U.S. Department of the Interior
Office of Inspector General

Advisory Report:

Evaluation of Concessioner Special Accounts, National Park Service

June 2002 **No. 2002-I-0032**

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Office of Inspector General
Eastern Region Audits
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Advisory Report

Memorandum

To: Director, National Park Service

From: Robert Romanyshyn Robert Romanyshyn
Regional Audit Manager, Eastern Region

Subject: Advisory Report on Evaluation of Concessioner Special Accounts, National Park Service (No. 2002-I-0032)

This report presents the results of our evaluation of National Park Service (NPS) concessioner special accounts at Grand Canyon, Yellowstone, and Zion National Parks; Glen Canyon National Recreational Area; and Independence National Historic Park. Our objective was to determine whether expenditures from these accounts during fiscal year 2000 complied with contract provisions and NPS procedures. The scope and methodology of our review are detailed in the Appendix.

We found that special account expenditures generally complied with contract provisions and NPS procedures; however, NPS could improve its oversight of the accounts. During our review, we also obtained information which indicated that NPS faces significant obstacles in assuming responsibility for administering capital improvements projects under the Omnibus Act of 1998. These matters are discussed in further detail under Results of Evaluation.

Background

Concessioner special accounts were created under Section 7 of the National Park Service Concessions Policy Act of 1965 (Public Law 89-249) to provide for either the repair and improvement of government-owned structures assigned to concessioners or to fund improvements to park property which directly support concession operations. Under contracts negotiated with the parks, concessioners deposited funds into special accounts at local banks and were responsible for using these funds to contract for and manage capital improvement projects for property and facilities used in concession operations. Park superintendents were to approve account expenditures. The total special account balance for all parks in Fiscal Year 2000 was $60.7 million, over half of which was in the 5 parks we reviewed.

In November 1998, Congress enacted the National Park Service Omnibus Management Act (16 U.S.C.§ 5901), which repealed the 1965 Act, eliminated concessioner special accounts, and transferred responsibility for capital improvements to the parks. In lieu of special accounts, the 1998 Act authorized parks to collect franchise fees from concessioners and to use the funds "for visitor services and for purposes of funding high-priority and urgently necessary resource management programs and operations." The Act also allowed the Secretary of the Interior to retain 20 percent of the franchise fees for NPS-wide activities, with the remaining 80 percent to be used by the park where the fees were collected.

Provisions of the 1998 Act are being phased in as contracts with concessioners expire. Until current contracts expire and new franchise fee contracts are negotiated, concessioners will continue to deposit funds into the special accounts. The general time frame for phasing out special accounts will be over the next 3 to 5 years. As of the end of Fiscal Year 2001, national parks had collected $42.7 million in 80 percent franchise fees and spent $4.6 million.

The NPS Office of Concessions Program in Washington, D.C., develops concession policies, procedures, and programs. The Concessions Program Center in Lakewood, Colorado, which reports to the Washington Office, provides technical assistance to parks and regions.[1]

[1]Technical assistance includes franchise fee calculations, insurance replacement cost estimates, and reconciling accounts.

Results of Evaluation

NPS Oversight of Special Accounts

At the five parks reviewed,[2] we found that special account expenditures for fiscal year 2000 generally complied with contract provisions and NPS concession procedures. We also found that appropriate projects were in place for use of the remaining funds. We examined a sample of 95 special account expense items worth $8.34 million and did not find any material inappropriate expenditures.

We did observe, however, that weaknesses in NPS oversight of the accounts increased the opportunity for errors and irregularities. For example, NPS concessions staff at the 5 national parks and the Denver Program Center offices did not consistently obtain or review all of the documentation necessary to ensure that expenditures were appropriate. Although the parks may get copies of invoices, most parks we reviewed do not reconcile invoice costs to expenditures shown on the bank statements. The Program Center reconciles bank statements, but usually does not receive invoices or project approvals. NPS should increase oversight of special account funds, at least comparing expenditures to project budgets as the special accounts are phased out, to ensure that the funds are expended efficiently.

Obstacles in Assuming Responsibility for Administering Capital Improvement Projects

The following obstacles to NPS' ability to assume responsibility for capital improvement projects under the 1998 Act were identified:

- **Lack of Contracting Resources**. Park officials expressed concern that they lacked the necessary expertise to administer large capital improvement programs. The NPS National Leadership Council,[3] which addresses major policy and program issues confronting NPS, recognized that NPS lacks "organizational capacity" (concessions contracting staffing and skills at all operational levels)[4] to implement the 1998 Act.

- **Lack of Planning**. The parks we reviewed had made little or no preparation to administer capital improvement projects. Staff expressed uncertainty as to who would be responsible for contracting, what procedures were needed for project

[2] We visited Grand Canyon National Park, Glen Canyon National Recreational Area, and Independence National Historic Park. We conducted telephone interviews with concessioner staff at Yellowstone and Zion National Parks and reviewed documents provided to us.
[3] The Council is composed of the NPS Director, Deputy Director, Associate Directors, and Regional Directors, who meet quarterly to address major policy and program issues.
[4] NLC Journal, Volume 1 Number 3, "Experience Your America," April 23, 2001.

approval and fund expenditures, and how the new franchise fee program would impact the amount of funding available to the parks.

- **Contract Negotiation Backlog And Funding Shortfall.** NPS has a backlog in negotiating concession contracts. It has been using funding in the account for the 20 percent franchise fees retained for NPS-wide activities to develop a national strategy to address this backlog, as well as the oversight function. NPS has engaged an outside business advisor to assist it in mitigating significant financial risks associated with possessory interest and related potential arbitration of its major concession contracts; to enhance its contracting and contract oversight procedures; and to further NPS efforts to define and document all contracting related items to ensure procedural consistency. However the 20 percent account lacks sufficient funds to cover the needs of specific pending concession contracting actions, including prospectus development needs and arbitrations.

As a result, the National Leadership Council agreed to allow the temporary use of 80 percent funds to cover the shortfall. Beginning in fiscal year 2002, the Office of Concessions Program is expected to use an estimated $35.2 million of 80 percent funding and other funding sources for pending concessions contract negotiations. The funds will come from the 80 percent accounts and other funding sources of parks with concession contracts expiring over the next 5 years. In addition, the concessions program will need $1.5 million in FY 2002 for initial contract review and valuation methodology development and $17.1 million in FY 2003-2005 for contract oversight costs.[5]

These obstacles could significantly delay much needed improvements to visitor facilities. Of the $42.7 million in park 80 percent franchise fees collected since the franchise fees were initiated in 1999, the parks have spent only $4.6 million. NPS has hired an outside consultant to address concession issues on a national level. We believe it is essential that planning to resolve these uncertainties be initiated immediately to minimize any negative impact on services and facilities for park visitors as the transition takes place.

In the March 26, 2002 exit conference, the NPS Concessions Program Manager concurred with the contents of the report. A response to the Office of Inspector General is not required, since this report does not contain any recommendations.

This advisory report will be listed in our semiannual report to the Congress, as required by Section 5(a) of the Inspector General Act (5 U.S.C. app. 3).

[5] According to the NPS Concessions Program Manager, the FY 2002 costs for contract negotiations and oversight are expected to be significantly lower than originally estimated.

Scope and Methodology

We performed our evaluation from July through October 2001, with site visits to the NPS headquarters offices in Washington, D.C., Grand Canyon National Park, Glen Canyon National Recreational Area, and Independence National Historic Park. We also conducted telephone interviews with concessioner staff at Yellowstone and Zion National Parks and reviewed documents they provided to us. These parks were judgmentally selected based on the appearance of unusual expenditures and large account balances for fiscal year 2000. The NPS Concessions Program Washington headquarters, the Concessions Program Center in Lakewood, Colorado, and the Accounting Operations Center in Herndon, Virginia also provided information.

Our evaluation was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included tests or reviews of records and internal controls that were considered necessary under the circumstances.

Prior Audit Coverage

We identified the following General Accounting Office and Office of Inspector General reports, issued during the past 5 years, which were related to our review.

- *Office of Inspector General Survey Report No. 01-I-116. Dated January 2001*, "Collection and use of Franchise Fees, National Park Service." The report made 2 recommendations considered resolved at issue date: Ensure 1) guidelines for use of park-specific funds are revised to eliminate the stipulation that concession-related needs are the top priority for fund usage; and 2) concessioner improvement accounts are eliminated when new contracts are issued.

- *Office of Inspector General Report No. 98-I-389*, Dated March 1998, "Concessioner Improvement Accounts, National Park Service." The report stated the Park Service had not provided clear, sufficient, and timely guidance to ensure that account funds were used appropriately and that the Park Service allowed concessioners to use these funds before procedures were issued. Also, concessioners made improper deductions from recorded gross receipts in determining the amounts required to be deposited into improvement accounts.

- *GAO Audit Report No. GAO/RCED-96-90*, dated May 1996, "Information on Special Account Funds at Selected Park Units." The report stated that Park Service officials acknowledged they did not have a system in place to routinely or systematically collect information on concessioners' special accounts, but planned to implement a computerized tracking system to monitor the accounts.

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