



United States Department of the Interior  
Office of Inspector General  
Washington, D.C. 20240

January 7, 2004

Memorandum

To: Director, National Park Service

From: Roger La Rouche *Roger LaRouche*  
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the National Park Service's  
Fiscal Year 2003 Financial Statements (Report No. E-IN-NPS-0037-2004)

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, 2003. In conjunction with its audit, KPMG noted certain matters involving internal controls and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on NPS's financial statements (Report No. E-IN-NPS-0067-2003) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

Attachment

cc: Assistant Secretary for Fish and Wildlife and Parks  
Director, Office of Financial Management  
Director, Accounting Operations Center, National Park Service  
Audit Liaison Officer, Fish and Wildlife and Parks  
Audit Liaison Officer, National Park Service  
Focus Leader for Management Control and Audit Followup,  
Office of Financial Management



2001 M Street NW  
Washington, DC 20036

November 14, 2003

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

We have audited the consolidated balance sheets of the of the National Park Service (NPS) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing, for the years then ended, and have issued our report thereon dated November 14, 2003. In planning and performing our audit of the financial statements, we considered NPS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows.

## **1. Reconciliation Controls**

NPS has established reconciliation controls over various processes. However, we identified the following during our review of certain reconciliations:

- a. *Credit Card Receipt Reconciliation* – Although, NPS has established a policy requiring individual parks to reconcile credit card receipts from the cash register reports to a report provided by the Accounting Operations Center, NPS does not perform procedures to ensure that parks perform these required reconciliations. Harpers Ferry park personnel were not aware of the required reconciliation procedures and Everglades park personnel did not perform the required reconciliation timely. At the time of our site visit, Everglades National Park had not performed the reconciliation for the months of October 2002 through February 2003.
- b. *Third Party Draft Reconciliation* – NPS communicates differences identified during the third party draft reconciliation process to the Chase Manhattan bank at month end. However, a difference of \$1,744 identified during the December reconciliation was not communicated and resolved until May 2003.
- c. *Suspense Account Reconciliation* – NPS reconciles the suspense account balance each month. However, NPS's current policies do not designate an established timeframe to resolve suspense transactions. Our review of a sample of 20 suspense account transactions indicated six items that had either not been removed from the suspense account or had not been removed from the suspense account in a timely manner.



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## ***Recommendations***

We recommend that NPS improve its reconciliation controls as follows:

- a. *Credit Card Receipt Reconciliation* – Perform periodic inspections of the reconciliations from the cash register reports to the credit card reports to ensure that parks perform the reconciliations timely.
- b. *Third Party Draft Reconciliation* – Resolve all differences identified during reconciliations in the current or subsequent month.
- c. *Suspense Account Reconciliation* – Revise its policy to require individuals to investigate and resolve transactions in the suspense account in the current or subsequent month. Consider clearing out smaller amounts that have been outstanding for longer than the established period.

## **2. Property Transactions**

NPS needs to continue improving controls over property transactions as we noted the following:

- a. *Additions* – NPS recorded two property additions with an incorrect acquisition date and another property addition with an incorrect acquisition date and amount. NPS also received an asset in prior years, but did not record this asset until fiscal year 2003. In addition, NPS expensed ten progress payments on construction contracts instead of capitalizing the payments in the construction in progress account. Furthermore, NPS expensed the purchase of a vehicle that should have been capitalized.
- b. *Deletions* – NPS recorded certain property deletions in fiscal year 2003 that were actually disposed of in previous years.
- c. *Trade-in Transactions* – We identified two trade-in transactions that NPS did not properly record in the general ledger. Although NPS does not trade-in property frequently, the fixed asset system does not allow NPS to properly record trade-in transactions. Therefore, manual reviews and adjustments are required to properly record the disposal of the old property traded in and acquisition of the new property purchased.
- d. *Accumulated Depreciation* – NPS had not fully reconciled its accumulated depreciation as the subsidiary ledger did not agree with the general ledger by approximately \$2.4 million at the end of the year. We also performed an analysis of depreciation expense by comparing the total additions to accumulated depreciation in the accumulated depreciation account for fiscal year 2003 to the amount reported as depreciation expense. The amount recorded in the expense account was less than the accumulated depreciation account addition by \$1.7 million. Similar reconciling differences have been identified in prior years.
- e. *Heritage Assets* – NPS capitalized a heritage asset that should have been expensed and incorrectly transferred a heritage asset expense from the construction in progress account to the real property account. In addition, NPS classified certain heritage assets as a general expense rather than as a heritage asset expense.

### **Recommendations**

We recommend that NPS perform the following to improve controls over property:

- a. *Additions and Deletions* – Enhance controls to ensure that transactions are properly capitalized or expensed, property is recorded at the time acquired or disposed, and property is recorded with the proper acquisition dates. Such controls may include a supervisory review of transactions to ensure that property information from the supporting documentation is properly entered into the accounting system.
- b. *Trade-in Transactions* – Configure the accounting system to properly record trade-in transactions or train personnel on how to prepare journal entries to account for trade in transactions. In addition, NPS should require supervisors to review trade-in transactions to ensure that they are properly recorded in the accounting system.
- c. *Accumulated Depreciation* – Reconcile depreciation expense and disposals of accumulated depreciation from the subsidiary ledger to the general ledger on a monthly basis. This reconciliation process should include resolving differences as they are identified and adjusting the subsidiary or general ledger, as appropriate.
- d. *Heritage Assets* – Review projects to ensure that projects related to heritage assets are properly coded in the accounting system. NPS should also provide training to employees on the difference between a capitalizable asset and a heritage asset and how to record and report these assets. NPS should review supporting documentation related to completed projects to ensure that they are transferred to the proper account.

### **3. Budgetary Transactions**

We reviewed a \$2.5 million adjustment that NPS included in the third quarter SF-133, *Report on Budget Execution and Budgetary Resources*, (SF-133) for appropriation 14X1039, to properly reflect NPS's receipt of an SF-1151, *Nonexpenditure Transfer Authorization*. We noted that NPS received the transfer on November 18, 2002 but did not record the transfer until June, 2003. Therefore, the first and second quarter SF-133s, which NPS submitted to the Office of Management and Budget, did not reflect this transfer. NPS identified this as a difference through the TFS-6653, *Undisbursed Appropriation Account Activity for the Month*, reconciliation process, however, NPS did not resolve the difference in a timely manner.

We also noted that ten of twenty budgetary recoveries that we tested, represented prior year obligations that NPS cancelled or modified in fiscal year 2003 that should have cancelled or modified in the prior fiscal year. This resulted as NPS's annual verification of undelivered order balances did not identify these adjustments in the prior fiscal year. In addition, we noted that NPS did not consistently follow its policy to allow the accounting system automatically record obligations for utility or credit card transactions as individuals also manually entered obligations for some of these transactions.

### ***Recommendations***

We recommend that NPS improve controls over budgetary transactions as follows:

- a. Have the Washington Area Service Office (WASO) enter all appropriation, apportionment, transfer, and other transactions into the accounting system as the transactions occur and forward the related documentation to the Accounting Operations Center (AOC) in a timely manner;
- b. Investigate and resolve differences identified through the TFS-6653 reconciliation process in a timely manner;
- c. Improve communication between AOC and WASO to resolve differences in the month identified.
- d. Improve the annual review of outstanding obligations to ensure balances are valid.
- e. Ensure individuals consistently apply NPS's policy that credit cards, utilities, and similar transactions should not be obligated using manual entries, as the accounting system records obligations at the time of accrual or payment.

## **4. Revenue and Related Transactions**

We identified the following findings related to revenue:

- a. *Reimbursable Revenue* – NPS recorded reimbursable revenue in fiscal year 2003 that should have been recorded in fiscal year 2002. This revenue related to providing law enforcement personnel services to the Bureau of Reclamation.
- b. *Advances to Others* – NPS properly reflected the advances to others balance on the general ledger in total; however, NPS cannot readily determine the outstanding balance for individual agreements or trading partners.
- c. *Transfers* – NPS incorrectly recorded two transfer-out transactions as unnatural transactions in the appropriated earmarked receipts transferred-in account.

### ***Recommendations***

We recommend that NPS improve controls over revenue as follows:

- a. *Reimbursable Revenue* – Recognize reimbursable revenue at the time services are provided and the related expense is incurred.
- b. *Advances to Others* – Revise the process for recording advances to others in the accounting system. NPS should record transactions related to advances to others by agreement and trading partner in the accounting system or prepare a subsidiary ledger for advance to others that summarizes the transactions and ending balances by agreement and trading partner.
- c. *Transfers* – Record transfer-in and transfer-out transactions in the proper general ledger accounts.



Our audit procedures were designed primarily to enable us to form an opinion on NPS's financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that exist. However, we also take this opportunity to share our knowledge of NPS, gained during our work, to make comments and suggestions that we hope can be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended for the information and use of NPS's management, the U.S. Department of the Interior's management, the U.S. Department of the Interior's Office of Inspector General, the Office of Management and Budget, the General Accounting Office, 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