounting Operations Center (AOC) recorded 153 post-closing adjustments to its October 18, 2000 trial balance. We reviewed the supporting documentation for all post-closing adjustments exceeding $5 million. In many cases, there was no adequate description documented in the journal voucher and we were required to contact various employees to obtain an understanding of the post-closing adjustments.

In addition, the draft financial statements provided for our review excluded certain disclosures required by the Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements,* as amended. Some of these exceptions included not separately disclosing intragovernmental and public costs for each of NPS's cross cutting programs in the statement of net cost, excluding the proper breakout of balances by fund type in the Fund Balance with Treasury footnote, and excluding a discussion of the useful life and depreciation methodology for software. We also identified non-disclosure of certain Required Supplementary Stewardship Information (RSSI), Required Supplementary Information (RSI), and Management Discussion and Analysis (MD&A) items. The RSSI, RSI, and MD&A sections were subsequently revised to include the omitted disclosures.

We identified other conditions that require the AOC to strengthen internal controls over financial monitoring. The suspense account reconciliation for September 2000 was not completed timely. NPS had a debit suspense account balance of $5.6 million consisting of unidentified disbursements at year-end. At our request, NPS reviewed and substantially reduced this balance. In addition, differences between the NPS general ledger accounts for Fund Balance with Treasury and the balances reported in the Treasury reports were not resolved in a timely manner. The Statement of Differences detail for September 2000 included unresolved differences from May 1991. The total absolute value of deposits and disbursements to be reconciled was $7,858,977.

The majority of the differences are from fiscal year 2000, however, the likelihood that differences can be resolved decreases as time lapses. Subsequent to our finding, NPS resolved a majority of the old items listed in the Statement of Differences detail.

Our review of unbilled receivable balances indicated that NPS does not charge other agencies via the Online Payment and Collection System (OPAC) under reimbursable agreements timely. We identified six unbilled receivable amounts for $6.2 million where the services were provided prior to September 30, 2000, but had not been billed as of late November 2000.

Recommendations

We recommend that NPS perform the following procedures:

1. Perform adequate reviews over financial statements and related financial data for compliance with reporting requirements promulgated by OMB Bulletin No. 97-01, as amended. AOC should consider preparing a financial data review checklist or using the GAO checklist and require its use.

2. Ensure analyses of account balances are performed on a quarterly basis, to determine whether account balances are reasonable. These analyses should be documented and include comparisons of current data to prior year and budgeted amounts.

3. Perform a fund-by-fund analysis of financial statements to determine if each fund's net operating results, cumulative results of operations, and budgetary activity appear reasonable.

4. Analyze NPS's current reporting process to reduce the number of post closing adjustments processed at fiscal year-end. These entries should be adequately supported, be thoroughly reviewed by an appropriate supervisor, and be reviewed to ensure that they were recorded in the financial statements accurately.

5. Provide financial management training courses to upper and middle management that will increase the attention on financial management throughout NPS and ensure that all appropriate employees are fully knowledgeable about financial accounting and reporting requirements such as the relationships between budgetary and proprietary accounts and OMB Bulletin No. 97-01 reporting requirements.

6. Timely research and resolve differences identified through the Fund Balance with Treasury reconciliation procedures. NPS should also ensure that suspense account reconciliations are completed in a timely manner. NPS should enforce a thorough review of all suspense account balances at year-end to reduce their balances to zero.

7. Enforce procedures to process billing and collection activity related to reimbursable agreements more timely.

8. Implement the following procedures to maintain more accurate balances on financial statements:

    - Require that adequate workpapers and documentation exist to support the flow of numbers from the systems to the financial statements,
    - Document all adjustments to amounts derived from the accounting system or supporting subsystems,

- Reconcile internal records timely with data from outside sources.

OO.E Finding: Advances to Others Should be Liquidated Timely as Related Expenditures are Reported

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, states, "Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire." Expenditures for the last three months of the fiscal year, incurred under NPS's interagency agreement with the Federal Highway Administration (FHWA), were not recorded in the general ledger. Thus, the advance from NPS to FHWA was not liquidated, requiring an adjustment to the financial statements to properly state the advances to others balance.

NPS has grant projects with funding provided to grantees on an advanced basis. These grantees submit a *Federal Cash Transactions Report*, SF 272, which reflects expenditures incurred in relation to the grant. NPS received such an SF 272 in relation to the River Heritage Museum grant in early October 2000. NPS did not record the SF 272 expenditures reported by the grantee and an audit adjustment to the financial statements was made to reduce the Advances to Others balance. Also, grantees often do not submit these SF 272 reports timely, diminishing NPS's ability to monitor cash advanced to grant recipients and to obtain disbursement and outlay information for each grant.

Recommendations

We recommend the NPS:

1. Ensure that policies and procedures are implemented to record all expenditures incurred and reported in relation to interagency agreements and grants at year-end, and that the related Advances to Others balance is also properly liquidated for such expenditure amounts. Such procedures will also assist in the confirmation and reconciliation of intragovernmental balances.

2. Increase its oversight and follow up with grant recipients to ensure that expenditure reports are submitted timely and that grantees are complying with reporting requirements. NPS may need to establish policies and procedures that include contacting the grantees by phone to follow up with grant status; withholding of funds until a SF 272 is submitted; sending dunning notices for non-receipt of SF 272s; and permitting electronic submission of SF 272s.

OO.F Finding: Internal Controls Over the Electronic Data Processing (EDP) Systems Security Should be Improved

OMB Circular No. A-130, *Management of Federal Information Resources,* requires agencies to conduct post-implementation reviews of information systems to validate estimated benefits and document effective management practices for broader use. OMB Circular No. A-127, *Financial Management Systems,* also requires agencies to ensure appropriate reviews are conducted of its financial management systems. We determined that subsequent to its 1998 network vulnerability assessment, NPS has not completed any other reviews of its security programs and major application and infrastructure systems. Several deficiencies identified in the 1998 review have not been corrected and no documentation was identified that approximated a formal response by management to the deficiencies. In addition, NPS has completed no formalized accreditation statements for any major systems and applications at the departmental, bureau, or installation levels.

Our focused assessment of the NPS AOC Local Area Network (LAN) determined that active monitoring is not incorporated into the network. The current network design provides connectivity to shared resources on one segment. The one segment approach also allows all user and server level resources to be viewed by all, which increases the overall network vulnerability. Further, NPS has Workstation File and Print sharing programs installed and available to all users. File and Print sharing is not an authorized solution to resources. The network file servers are the intended recipients of shared data. With this capability in place, the file sharing is in widespread use and is not monitored. This creates secondary access to desktop workstations that creates a secondary vulnerability that could be prevented. With active monitoring being omitted, stress factors on the network that include load balancing of server resources, bandwidth usage, and unauthorized access cannot be tracked and recorded. Thus, this activity may go unnoticed for extended periods.

OMB Circular No. A-130, Appendix III, requires the establishment of security controls for all general support systems and major applications. Our focused Social Engineering review indicated that access to the AOC facility during normal business hours and subsequent access after hours was not sufficiently limited to authorized personnel only. There was unrestricted access to the NPS facility with ample time to search for sensitive information. The result of a search provided the electronic data needed to breach the entire LAN with the ability to take complete control of the resources and install software of choice.

A NPS Network Security Plan, which includes scheduling and monitoring requirements, has not been developed. Additionally, network security awareness is a low priority for assigned personnel. As such, network monitoring, user reviews, and event log audits are not clearly defined or conducted on a pre-determined basis. Through a network vulnerability assessment, we determined that although the AOC maintains some Windows NT 4.0 and Novell 3.12 server security logs, there are no policy requirements to track and maintain full security logs. Without appropriate network transaction tracking and monitoring, questionable activities would go unnoticed for an extended period of time and may not be identified at all. In the event of internal compromise of systems via the use of authorized user names and passwords, network security controls could be breached without raising any suspicion.

There is poor communication and coordination in relation to internal service level agreements, which communicate expected, standard levels of data transmission security between the NBC Data Centers in Denver, CO, and Reston, VA, and the NPS Federal Personnel Payroll System (FPPS) user communities. Security awareness training and additional personnel trained specifically in the area of Network Information Security has been minimal. We identified several control weaknesses in relation to the data transmission security controls over FPPS Time and Attendance, and post-processing files and reports thereof, being transmitted via File Transfer Protocol (FTP) commands to and from the NBC data centers in Denver, CO, and Reston, VA:

- Transmissions made via DOINET are not encrypted.
- DOINET router-level Access Control List (ACL) security, while reasonably effective against less enthusiastic attacks, may be susceptible to script attacks or pointed Denial of Service attacks.

- Secure Socket Layer (SSL) capabilities have been installed at the Reston data center, but are not used to secure outgoing transmissions to Denver, CO.

However, NPS indicated that the projected DOINET network architecture that is being designed to go live in the next fiscal year includes encryption between routers.

Recommendations

We recommend the NPS:

1. Implement formal program management reviews and accreditation or certification of its security program and major application systems. Management involvement should range from departmental to bureau and installation levels, depending on the program or application criticality and impact to the organization.

2. Divide the network into two segments that isolate the administrative personnel from the accounting personnel. Place the server resources specific to the department within that segment and do not allow users access to all resources. The Cisco switch should only allow connections to the server resources so that workstation cross talk could be prevented. NPS should remove the File and Print sharing programs from all of the Windows NT 4.0 workstations. Maintaining the current user profile that does not allow software installation will provide a reasonable level of secondary control. NPS should also plan and include active monitoring that identifies and isolates network problems. These issues can include tracking and recording unauthorized network resource access. The approach of active monitoring should notify specified recipients in the event of network problems.

3. Develop a detailed Network Security Plan and schedule security awareness training. This training should be incorporated with the new hire orientations that are conducted. The security plan should identify and schedule monitoring requirements that support an adequate level of physical and logical security. NPS should also identify standards and policies for acceptable use and the proper handling and storage of electronic information, which would decrease the possibility of data recovery by unauthorized persons. In addition, employees should be encouraged to use system screen savers that are password protected and to lock the workstations even when away for a short period of time. Sensitive information should be stored in an acceptable area.

4. Develop a site-specific Network Security Plan that explains in detail the methods to monitor and document network activity. This plan should ensure that system level auditing and transaction tracking is active and effective. Policies should be established to review events at a reasonable frequency and to maintain clear records of these events. NPS should also document, investigate, and close any events of a questionable nature and report such activity to management personnel.

5. Improve communication and coordination in relation to internal service level agreements, which communicate expected, standard levels of data transmission security between the NBC Data Centers in Denver, CO, and Reston, VA, and their NPS FPPS user communities. Security awareness training and additional personnel trained specifically in the area of Network Information should be provided. Transmissions made via DOINET should be encrypted and SSL capabilities that have been installed at the Reston Data Center should be utilized to secure outgoing transmissions to Denver, CO, especially since installation of SSL capabilities are also being considered at Denver, CO.

OO.G Finding: Electronic Data Processing Application Software Development and Change Controls Should be Strengthened

OMB Circular No. A-127 states that all documentation associated with systems and software should be continually updated to provide sufficient detail to obtain a comprehensive knowledge and understanding of their operation. System software changes should be controlled as they progress from testing to final approval. System software changes should be supported by approved change request documentation, design specifications, test plans, and test results. Many NPS documents, policies, and procedures have been either lost or inappropriately archived due to multiple circumstances. This included a re-staffing of the Chief of Technical Support position and a building re-location of the NPS AOC, both within the last year. Pressure from the various bureaus using the Federal Financial System (FFS) application have resulted in the NBC becoming lax in its policies and procedures. We identified the following control weaknesses in the NBC and NPS FFS application software development and change control policies and procedures:

- NBC and NPS have not formally developed a System Development Life Cycle (SDLC) methodology. Although the FFS system is a stable production environment, and the majority of the change control process seems to be adequate, there is no formal definition in place.
- NBC does not employ the use of library management software – NBC technical programmers manage the libraries manually, with no checks or version control to regulate the promotion process.

Not using a formal systems development methodology increases the risks associated with change control, including the introduction of incorrect or malicious code into the system.

The purpose of the Federal Financial Management Improvement Act (FFMIA) is to "improve performance, productivity, and efficiency of Federal Government financial management." To meet the requirements of the FFMIA, "financial management systems must be in place to (a) process and record financial events effectively and efficiently, and (b) provide complete, timely, reliable and consistent information for decision makers and the public."

Our test procedures to assess the accuracy of the Fixed Asset Module data contents identified that edit controls over the entry of fixed asset numbers are deficient. Therefore, property items have incorrectly formatted fixed asset numbers, which could fail to properly identify the property and its location in the system. We also identified that procedures for reviewing and approving corrected exceptions within FFS have not been developed and shared with application users. Although there are multiple reports to help identify exceptions not captured by FFS automated edit and validity checks, this process is incomplete because there is no formal review and approval process for the correction of exceptions once identified through these management exception reports.

We identified that a significant number of program glitches allow syntax errors and invalid data to be entered in the FFS Fixed Assets Module. Some of these errors can be manually corrected within FFS, but would take many labor hours to accomplish. The other errors can only be corrected by developing utility programs. NBC has been creating utility programs that will correct some of the errors caused by these glitches. However, these utilities programs are only corrective in nature and do not fix the problem in FFS. Currently, NPS relies on various detective reports to identify these errors. These reports were developed as the result of user feedback regarding errors they have identified. Although it is common for glitches to be found in an application system, it is ultimately the responsibility of NPS to report them and have them fixed.

However, AOC has not responded to correcting these glitches in a timely manner. A significant number of errors have been noted as a result of these glitches and have added to the inability to reconcile fixed assets records to property records. Since manual corrections or utility programs have not been utilized to correct errors, new glitches have added to prior years' errors, and the impact of these problems has increased rapidly. Correcting only the results of these glitches and not the cause is inefficient and expensive because it requires (and will continue to require) significantly more labor hours to make manual corrections within FFS and develop other utility programs for future glitches. It also adds unnecessary complexity to an already complex reconciliation process. Furthermore, the detective reports are designed to only capture identified errors. Errors that have not been identified will not be detected by these reports.

The $10 million difference between the general ledger and the fixed asset subsystem discussed in the material weakness of "Controls Over Accounting for Personal Property Should be Improved," is a result of the above described exceptions. As noted in Exhibit I, NPS materially reconciled this difference and recorded the necessary adjustments to the general ledger and the fixed asset subsystem, to properly present NPS's September 30, 2000 financial statements.

Recommendations

We recommend the following:

1. NBC and NPS should take the following steps to strengthen the application software development and change controls:

   - Formally establish internal service level agreements which communicate expected, standard configuration change management procedures, performance requirements, and controls between the NBC Data Center, Reston, VA, and the NPS user communities.
   - Develop a complete and comprehensive NBC and NPS SDLC methodology. This plan should be updated annually to reflect any changes to the current environment and the risks associated with those changes. In addition, any updates made to the plan should be brought to the attention of the users. Finally, periodic reviews and updates to the plan will indicate top management's support for the overall development process.
   - Implement the use of library management software. This application should be able to produce audit trails of program changes, maintain program version numbers, record and report program changes, maintain creation/date information for production modules, maintain copies of previous versions, and control concurrent updates.

2. NPS should improve its fixed assets management processes, in order to implement required business process and systemic controls to limit any data processing exceptions.

3. NPS, with the assistance of the systems developer should evaluate the cost benefit of expanding the fixed asset number data element and the edit and syntax controls that ensure the complete recording of the fixed asset number in to the system. NPS should also develop and document procedures requiring proper review and approval when making corrections within FFS.

4. We recommend that NPS, with the assistance of the system vendor, rectify the program glitches that allow syntax errors and invalid data to be entered in the FFS Fixed Assets Module. A full assessment should occur, prior to installing the utility programs at the end of the calendar year, so as to capture the full complexity of the existing problems and avoid any

adverse impact of these programs from an integration and regression perspective. Although NBC has tested the utility programs, NPS users should also fully test them prior to implementation. NPS should also consider having a code review performed on this module to identify other possible glitches. For current errors, NPS should develop a plan of action to correct the errors that are manually correctible and utilize the utility programs for the other errors before they become harder to manage.

OO.H Finding: NPS's Accounting Operations Center (AOC) Service Continuity Plan Should be Updated

OMB Circular No. A-130 states that in order to provide continuity of support, agencies must "Establish and periodically test the capability to continue providing service within a system based upon the needs and priorities of the participants of the system." Our review of NPS's continuity of service procedures indicated that NPS's AOC Continuity of Operations Plan is not current, has not been tested, and is inadequate for recovering AOC business functions, local servers, and data communications equipment in the event of a disaster affecting the NPS AOC. It also does not address restoration of critical Wide Area Network (WAN) connectivity to the FFS Mainframe at the National Business Center in Reston, VA. Without a comprehensive and proven plan, disaster recovery must depend on ad hoc decisions and actions executed under highly charged, chaotic conditions. Lack of a thoroughly planned and coordinated response capability under these conditions causes undue stress and fatigue, resulting in more frequent errors and decreasing job performance over time.

Recommendations

We recommend that the NPS AOC Continuity of Operations Plan be updated to include:

- A more detailed list of business function recovery priorities.
- *Restoration of critical WAN connectivity to the National Business Center, Reston, VA, FFS Mainframe.*
- Mainframe recovery time requirements and performance requirements in support of critical business functions.
- Detailed critical resource recovery requirements, including people, workstations, office equipment, servers, communications facilities, and vital records.
- AOC server and network component configurations.
- AOC software and data recovery requirements, mapped to server machines.
- Specific instructions for restoring AOC workstations, servers and network equipment.
- Checklist procedures for each response and recovery team.
- Names and contact information for alternate team leaders.
- Alternative procedures or workarounds to initiate when the AOC servers, or the Reston or Denver data centers are down or inaccessible from the AOC.
- Continuity of Operations Plan administration and testing policy.

OO.I Prior Unimplemented Office of Inspector General Findings

Park Service Needs Improved Controls Over Construction-in-Progress

During the 1998 audit of NPS, the OIG identified that NPS did not have sufficient internal control procedures to ensure that the subsidiary account for construction-in-progress was stated in accordance with Federal accounting standards. The deficiencies identified in relation to the construction-in-progress account occurred because (1) the Park Service did not amend its fixed asset manual, "Procedures for the Accountability of Fixed Assets," issued in September 1996 to require the costs of projects which are not general property, plant, and equipment to be recorded as an expense in the period incurred in accordance with Federal accounting standards; and (2) field personnel did not follow procedures in the fixed asset manual for designating whether approved construction projects were intended to be recorded as assets for general property, plant, and equipment that cost $500,000 or more, or recorded as expenses for heritage assets, intangible items, or projects that cost less than $500,000.

Status of Prior Year Office of Inspector General (OIG) Audit Findings

OIG Audit Report Number	OIG Reported Issue	OIG Recommendation	Status
00-I-621	Lack of a maintenance management system.	▪ Implement and maintain a standardized maintenance management system in compliance with 16 U.S.C. § 1a-8.	▪ OIG considers this recommendation implemented
00-I-621	Non-calculation of Unit Costs for Outputs Reported in the Management Discussion and Analysis Section	▪ Develop an action plan with a timetable to assign costs to outputs and calculate the unit costs of outputs.	▪ OIG considers this recommendation implemented
98-I-344	Follow up of Maintenance activities, National Park Service	▪ Modify concession maintenance agreements to reflect maintenance responsibilities ▪ Maintain a maintenance tracking system in accordance with 16 U.S.C. § 1a-8 ▪ Discontinue maintenance that provides special benefits to cabin lessees unless costs are reimbursed ▪ Report the lack of standardized maintenance management system as a material management control weakness in accordance with the requirements of the Federal Managers' Financial Integrity Act	▪ OIG considers this recommendation implemented ▪ OIG considers this recommendation implemented ▪ OIG considers this recommendation implemented. ▪ OIG considers this recommendation implemented.

OIG Audit Report Number	OIG Reported Issue	OIG Recommendation	Status
99-I-916	Park Service Needs Improved Controls Over Construction-in-Process	▪ Amend NPS's fixed asset manual to require the cost of projects for non general property, plant, and equipment to be recorded as an expense in the period incurred	▪ The recommendation has not been implemented. (Repeated in Exhibit II)
		▪ Establish and implement policies and procedures for management oversight to ensure that field offices identify, in the accounting system, the project capitalization category to allow a capitalization determination upon project approval	▪ The recommendation has not been implemented. (Repeated in Exhibit II)
		▪ Account for construction projects based on the project capitalization category to ensure that the construction-in-progress subsidiary ledger includes only those construction projects that will be capitalized when placed in service and that nongeneral property, plant, and equipment costs are charged to expenses on a current basis	▪ OIG considers this recommendation implemented
		▪ Validate the adjustments made to the control and subsidiary construction-in-progress account to estimate the fiscal year 1998 ending balances for projects that would be capitalized when placed in service	▪ OIG considers this recommendation implemented.
99-I-916	Park Service Needs Improved Controls Over Deferred Maintenance Management and Reporting	▪ Establish policies and procedures for conducting periodic condition assessment surveys and for estimating the deferred maintenance needs of NPS, including the requirement that the data and the methodologies used to compute the estimates be documented, and reviewed and approved by supervisors.	▪ Recommendations have been implemented.

OIG Audit Report Number	OIG Reported Issue	OIG Recommendation	Status
99-I-916	Non completion of recommendation from OIG report "Follow up of Maintenance Activities, National Park Service"	■ Report the lack of standardized maintenance management system as a material management control weakness in accordance with the requirements of the Federal Managers' Financial Integrity Act	■ OIG considers this recommendation implemented.

Key to Report References

00-I-621	Independent Auditor's Report on National Park Service Financial Statements for Fiscal Year 1999.
98-I-344	Follow up of Maintenance activities, National Park Service
99-I-916	Auditor's Report on National Park Service Financial Statements for Fiscal Years 1998 and 1997

Attachment 2

United States Department of the Interior

NATIONAL PARK SERVICE
1849 C Street, N.W.
Washington, D.C. 20240

IN REPLY REFER TO:

F4217(2625)

February 28, 2001

Memorandum

To: Roger LaRouche
Assistant Inspector General for Audits

From: Chief Financial Officer
National Park Service

2/28/01

Subject: Draft Independent Auditors Report on National Park Service Financial Statements for Fiscal Year 2000 (Assignment No. H-IN-NPS-032-00-R)

This is in response to the recommendations contained in the subject report.

Noncompliance with Federal Financial Management Improvement Act requirements and Federal accounting standards, Recommendations We recommend that the Director, National Park Service, expedite procedures to adjust the financial system to comply with the United States Government Standard General Ledger at the transaction level, and strengthen internal controls for applicable accounting standards impacting: 1) Year-end undelivered order deobligation and accounts payable accrual recognition; and 2) Accounting for personal property.

We agree that the accounting system should post all transactions in accordance with the United States Government Standard General Ledger. Steps have already been taken to make the necessary changes to the financial accounting system to ensure non-appropriated transactions, such as donations, are not recorded in Appropriations Used. Additional changes will be made to ensure that unexpended appropriations are not recorded in special receipt accounts, reimbursable accounts, or accounts where the source of funds is from non-appropriated sources.

The responsible officials for implementing these recommendations are the Accounting Operations Center (AOC) Financial and Accounting Support Team Leader and the Management Systems Team Leader. The planned target date for implementing changes will be as of September 30, 2001.

Under the "Compliance With Laws and Regulations" heading of the report, we do not agree that "appropriations used" should be cited as a substantial non-compliance with the Federal Financial Management Improvement Act (FFMIA). We do not believe that the issue cited by the auditors is what the authors of the FFMIA had in mind as substantial non-compliance.

Under FFMIA, substantial compliance requires that an agency's systems support the preparation of financial statements, provide reliable and timely financial information, account for assets, and do all in a way that is consistent with Federal accounting standards and the standard general ledger. We believe that the overall audit opinion supports the Service's substantial compliance with the FFMIA. The finding regarding appropriations used was due to incorrect posting models being used for those types of funds, while findings listed by Exhibit I are internal control (i.e., procedural) issues.

As stated in the Revised Implementation Guidance for the Federal Financial Management Improvement Act (January 4, 2001), "FFMIA compliance itself neither requires nor results in ideal or state-of-the-art system performance or system efficiency; nor does it require that systems be entirely automated. What FFMIA compliance indicates is that systems routinely provide reliable financial information consistently, accurately, and reported uniformly." As agencies are required to develop three-year financial management system compliance plans for FFMIA non-compliance, the conditions reported are trivial in this context.

1) Year-end undelivered order deobligation and account payable accrual recognition - An Operations Advisory Group, consisting of staff from all bureaus in the Department of the Interior, will be developing standard Departmentwide policies and procedures for handling year-end undelivered order deobligation and accounts payable accrual recognition. The implementation of these procedures will ensure the proper recording of invoices received prior to or subsequent to fiscal year-end for services performed or products received prior to year-end. It will also address the need for contracting officers to communicate with vendors to determine the amount of services received prior to year-end for open procurements with no activity for a year or more. The new policies and procedures requiring park/office action will be incorporated, and the importance of their impact on the financial statements will be emphasized, in the Service's year-end closing instructions. The Service's year-end instructions already outline detailed transaction-level procedures to either obligate and/or accrue utility charges, credit card purchases, inter-governmental charges, and other miscellaneous obligations and accruals.

The AOC Fiscal Services Team will periodically review UDO balances to validate the outstanding amounts along with ensuring all necessary supporting documentation, modifications to the initial obligation, receiving reports and vendor invoices are maintained in support of recorded balances. The responsible official for implementing these recommendations is the AOC Fiscal Services Team Leader, and the target date for implementation will be as of September 30, 2001.

2) Strengthening controls over accounting for personal property – The reconciliation of the general ledger to the personal property subsidiary ledger will be performed. The cause of the imbalance is due to deficiencies in the FFS architecture. We have met with the Department's National Business Center (NBC) and American Management Systems (AMS), who owns FFS, on this issue. AMS will develop a design document and cost estimate to integrate fixed assets information as part of the journal records.

Actions will be taken to initiate systemic corrections to future imbalances and to initiate data correction to balance discrepancies. Monthly reconciliations, including depreciation and transfers, will begin upon completion of the analysis. System glitches will continue to be identified and reported for correction and utilities or manual data correction will be made to validate information. Emphasis will continue to be made to all system users on the importance of correctly identifying the budget object class for every transaction. Periodic checks will begin to monitor transaction accuracy. Various formal written procedures will be developed which, among other items, will identify business processes, systemic controls, personal property accounting and reporting procedures, known glitches with the fixed assets system and guidance for users of the fixed assets subsystem.

The responsible official for implementing this recommendation is the Accounting Operations Center Management Systems Team Leader, and the target date for implementation will be September 30, 2001.

<u>Reportable conditions related to internal controls over financial reporting and financial operations, Recommendations</u> We recommend that the Director, National Park Service, take action to improve the following: 1) Preparation, analysis, and monitoring of financial information; 2) Timely liquidation of advances to others as related expenditures are reported; 3) Internal controls over the electronic data processing systems security; 4) Electronic data processing application software development and change controls; 5) NPS's Accounting Operations Center continuity plan; and 6) prior unimplemented findings by the Office of Inspector General.

1) Preparation, Analysis, and Monitoring of Financial Information – The Service concurs in principle that reviews and analysis of financial data reflected in the financial statements needs to be performed to determine compliance, accuracy, and reasonableness meet the requirements of OMB Bulletin No. 97-01, as amended. Financial statements prepared in prior years by the Service were audited by the Office of Inspector General without any specific findings or recommended changes to the process. Therefore, we believed the process for preparing statements was in compliance with OMB requirements. We believe that the frequency of preparing financial statements is a management decision which is based, in part, on the resources available to prepare and analyze them.

We will be preparing quarterly statements which will enable the accounting staff to complete reviews and do analysis on account balances. This process will assist in comparing data with prior year balances, and identify possible errors that will need to be researched and corrective action taken as necessary. In addition, fund-by-fund analysis can be performed to determine reasonableness of activity for net operating results, cumulative results of operations, and budgetary statements. These periodic reviews should reduce the number of post-closing adjustments processed at fiscal year-end.

We disagree with the auditors' finding that reconciling fund balances with Treasury is not completed in a timely manner. Although it is noted in the opinion that "the majority of the differences are from fiscal year 2000," it does not recognize that the differences are due to late charges processed through Treasury by other government agencies where supporting documentation from these agencies was received after year-end close. Therefore, charges cannot be posted against the appropriate budget fiscal year and the respective cost accounts until the new fiscal year.

The accounting staff and managers attend conferences, seminars and training throughout the year specifically related to financial statement preparation and changes to Federal financial accounting standards.

We will be reviewing the year-end closing process in order to more efficiently ensure billing and collection activity related to reimbursable agreements is completed in a more timely manner. However, in the audit report one item states that the auditors identified 6 unbilled receivables totaling $6.2 million that could have been billed and collected prior to year-end. The correct amount is $1.1 million.

The responsible officials for implementing these recommendations are the AOC Team Leaders for Finance and Accounting Support, Accounting Services, and Management Systems. The target date for implementation will be as of September 30, 2001.

2) Timely liquidation of advances to others as related to expenditures being reported - The Service is aware of the need to reduce advances when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.

A process was in place to liquidate the advance related to the particular interagency agreement noted in the opinion, but the necessary follow-up to process the transaction was not completed. Additional steps will be taken to ensure any expenses incurred prior to year-end will liquidate the advance for that agreement. The responsible official for implementing these recommendations is the AOC Fiscal Services Team Leader, with a target date of September 30, 2001.

AOC will work with the appropriate grant program offices to request grant recipients to submit completion reports more timely. The responsible official for this is the AOC Finance and Accounting Support Team Leader, and the target completion date is September 30, 2001.

Internal controls over electronic data processing systems security

00.F Finding: Internal controls over the EDP systems security should be improved.

Without any intent to diminish the importance of systems security, we not concur with all of the auditors' statements in this finding. Specifically, the statement that a one-segment network does not allow for optimization of the available network bandwidth, while true in theory, does not apply to AOC's network because the AOC does not generate enough data traffic on the network for this to be an issue.

We believe that the increase in network vulnerability is greatly exaggerated as described in the statement: "All data traffic is on one path and is available to all users of that network. The one segment approach also allows all user and server level resources to be viewed by all, which increases the overall network vulnerability." Unicast traffic is available to only the port to which it is addressed in the AOC switched network. Broadcast packets can be observed at all ports with the proper monitoring devices; however, this monitoring will create only a miniscule vulnerability, if any. User and server level resources can be protected through shares and other security controls. In a segmented network, the inter-VLAN traffic must go through a router, thereby creating the disadvantage of creating a possible bottleneck and adding other security elements.

00.F Recommendation 1: Implement formal program management reviews and accreditation or certification of its security program and major application systems. Management involvement should range from departmental to bureau and installation levels depending on the program or application criticality and impact to the organization.

We concur with this recommendation and work to create a central Information Technology (IT) Security Office has started with a memorandum from the Director (December 2000) to create a working security coordinators taskforce group. A budget request has been submitted by the Information Management Council to create a permanent IT security team during FY 2003. The Associate Director for Professional Services is the responsible official for the security taskforce functions.

00.F Recommendation 2: Divide the network into two segments that isolate the administrative personnel from the accounting personnel. Place the server resources specific to the department within that segment and do not allow users access to all resources.

We concur with this recommendation and the AOC will study the ramifications and utility of the recommended segmentation, and will consider alternate solutions such as segmenting each server onto its own VLAN. We will look at the projects that use file and print sharing services and redesign them so that we can remove the file and print sharing services as suggested. Also, we will evaluate active monitoring software and procure a product suitable for the AOC.

The responsible official for implementing this recommendation is the Accounting Operations Center Management Systems Team Leader, and the target date for implementation will be September 30, 2001.

00F Recommendation 3: Develop a detailed Network Security Plan and schedule security awareness training.

We concur with this recommendation. The responsible official for implementing this recommendation is the Accounting Operations Center Management Systems Team Leader, and the target date to develop and provide security training to AOC employees is December 31, 2001.

00.F Recommendation 4: Develop a site-specific Network Security Plan that explains in detail the methods to monitor and document network activity.

We concur with this recommendation and the AOC will formalize its Network Security Plan. This will be done in conjunction with the active network monitoring. The responsible official for implementing this recommendation is the AOC Management Systems Team Leader, with a target date for completion by June 2002.

00.F Recommendation 5: Improve communication and coordination in relation to internal service level agreements (SLA), with communications expected, standard levels of data transmission security between the NBC Data Center in Denver, CO, and the NPS FPPS user communities.

We concur with this recommendation. Due to the migration from the NBC Data Center in Reston, VA to the NBC Data Center in Denver, CO, and the change of data circuits from DOInet to vDOInet, we will examine both the services needed and the SLAs with the NBC. The AOC Management Systems Team Leader will complete this by June 2002.

00.G Recommendation 1: The NBC and NPS should take the following steps to strengthen the application software development and change controls: improve communication and coordination in relation to internal service level agreements, which communicate expected, standard configuration change management procedures and controls between the NBC Data Center, Reston, VA and the NPS user communities; develop a complete and comprehensive NBC and NPS SDLC methodology; and implement the use of library management software.

We do not concur with this recommendation. The Department of the Interior's Office of Financial Management is the system owner of the Federal Financial System (FFS) application used nearly Departmentwide. The NBC is the designated system manager. During a meeting with the auditors, NPS cited the SDLC methodology contained in the Departmental Manual as its guidance. As the system manager, the NBC has individual interagency agreements with the respective bureaus for the mainframe computer service, operations and maintenance costs. All application software changes, e.g., software fixes, custom screen development, test and production installation and/or conversion, etc., are performed by the NBC for the bureaus. All software, hardware, and telecommunications changes are formally documented and communicated to the DOI FFS user community by the NBC in a timely manner.

The Department's Software Advisory Board (SAB) which has representatives from the bureaus and the NBC is the group responsible for design and development of DOI custom software enhancement to FFS. Software problems are reported through the respective bureau SAB representatives to the NBC for investigation and resolution. Depending upon the complexity of the problem, corrections are made by either the NBC or the software vendor and tested by the NBC and the bureaus prior to production installation. The SAB is also responsible for reviewing baseline FFS enhancements for integration with the DOI FFS. We believe that the systems infrastructure and mechanisms are in place and working to satisfy this finding.

The Department has completed a capital asset plan and justification document to support the Department's FY 2002 budget request for the acquisition and implementation of a new fully integrated financial management system. The projected starting date for phased implementation Departmentwide is FY 2003.

The National Park Service will do a benefit/cost analysis regarding the acquisition and implementation of library management software. The AOC Management Systems Team Leader will complete this by September 30, 2001. The NBC is analyzing the possibility of using an automated package that can be incorporated into the FFS application change control procedures. This analysis will be completed by September 30, 2001.

00.G Recommendation 2: NPS should improve its fixed assets management processes in order to implement required business process and systemic control to limit any data processing exceptions.

We concur with this recommendation and will develop formal procedures and distribute them to all responsible officials and fixed assets subsystem users to document NPS procedures, business processes and systemic controls as they relate to personal property accounting and reporting. The AOC Management Systems Team Leader will complete this by September 30, 2001.

00.G Recommendation 3: NPS, with the assistance of the systems developer should develop edit and syntax controls that ensure the proper format of the fixed asset number is recorded in the system. NPS should also develop and document procedures requiring proper review and approval when making corrections within FFS.

We do not concur with this recommendation. It is correct that a basic format to the fixed asset (FA) number has been identified as a procedural or systemic weakness and that there are no edit checks to ensure the proper format of that number in FFS; however, it is not correct to say that the improper formatting of the FA "fails to properly identify the property and its location." Regardless of how the number is displayed, the property and its location can always be identified and located. In FFS, the fixed asset number is a 15 character field that has no edits. To develop effective "edit and syntax controls to ensure the proper format of the fixed asset number" would require a checks-and-balances systems. This system would ensure that only the FA number assigned to each particular park/office is entered into the Fixed Assets Subsystem. The cost and complexity to implement this type of system would outweigh its usefulness and effectiveness.

The FA subsystem's Flashpoint screens have been developed which do perform basic edits against the FA number (e.g., vehicles must begin with "I" and everything else with "NP"; the numbers use exactly 12 of the 15 characters except for vehicles; etc.) but its effect is limited to fixed assets acquired by means other than by purchase – a small percentage of total fixed asset transactions.

To correct the deficiency, NPS will research and analyze the issue to determine the most effective solution. If necessary, we will develop specifications to edit the fixed asset number in FFS (by both finance users and fixed asset users) and in IDEAS (by procurement users) and submit the proposed enhancement through the SAB to the NBC for a cost proposal and implementation. Also, emphasis on the importance of a correctly formatted fixed asset number will continue at NPS training sessions and workshops.

We concur that procedures should be developed to monitor transactions involving fixed asset corrections. The AOC Management Systems Team Leader will complete this task by September 30, 2001.

00.G Recommendation 4: We recommend that NPS, with the assistance of the system vendor, rectify the program glitches that allow syntax error and invalid data to be entered in the FFS Fixed Assets Module.

We concur with this recommendation. It is correct that several glitches exist within FFS, its fixed assets subsystem, and the IDEAS interface to FFS and its subsystems. We will conduct research to determine the source of identified glitches in one of the three systems, prepare problem reports, and submit the reports to the NBC and/or the system vendor for investigation and resolution. A formal plan will be documented which will include, among other things, the identified program glitches, a proposed resolution for each glitch, timeframes, and priorities. The plan will be prepared in conjunction with the plan identified as a resolution to the material weakness of "Controls Over Accounting for Personal Property Should Be Improved." We will also continue correcting transaction errors manually or with utilities until program glitches have been resolved. The AOC Management Systems Team Leader will complete this effort by September 30, 2001.

<u>The NPS Accounting Operations Center Service Continuity Plan should be updated</u>

We concur with this recommendation and the target date for completion of the continuity of operations plan by the AOC Manager is September 30, 2001.

<u>Prior unimplemented Office of Inspector General findings related to improved controls over construction-in-progress</u>

We have issued to the field for their review and comment draft policies and procedures amending the fixed asset manual requiring: the costs of projects which are not general property, plant, and equipment (GPP&E) to be recorded as an expense in the period incurred: and to have field personnel follow procedures for designating approved construction projects recorded as assets for GPP&E that cost $500,000 or more, or recorded as expenses for heritage assets, or projects that cost less than $500,000. The comments will be reviewed and any changes will be incorporated into the final policy and procedures guidelines.

The responsible office for implementing this is the AOC Manager, and the target date for implementation will be as of September 30. 2001.

C. Bruce Sheaffer

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1, A.2, B.1, B.2, B.3, B.4, C.1, C.2, C.3, C.4, D.1, D.2, D.3, D.4, D.7, D.8, E.1, E.2, F.1, F.2, F.3, F.4, F.5, G.1, G.2, G.3, G.4, and H.1	Resolved; not Implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
D.5	Implemented.	No further action is required.
D.6	Unresolved.	The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution.