




United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

February 25, 2003

Memorandum

To: Director, National Park Service

From: Roger La Rouche 
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the National Park Service's
Financial Statements for Fiscal Years 2002 and 2001
(No. 2003-I-0021)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the National Park Service's (NPS) financial statements as of September 30, 2002 and for the year then ended. The contract required that KPMG conduct its audit in accordance with the Comptroller General of the United States of America's *Government Auditing Standards*, the Office of Management and Budget's Bulletin 01-02 *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

In its audit report dated December 12, 2002 (Attachment 1), KPMG issued an unqualified opinion on NPS's financial statements. KPMG identified four reportable conditions related to internal controls and financial operations: (A) security and general controls over financial systems, (B) reconciling intra-governmental transactions and balances, (C) controls over financial reporting, and (D) completing deferred maintenance estimates. KPMG considered the first two conditions to be material weaknesses. With regard to compliance with laws and regulations, KPMG found that NPS was not in substantial compliance with the three requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Specifically, NPS's financial management systems did not substantially comply with Federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

In connection with the contract, we monitored the progress of the audit at key points, reviewed KPMG's report and selected related working papers, and inquired of its representatives. Our review, as differentiated from an audit in accordance with the *Government Audit Standards*, was not intended to enable us to express, and we do not express, an opinion on NPS's financial statements, conclusions about the effectiveness of

internal controls, conclusions on whether NPS's financial management systems substantially complied with the three requirements of FFMIA, or conclusions on compliance with laws and regulations. KPMG is responsible for the auditors' report and for the conclusions expressed in the report. Our review has disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

In the January 29, 2003 response to the draft report from the Chief Financial Officer, NPS (Attachment 2), NPS concurred with all of the recommendations. Based on the response all the recommendations are considered resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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.

Attachments (2)



2001 M Street, NW
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INDEPENDENT AUDITORS' REPORT

Director, National Park Service and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the National Park Service (NPS) as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002 (hereinafter referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered NPS's internal control over financial reporting and tested NPS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the NPS's financial statements presented in NPS's Fiscal Year 2002 Accountability Report as of and for the years ended September 30, 2002 and 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 16 to the financial statements, NPS changed its method of accounting for allocation transfers as of October 1, 2001.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

Reportable Conditions That Are Considered to be Material Weaknesses

- A. Improve Security and General Controls over Financial Management Systems
- B. Improve Controls to Reconcile Intra-governmental Transactions and Balances

Other Reportable Conditions

- C. Improve Controls over Financial Reporting
- D. Complete Deferred Maintenance Estimates

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.





The results of our tests of FFMIA disclosed instances where NPS's financial management systems did not substantially comply with Federal financial management systems requirements, the federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

The following sections discuss our opinion on NPS's financial statements, our consideration of NPS's internal control over financial reporting, our tests of NPS's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the NPS as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NPS as of September 30, 2002 and 2001, and its net costs for the years then ended, and its changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, NPS changed its method of accounting for allocation transfers as of October 1, 2001.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

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 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 conditions in which the design or operation of one or more of the internal control components 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.

In our fiscal year 2002 audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A and B are material weaknesses.

A. Improve Security and General Controls over Financial Management Systems

NPS does not have adequate information technology security and general controls to protect its financial information systems. These conditions could affect NPS's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. NPS needs to improve its security and general controls, as discussed below.

1. Entity-wide Security Program and Planning – NPS needs to improve its entity-wide security program. An effective security program includes policies, a risk assessment process, a certification process, training, and an effective incident response and monitoring capability. Specifically, we noted the following:
 - a. Security Policies – NPS's incident response procedures are not fully developed in accordance with the National Institute of Standards and Technology standards. NPS's policy does not discuss educating users, developing a means for centralized communications, or investigating and resolving unauthorized access.
 - b. Assessments and Accreditation – NPS has not formally completed independent risk assessments for its major applications. As a result, NPS has not classified computer information resources according to their sensitivity and criticality. In addition, NPS has not developed and implemented a process for accrediting general support and major applications; however, NPS has recently received interim guidance from the Department of the Interior to obtain an interim "authorization to process," while the Department of the Interior completes guidance for a formal certification and accreditation program.
 - c. Security Training – NPS has security awareness tool; however, NPS has not developed formal mechanisms to ensure that users receive security training before system access is granted, all employees and contractors complete the training, and all employees and contractors receive periodic security update training.
2. Access Controls – NPS needs to improve its access controls. We identified both external and internal vulnerabilities involving unnecessary access to network services and default or outdated installations of system software. In addition, NPS needs to improve its password controls to include the following:
 - a. Minimum and maximum password lengths;
 - b. Password aging standards and enforcement approach;
 - c. Restrictions on expired passwords;
 - d. Procedures for communicating forgotten passwords; and
 - e. Process for investigating the compromise of passwords.
3. Service Continuity – The Administrative Program Center has not developed a formal Continuity of Operations Plan (COOP) for the restoration of the IDEAS application, and the Network Management Office has not developed a formal COOP for the restoration of NPS's wide area network. Although the Accounting and Operations Center has developed a draft COOP, NPS needs to update the plan to ensure it is consistent with the Department of the Interior's guidance.
4. Segregation of Duties – NPS has not established a segregation of duties policy for information technology.
5. Software Development and Change Controls – NPS has not fully developed service-wide system software change controls (apart from project-specific policies and procedures) and needs to update



its guidance for information technology purchases. In addition, the Accounting and Operations Center has not developed a formal change management process for system software to the local area network.

6. Application Controls – The accounting system (i.e., Federal Financial System) incorrectly records budgetary recoveries for certain transactions resulting in an overstatement of total budgetary resources and obligations incurred. As a result of NPS's analysis and audit adjustments, NPS properly reduced the system generated budgetary recoveries by \$46 million. In addition, we determined that NPS needs to improve the security controls over its procurement system (i.e., IDEAS). Specifically, we noted the following:
- a. NPS has not fully developed a formal security plan for the procurement system. NPS is in the process of developing a security plan; however, the security plan is being developed independent of the risk assessment.
 - b. NPS does not have policies or procedures that require periodic testing of the security controls of IDEAS, and the security safeguards are only tested using inquiry procedures.
 - c. NPS has not established rules of behavior that assign responsibility for those users that have access to the procurement system.
 - d. NPS does not periodically review the appropriateness of user access levels to the procurement system. In addition, NPS does not have formal procedures to verify that access is revoked for terminated employees.
 - e. NPS has not finalized procedures for granting and approving access to the procurement system. In addition, users of the procurement system indicate that they are not consistently prompted to change their password when access is initially granted after a set period of time.
 - f. NPS has not fully developed formal change control procedures for the procurement system. Although NPS is in the process of preparing the change control policies, the guidance is at a high level and needs to be expanded.

Recommendation

We recommend that NPS develop and implement a formal action plan to improve the general and application controls over its financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the information technology control environment, to ensure adequate security and protection of NPS's information systems.

Management Response

Management concurs with the findings.

1. Entity Wide Security Program and Planning

- a. Security Policies – NPS has adopted the Department of the Interior’s security policies for incident response. NPS has alerted its IT community of the procedure, and has made the form and procedures available on NPS’s intranet site. The Department of the Interior is presently looking at contracting for an automated Department-wide system. NPS has recently published its FY 2003 Information Technology Security Plan (ITSP). In the ITSP, NPS indicates that they will complete the NPS IT Security Policy by March 2003. The items cited in the findings will be included in that policy.
 - b. Assessments and Accreditation – NPS has classified its systems to determine which will need certification and accreditation. NPS has begun the process of scheduling certification and accreditation for all major applications and general support systems.
 - c. Security Training – Management agrees with the finding that for security training, NPS has not developed formal mechanisms to ensure that users receive security training before system access is granted. Policies and procedures will be developed and implemented by June 30, 2003.
2. Access Controls – NPS has issued a password policy, which is in compliance with the DOI policy, to all region and program areas. The Office of the Chief Information Officer (OCIO) polled all regions and program areas, and all have certified that they have adopted the password policy.
3. Service Continuity – To correct the findings related to the COOP for the NPSnet, NPS will develop a COOP plan by September 30, 2003.
4. Segregation of Duties – To correct these findings, NPS will establish policies for segregation of duties by September 30, 2003.
5. Software Development and Change Controls – NPS For software development and change controls, NPS has developed a System Lifecycle Guide, which has a strong change control process. Currently, the Accounting Operations Center has an informal change management process, where forms are completed and tracked when changes to servers are made. Accounting Operations Center will develop a formal process, based on the NPS-wide System Lifecycle Guide, by June 30, 2003.
6. Application Controls – Findings on application controls are addressed in NPS’s information technology security plan. The security plan for the general support system, of which IDEAS resides, is being updated based on the formal NPS information technology security plan changes. A contractor has been hired to document the established procedures.

The responsible official for implementing these recommendations will be the NPS Chief Information Officer.

B. Improve Controls to Reconcile Intra-governmental Transactions and Balances

NPS needs to improve controls to reconcile its intra-departmental and intra-governmental activity and balances.

1. Intra-department Eliminations – NPS does not reconcile transactions and balances with other components of the Department of the Interior in a timely manner, in accordance with the Department of the Interior's *Fiscal Year 2002 Financial Statement Preparation Guidance*, OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and Department of the Treasury's *Federal Intragovernmental Transactions Accounting and Policies Guide*. We noted that this is a manual reconciliation process, and that NPS expended a significant amount of time and resources completing this reconciliation after the end of the year.
2. Reconciliation of Non-Fiduciary Intra-governmental Transactions – The Department of the Interior reconciles the fiduciary intra-governmental transactions and balances; however, the Department of the Interior has not fully reconciled its non-fiduciary intra-governmental transactions and balances. As a result, NPS does not fully reconcile its non-fiduciary transactions with other Federal entities, such as, the Department of Agriculture, Environmental Protection Agency, and U.S. Army Corps of Engineers. As a result, NPS's transactions and balances with other federal entities may not properly eliminate on the government-wide financial statements.

Recommendations

We recommend that NPS improve the process to identify and reconcile the intra-departmental and intra-governmental activity and balances, as follows:

1. Intra-department Eliminations – We understand that the Department of the Interior is developing an automated process to facilitate the reconciliation of intra-Departmental transactions. We recommend that the Department of the Interior complete and implement this automated process. Until the automated process is implemented, we recommend that NPS improve the manual process to reconcile transactions and balances with the other components of the Department of the Interior.
2. Reconciliation of Non-Fiduciary Intra-governmental Transactions – We recommend that NPS in conjunction with the Department of the Interior establish procedures to reconcile non-fiduciary transactions and balances with other federal entities.

These reconciliation processes should be completed quarterly and should include procedures to resolve any differences identified in a timely manner.

Management Response

Management concurs. We concur that a significant amount of time and resources are required to reconcile transactions and balances with the other entities within the Department of the Interior. We are dependent on these other organizations to supply us with their data before we can complete our reconciliation, and that data is frequently not forwarded to us in a timely manner. We are working with the Department and other bureaus within Interior to develop policies and procedures for the reconciliation and elimination of intra-departmental transactions. The Department has established a policy to limit the use of advances between Interior Bureaus, beginning January 1, 2003. This should significantly reduce the amount of time required to reconcile transactions between bureaus.



During fiscal year 2003, NPS will be working with the Department of the Interior to establish policies and procedures for reconciling non-fiduciary transactions and balances with other federal entities to ensure conformity with established business rules. The resolution of differences in a timely manner will depend on all parties involved to establish and follow procedures for processing transactions and communicating with the appropriate offices possible resolutions or corrective actions, as needed.

The responsible officials for implementing these recommendations will be the Financial and Accounting Services Team Leader and the Department's Office of Financial Management.

C. Improve Controls over Financial Reporting

NPS needs to improve controls over the recording and reporting of financial transactions. During fiscal year 2002 we noted the following:

1. Timely Reconciliation – NPS does not consistently resolve older balances and suspense accounts in a timely manner. As of the end of the year, we identified \$1.7 million of advances from others that were over one year old, over \$1.5 million of unallocated expenses related to reimbursable agreements, and several items in suspense accounts related to fund balance with Treasury.
2. Year-End Adjustments – NPS records numerous adjustments after the end of the year and needs to improve the review process, to ensure year-end adjustments are properly recorded. We noted that approximately \$18 million of benefit expenses were not properly classified and the related accrued benefits were understated by \$1.2 million. In addition, we noted that NPS incorrectly recorded a non-expenditure transfer for \$5 million, resulting in an overstatement of budgetary authority transfers and an understatement of prior year un-obligated balance transfers on the Statement of Budgetary Resources.
3. Transaction Entry and Reporting – NPS inadvertently recorded a budgetary entry twice in its financial reporting system (i.e., Hyperion) causing an overstatement in Allotments – Realized Resources and an understatement in Unapportioned Authority of approximately \$27 million. NPS incorrectly netted the line for 'Unobligated Balance Currently Available' with the line for 'Unobligated Balance Not Available – Other' on the SF-133 *Report on Budgetary Execution and Budgetary Resources*, which corrected this over/understatement on the SF-133 report, however, the SF-133 did not match the amounts reported in the financial reporting system. In addition, two of the four quarterly SF-133 reports that we tested, included inaccurate data. One SF-133 report inadvertently listed anticipated account balances of zero and one SF-133 report did not include an adjusting entry of approximately \$5.7 million that NPS had recorded in Hyperion. We also noted that NPS inadvertently recorded commission expenses of approximately \$4 million as a contra-revenue, instead of as expenses in the accounting system. Furthermore, we determined that NPS improperly recorded advances as revenue and improperly recorded revenue as advances resulting in a net overstatement of revenue of approximately \$1 million.
4. Budgetary to Proprietary Reconciliation – NPS does not consistently reconcile its budgetary to proprietary accounts during the year. One appropriation had proprietary payable accounts that exceeded the budgetary accounts and budgetary accounts that exceeded the proprietary cash accounts. Another appropriation had proprietary cash accounts that exceeded the budgetary accounts.



5. Property – NPS needs to continue improving controls related to accounting for personal property. NPS capitalized approximately \$1 million costs for improving heritage assets on the Balance Sheet instead of expensing these costs on the Statement of Net Cost in accordance with the federal accounting standards. In addition, the accumulated depreciation from the sub-ledger did not agree with the general ledger by approximately \$3.1 million at the end of the year. We also noted that NPS did not properly record the proper in-service date (i.e., depreciation start date) as the date the asset is received or placed in service for 5 of the 30 items we tested, resulting in an overstatement of depreciation expense and understatement of property. Furthermore, we noted that NPS inadvertently deleted 2 out of the 20 deletion transactions that we tested. These deleted assets were still in use and resulted in an understatement of the net book value of personal property.

As a result of our observations, NPS analyzed balances and recorded adjustments to ensure that the financial statements and SF-133 reports were fairly stated.

Recommendations

We recommend that NPS perform the following to improve the recording and reporting of financial transactions:

1. Timely Reconciliation – Investigate and resolve all older balances and suspense accounts on a regular basis.
2. Year-end Adjustments – Record transactions during the year at the time the transactions are incurred, and require a second individual to review year-end journal entries to ensure they are accurate and complete.
3. Transaction Entry and Reporting – Utilize automated system posting models for transaction entry where possible and have a second individual verify that manual entries are properly recorded and presented in financial reports.
4. Budgetary to Proprietary Reconciliation – Complete the development of and implement an automated process to compare the budgetary and proprietary accounts and investigate and resolve significant differences.
5. Property – Review construction in progress costs to ensure they exclude costs for acquiring, improving reconstructing, or renovating heritage assets. In addition, NPS should resolve differences between the sub-ledger and the general ledger, in a timely manner. Furthermore, NPS should develop and communicate policies to ensure personnel record the appropriate in-service date (i.e., depreciation start date), and only record deletions when property is disposed.

Management Response

1. Timely Reconciliation – Management concurs that older balances and items listed in the suspense account should be reconciled more timely. NPS will re-enforce the need to review older balances in the advance account and take corrective actions, as needed, and to ensure all expenses are allocated in a timely manner. NPS will also work to resolve older balances listed in the suspense account. The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader and the Accounting Services Team Leader. Corrective actions should be completed by September 30, 2003.
2. Year-end Adjustments – Management concurs that transactions need to be recorded at the time the transactions are incurred. However, there will be differences identified during our quarterly

reviews that may not be corrected prior to submission of the quarterly reports. These differences usually cannot be identified immediately, since several Treasury reports that are used to assist in the reconciliation process are not received until after the preparation of the interim financial statements. Additional processes will be developed to ensure procedures for a second review of year-end adjustments are completed in a timely manner. The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.

3. Transaction Entry and Reporting – Management does concur that a second review would help to ensure both the accounting system and the financial reporting system (i.e., Hyperion) are accurate and complete. However, NPS does not have the personnel resources to ensure a second review of all adjusting transactions to the Departments financial reporting system is accomplished. Unlike the accounting system, where adjustments posted can be readily reviewed to ensure the transaction was properly posted and impacted the appropriate accounts, adjustments posted to Hyperion cannot be easily reviewed for accuracy and completeness. We will continue to instruct, and train personnel in processing transactions properly in both systems, and will be developing processes to assist staff in verifying Hyperion data to ensure information posted in Hyperion agrees with the FFS data used for external reports (SF– 133’s). The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.
4. Budgetary to Proprietary Reconciliation – Management does concur with the findings. However, these findings are based on testing the interim financial statements and not the year-end financial statements. Although there are differences identified to erroneous transactions posted by staff, many of these differences are legitimate due to timing differences and disbursements in transit. Unless additional research is required to determine the appropriate posting action, differences are corrected in FFS the proceeding month. Treasury schedules used to reconcile the data in the accounting system are usually not received until after the SF – 133’s are submitted. Processes are in place and additional reports will be developed to assist staff in reviewing and comparing the SF– 133 reports to the financial reporting system for accuracy, existence, and completeness. The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.
5. Property – Management concurs there is a need to improve the review of construction-in-progress costs to ensure they exclude all costs incurred related to heritage assets. Policies and procedures were issued to all field offices during FY 2001, and regional visits were made to review and discuss issues related to construction-in-progress activity. However, there still seems to be some misinterpretation when determining the type of asset being constructed. Several regions have scheduled training during FY 2003 to help further clarify to field staff the policies and procedures for handling fixed assets, and to define how general and heritage assets should be classified. In regards to resolving differences between the sub-ledger and general ledger, NPS continues to review and investigate how and why differences exist. For the past couple of years a number of reconciliation issues have been identified and corrected, but there are still certain types of transactions that create reconciliation differences. Additional instructions have been issued to the field in FY 2003 addressing the proper method for recording in-service date information to the Fixed Asset Sub-system, along with guidance related to recording deletions when property is disposed. The responsible officials for implementing these recommendations will be the Management Systems Team Leader and Chief, Property Management. Corrective actions should be implemented by September 30, 2003.

D. Complete Deferred Maintenance Estimates

NPS has not fully implemented the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6*



and SFFAS No. 8. SFFAS No. 14 requires NPS to estimate the deferred maintenance for its general and stewardship property, plant and equipment using either the condition assessment survey or life cycle costing method. NPS has adopted the condition assessment survey method, which requires NPS to perform periodic inspections of assets to determine their current condition and estimate cost to correct any deficiencies.

NPS has implemented procedures to measure deferred maintenance for major park assets; however, certain parks do not appear to perform condition assessments. In addition, NPS only requires larger parks, such as Yosemite, Sequoia, and Yellowstone, to perform condition assessments for 20% of their assets in a given year, and does not require the parks to complete 100% of their condition assessments until the end of fiscal year 2006. As a result, the required supplementary disclosure on the condition of major classes of assets is not complete and the related deferred maintenance amounts are understated.

Recommendation

We recommend that NPS secure funding to enable NPS to perform condition assessments for all park assets and estimate the related deferred maintenance.

Management Response

Management concurs. NPS is utilizing an off-the-shelf software to assess and document current condition and anticipated repair and rehabilitation needs to all assets. NPS plans to provide all parks and offices access to the software by the end of FY 2003 and have the parks and offices record their inventories by that time. Further, NPS is planning for all parks and offices to have completed their condition assessments by the end of fiscal year 2006. NPS realizes the importance of this requirement and adequate funding has been provided to meet this goal. Trying to accomplish this any sooner may compromise the validity of these assessments. The responsible official for implementing the recommendation will be the Chief, Park Facility Management Division.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of NPS in a separate letter dated December 12, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations as described in the Responsibilities section of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described below, where NPS's financial management systems did not substantially comply with the Federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

E. Compliance with the Federal Financial Management Systems Requirements

As discussed in the Internal Control over Financial Reporting section of this report, NPS has several weaknesses in its information technology general control environment that contribute to noncompliance with OMB Circular A-130, *Management of Federal Information Resources*. NPS needs to improve the entity-wide security program, strengthen password controls, develop formal



Continuity of Operation Plans for certain applications, develop policies for segregation of information technology duties, fully develop a systems development methodology for application software and change controls, and needs to improve security controls over its procurement system.

Recommendation

We recommend that during fiscal year 2003, NPS improve the security and general controls over its financial management systems to meet the requirements set forth in OMB Circular A-130.

Management Response

Management concurs. See management's response to A above.

F. Compliance with Federal Accounting Standards

NPS is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the Internal Control over Financial Reporting section of this report, we identified weaknesses that affected NPS's ability to prepare its financial statements and related disclosures in accordance with federal accounting standards. Specifically, we determined that NPS needs to improve its trading partner reconciliation process.

Recommendation

We recommend that during fiscal year 2003, NPS implement strengthened procedures and internal controls that ensure the financial statements and related disclosures are prepared in accordance with the federal accounting standards.

Management Response

Management concurs. See management's response to item B above.

G. Compliance with the United States Standard General Ledger at the Transaction Level

In accordance with OMB Circular A-127, *Financial Management Systems*, NPS is required to record financial events consistent with the applicable account descriptions and attributes reflected in the United States Standard General Ledger (SGL) at the transaction level. We noted that the accounting system (i.e., Federal Financial System) incorrectly records budgetary recoveries for certain transactions resulting in an overstatement of total budgetary resources and obligations incurred.

Recommendations

We recommend that during fiscal year 2003, NPS analyze the budgetary recovery entries generated by the accounting system and record correcting entries at the transaction level, in accordance with the SGL.

Management Response

Management concurs. Currently, the accounting system is unable to properly record budgetary recoveries at the transaction level. Although discussions and requested actions have been requested, no resolution is anticipated in the near future. NPS will continue to review and develop an existing process that can estimate such recoveries, but will not be able to post at the transaction level. The responsible official for implementing the recommendation will be the Management Systems Team Leader.



RESPONSIBILITIES

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To assist the Department of the Interior in meeting the GMRA 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;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management Discussion and Analysis (including the performance measures), the Required Supplementary Information, and the Required Supplementary Stewardship Information, and
- Complying with 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. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the financial statements of NPS based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management, and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2002 audit, we considered NPS's internal control over financial reporting by obtaining an understanding of the 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 relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered NPS's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the NPS'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 thereon.

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, 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 performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether NPS's fiscal year 2002 financial statements are free of material misstatement, we performed tests of NPS's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in 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 NPS. 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 report whether NPS'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. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

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

KPMG LLP

December 12, 2002

**National Park Service
Summary of the Status of Prior Year Findings
September 30, 2002**

Ref	Condition Area	Status
01.A	Controls over Accounting for Personal Property Should be Improved.	This condition has not been fully corrected and is repeated in fiscal year 2002. See finding C.
01.B	Year-End Undelivered Order Deobligation and Accounts Payable Accrual Recognition Procedures Should be Strengthened.	This condition has been corrected in fiscal year 2002.
01.C	The Preparation, Analysis, and Monitoring of Financial Information Should be Improved.	The budgetary transactions and trading partner reconciliation conditions have not been corrected and are repeated in fiscal year 2002. See findings B and C.
01.D	Information Systems Security and Controls over Financial Systems and Data Should be Improved.	This condition has not been corrected and is repeated in fiscal year 2002. See finding A.
01.E	Procedures over Revenue Recognition, Billings, and Collections Need to be Improved.	The recording of advances from others has not been corrected and is repeated in fiscal year 2002. See finding C.
01.F	Controls over Recognizing Expenses in the Proper Period Should be Strengthened.	This condition has been corrected in fiscal year 2002.
01.G	Disclosure of Required Supplementary Information Should be Enhanced.	The deferred maintenance condition has not been corrected and is repeated in fiscal year 2002. See finding D.
NA	Compliance with the Federal financial management systems requirements	This condition has not been corrected and is repeated in fiscal year 2002. See finding E.
NA	Compliance with federal accounting standards.	This condition has not been corrected and is repeated in fiscal year 2002. See finding F.



United States Department of the Interior

NATIONAL PARK SERVICE

1849 C Street, N.W.
Washington, D.C. 20240

IN REPLY REFER TO:

F-42(0010)

Memorandum

To: Roger LaRouche
Assistant Inspector General for Audits

From: Chief Financial Officer
National Park Service

QJ, WJF 1/29/03

Subject: Draft Independent Auditors' Report on the National Park Service Financial Statements for the Fiscal Years 2002 and 2001
(Assignment No. E-IN-NPS-0101-2002)

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

A. We recommend that NPS develop and implement a formal action plan to improve the general and application controls over its financial management systems. This plan should address Entity Wide Security Program and Planning, Access Controls, Service Continuity, Segregation of Duties, Software Development and Change Controls, and Application Controls, as well as other areas that might impact the information technology control environment, to ensure adequate security and protection.

NPS concurs with the findings. For Entity Wide Security Program and Planning, the NPS has adopted the DOI's Security Policies for Incident response. NPS has alerted its IT community of the procedure, and has made the form and procedures available on the Services intranet site. The DOI has decided that it does not want each bureau to have a different Incident Response system, so it is presently looking at contracting for an automated DOI-wide system. NPS has recently published its FY 2003 Information Technology Security Plan (ITSP). In the ITSP, we indicate that we will complete the NPS IT Security Policy by March 2003. The items cited in the findings will be included in that policy.

Also, under the Entity Wide Security Program Planning for Assessment and Accreditation, NPS has classified its systems to determine which will need Certification and Accreditation (C&A). We have begun the process of scheduling C&A for all major applications and general support systems. Contrary to the audit report, NPS did not formally adopt the Control Objectives for Information and Related Technology (COBIT) instead of conducting formal risk assessments. Control Objective P09 – Assess Risk, Control Objective AI05 – Install and Accredited Systems, Control Objective DS05 – Ensure Systems Security, and M3 – Obtain Independent Assurance all require the same C&A process outlined in OMB A-130.

Additionally, we agree with the finding that for Security Training, NPS has not developed formal mechanisms to ensure that users receive security training before system access is granted. Policies and procedures will be developed and implemented by June 30, 2003.

For Access Controls, NPS has issued a password policy, which is in compliance with the DOI policy, to all region and program areas. The Office of the Chief Information Officer (OCIO) polled all regions and program areas, and all have certified that they have adopted the password policy.

To correct the findings related to the Service's Continuity of Operations Plans (COOP) for the NPSnet, and Segregation of Duties findings, NPS will develop a COOP plan and establish policies for segregation of duties by September 30, 2003.

For Software Development and Change Controls, NPS has developed a System Lifecycle Guide (SLG), which has a strong Change Control Process. Currently, the Accounting Operations Center (AOC) has an informal Change Management process, where forms are completed and tracked when changes to servers are made. AOC will develop a formal process, based on the Service-wide SLG, by June 30, 2003.

Findings on Application Controls are addressed in the IT Security Plan for the NPS. The security plan for the General Support System, of which IDEAS resides, is being updated based on the formal NPS IT Security Plan changes. A contractor has been hired to document the established procedures.

The responsible official for implementing these recommendations will be the NPS Chief Information Officer.

B. Improve Controls to Reconcile Intra-governmental Transactions and Balances, Recommendation. We recommend that the National Park Service improve the manual process to reconcile transactions and balances with the other components of the Department of Interior. We also recommend the NPS in conjunction with the Department of Interior establish procedures to reconcile non-fiduciary transactions and balances with other federal entities.

We concur that a significant amount of time and resources are required to reconcile transactions and balances with the other entities within the Department of Interior. We are dependent on these other organizations to supply us with their data before we can complete our reconciliation, and that data is frequently not forwarded to us in a timely manner. We are working with the Department and other bureaus within Interior to develop policies and procedures for the reconciliation and elimination of Intra-Departmental transactions. The Department has established a policy to limit the use of advances between Interior Bureaus, beginning January 1, 2003. This should significantly reduce the amount of time required to reconcile transactions between bureaus.

During FY 2003, NPS will be working with the Department of Interior to establish policies and procedures for reconciling non-fiduciary transactions and balances with other federal entities to ensure conformity with established business rules. The resolution

of differences in a timely manner will depend on all parties involved to establish and follow procedures for processing transactions and communicating with the appropriate offices possible resolutions or corrective actions, as needed.

The responsible officials for implementing these recommendations will be the Financial and Accounting Services Team Leader and the Department's Office of Financial Management.

C. Improve Controls over Financial Reporting, Recommendation. We recommend NPS perform the following to improve the recording and reporting of financial transactions; 1. Timely reconciliation of older balances and suspense accounts on a regular basis, 2. Record transactions during the year at the time the transactions are incurred and require a second individual to review year-end journal entries to ensure they are accurate and complete, 3. Utilize automated system posting models for transaction entry where possible and have a second individual verify that manual entries are properly recorded and presented in financial reports, 4. Complete the development of and implement an automated process to compare the budgetary and proprietary accounts and investigate and resolve significant differences, 5. Review construction-in-progress costs to ensure they exclude costs for acquiring, improving reconstructing, or renovating heritage assets. In addition, NPS should resolve differences between the fixed asset sub-ledger and the general ledger, in a timely manner. Furthermore, NPS should develop and communicate policies to ensure personnel records the appropriate in-service date (i.e. depreciation start date) and only record deletions when property is disposed.

Recommendation 1 - We concur that older balances and items listed in the suspense account should be reconciled more timely. NPS will re-enforce the need to review older balances in the advance account and take corrective actions, as needed, and to ensure all expenses are allocated in a timely manner. We will also work to resolve older balances listed in the suspense account.

The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader and the Accounting Services Team Leader. Corrective actions should be completed by September 30, 2003.

Recommendation 2 -We concur that transactions need to be recorded at the time the transactions are incurred. However, there will be differences identified during our quarterly reviews that may not be corrected prior to submission of the quarterly reports. These differences usually cannot be identified immediately, since several Treasury reports that are used to assist in the reconciliation process are not received until after the preparation of the interim financial statements. Additional processes will be developed to ensure procedures for a second review of year-end adjustments are completed in a timely manner.

The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.

Recommendation 3 – NPS does concur that a second review would help to ensure both the accounting system (FFS) and the financial reporting system (i.e. Hyperion) are

accurate and complete. However, NPS does not have the personnel resources to ensure a second review of all adjusting transactions to the Department's financial reporting system (i.e. Hyperion) is accomplished. Unlike FFS, where adjustments posted can be readily reviewed to ensure the transaction was properly posted and impacted the appropriate accounts, adjustments posted to Hyperion cannot be easily reviewed for accuracy and completeness. We will continue to instruct, and train personnel in processing transactions properly in both systems, and will be developing processes to assist staff in verifying Hyperion data to ensure information posted in Hyperion agrees with the FFS data used for external reports (SF- 133's).

The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.

Recommendation 4 – NPS does concur with the findings. However, these findings are based on testing the interim financial statements and not the year-end financial statements. Although there are differences identified to erroneous transactions posted by staff, many of these differences are legitimate due to timing differences and disbursements in transit. Unless additional research is required to determine the appropriate posting action, differences are corrected in FFS the proceeding month. Treasury schedules used to reconcile the data in the accounting system are usually not received until after the SF – 133's are submitted. Processes are in place and additional reports will be developed to assist staff in reviewing and comparing the SF-133 reports to the financial reporting system for accuracy, existence, and completeness.

The responsible official for implementing this recommendation will be the Financial and Accounting Support Team Leader.

Recommendation 5 – NPS concurs there is a need to improve the review of construction-in-progress costs to ensure they exclude all costs incurred related to heritage assets. Policies and procedures were issued to all field offices during FY 2001, and regional visits were made to review and discuss issues related to construction-in-progress activity. However, there still seems to be some misinterpretation when determining the type of asset being constructed. Several regions have scheduled training during FY 2003 to help further clarify to field staff the policies and procedures for handling fixed assets, and to define how general and heritage assets should be classified.

In regards to resolving differences between the sub-ledger and general ledger, NPS continues to review and investigate how and why differences exist. For the past couple of years a number of reconciliation issues have been identified and corrected, but there are still certain types of transactions that create reconciliation differences.

Additional instructions have been issued to the field in FY 2003 addressing the proper method for recording in-service date information to the Fixed Asset Sub-system, along with guidance related to recording deletions when property is disposed.

The responsible officials for implementing these recommendations will be the Management Systems Team Leader and Chief, Property Management. Corrective actions should be implemented by September 30, 2003.

D. Secure funding to enable NPS to perform condition assessments for all park assets and estimate the related deferred maintenance, Recommendation. NPS concurs. We are utilizing an off-the-shelf software to assess and document current condition and anticipated repair and rehabilitation needs to all assets. Our plan is to ensure all of our parks and offices have access to software by the end of FY 2003 and to record their inventories by that time. Further, we are planning for all parks and offices to have completed their condition assessments by the end of fiscal year 2006. We realize the importance of this requirement and adequate funding has been provided to meet this goal. Trying to accomplish this any sooner may compromise the validity of these assessments.

The responsible official for implementing the recommendation will be the Chief, Park Facility Management Division.

G. Compliance with the United States Standard General Ledger at the transaction level, Recommendation. We recommend that during fiscal year 2003, NPS analyze the budgetary recovery entries generated by the accounting system and record correcting entries at the transaction level in accordance with the SGL.

NPS concurs with the finding. Currently, the accounting system is unable to properly record budgetary recoveries at the transaction level. Although discussions and requested actions have been requested, no resolution is anticipated in the near future. We will continue to review and develop an existing process that can estimate such recoveries, but will not be able to post at the transaction level.

The responsible official for implementing the recommendation will be the Management Systems Team Leader.