



United States  
General Accounting Office  
Washington, D.C. 20548

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Accounting and Information  
Management Division

B-282353

April 8, 1999

General Frederick F. Woerner  
Chairman, American Battle Monuments Commission

Subject: Management Letter: American Battle Monuments Commission's Financial Statement Audit for Fiscal Year 1998

Dear General Woerner:

This letter provides suggestions for improving internal controls and operations at the American Battle Monuments Commission (ABMC). The suggestions are provided by KPMG LLP, an independent public accounting firm we contracted with to conduct the audit of ABMC's consolidated financial statements for the fiscal year ended September 30, 1998.<sup>1</sup> We concur with KPMG's suggestions.

A draft of the enclosed KPMG letter was provided to ABMC officials who agreed with its contents and said that they will consider all the suggestions. We would appreciate receiving a description and the status of your planned corrective actions within 30 days of the date of this letter.

This letter is intended for use by ABMC management, donors to ABMC's World War II Memorial Trust Fund, and the Congress. We are sending copies of this letter to Senator Arlen Specter, Chairman, and Senator John D. Rockefeller IV, Ranking Minority Member, Senate Committee on Veterans' Affairs, and Representative Bob Stump, Chairman, and Representative Lane Evans, Ranking Minority Member, House Committee on Veterans' Affairs. We are also sending copies of this letter to The Honorable Robert E. Rubin, Secretary of the Treasury, and The Honorable Jacob J. Lew, Director, Office of Management and Budget. This letter is a matter of public record and its distribution is not limited. Consequently, copies are available to others on request.

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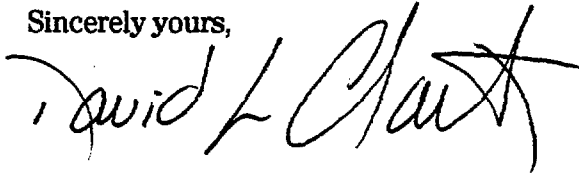
<sup>1</sup>Financial Audit: American Battle Monuments Commission's Financial Statements for Fiscal Years 1998 and 1997 (GAO/AIMD-99-74, March 1, 1999).

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Should you have any questions or need assistance in addressing these items, please contact me or Roger R. Stoltz, Assistant Director, on (202) 512-9489.

Sincerely yours,

A handwritten signature in black ink, appearing to read "David L. Clark". The signature is written in a cursive style with a large, stylized initial "D" and a prominent crossbar at the end.

David L. Clark  
Director, Audit Oversight  
and Liaison

Enclosure

KPMG LLP MANAGEMENT LETTER

2001 M Street, N.W.  
Washington, DC 20036

January 29, 1999

**MANAGEMENT LETTER**

The Commissioners  
American Battle Monuments Commission

We have audited the consolidating balance sheets of the American Battle Monuments Commission (the ABMC) as of September 30, 1998 and 1997, and the related consolidating statements of net cost and changes in net position, budgetary resources, and financing (hereinafter referred to collectively as the consolidating financial statements) for the year ended September 30, 1998, and have issued our unqualified Independent Auditors' Report thereon dated January 29, 1999. In planning and performing our audit of the consolidating financial statements of the ABMC we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the consolidating financial statements and management's assertions on internal controls over financial reporting. We have not considered the internal controls since the date of our report.

Two reportable conditions, both of which we consider material weaknesses, have been addressed in our separate report entitled Independent Auditors' Report dated January 29, 1999 and are presented, along with our suggestions for improvement, as Appendix A to this letter.

Appendix B includes other internal control matters that have come to our attention and our suggestions for improvement. These are less significant matters presented to assist the ABMC in improving its operations, but are not considered reportable conditions.

The status of audit findings from the 1997 audit of the ABMC is presented in Appendix C.

This report is intended solely for the information and use of management of the ABMC, others within the organization, the General Accounting Office, and Congress, and is not intended to be and should not be used by anyone other than the specified parties.

We take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the ABMC during the course of our examination.

**KPMG LLP**



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a member of KPMG International, a Swiss association.

**MATERIAL WEAKNESSES****APPENDIX A**

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the ABMC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidating 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 consolidating 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. We noted certain matters discussed in the following paragraphs involving the internal control over financial reporting and its operation that we consider to be reportable conditions and material weaknesses. These two conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the ABMC's consolidating financial statements as of and for the year ended September 30, 1998.

**1. Inadequate Controls Over Information Technology Systems**

The ABMC's current information technology systems utilized by the Washington Headquarters and the foreign regional offices contain the following weaknesses:

- There is no user documentation to support the internally generated accounting databases: FoxPro, dBaseIV, and Clipper. The users learn how to use the system through on-the-job training, although they do not have any support to explain how functions should be performed and questions answered.
- Accounting personnel in the European Regional Office have access to the file maintenance functions that include the general ledger accounts, object codes, and vendor listings. These individuals are also responsible for entering the financial data and tracking financial obligations.
- The Pacific Regional Office does not require system passwords to be changed on a periodic basis. Users are not required to change their passwords after the initial sign-on to the network.
- The Headquarters and the Pacific Regional Office do not have business continuity plans to address continued operations of the agency in the event of a disaster. Such a plan should include all aspects of the business operations, not only the computer systems.

## APPENDIX A (Continued)

- The Pacific Regional Office does not have a secure off-site storage facility to rotate backup tapes on a regular basis. Although the ABMC personnel responsible for performing the backup procedures take the tapes home with them, these sites are not considered secure sites that ensure proper control and safeguarding of financial data.
- The Mediterranean Regional Office has not been provided sufficient training in systems administration, support has not been provided to all personnel in charge of the systems, and there is no backup systems administrator.

We suggest that the ABMC:

- Take steps to correct file access, change passwords, develop a business continuity plan, and identify a secure off-site storage facility as discussed above.
- Complete the procurement and implementation of a modern, integrated financial information system, now in progress, that contains features to correct database documentation and provide training as discussed above;
- Assign a qualified, full time information systems officer to help correct problems noted above and monitor systems; and
- Consider common information control procedures promulgated in JFMIP's *Framework for Federal Financial System Requirements*.

### **2. Inaccurate Recording of Accounts Payable and Other Accruals**

The ABMC has written policies and procedures to ensure proper accrual of accounts payable and other accruals at the Headquarters and regional offices, but has not effectively implemented them. We noted the following conditions:

- The Headquarters understated liabilities and expenses by \$895,827 and misclassified liabilities of \$895,671.
- The European Regional Office understated liabilities and expenses by \$876,169 and overstated accrued annual leave by \$31,650.

We were able to obtain assurance over the proper balance of accounts payable and accruals at September 30, 1998 through performing detailed cutoff test work at Headquarters and all regional offices. All material adjustments proposed by us were recorded by the ABMC.

We suggest that the ABMC follow its written policy on cut-off procedures at fiscal year end to ensure proper recording of accounts payable and other accruals.

**APPENDIX B****OTHER MATTERS****Assets****1) Record Imprest Fund**

During our testwork over cash, we noted that the ABMC's European Regional Office did not record a Mediterranean Region imprest fund in its September 30, 1998 trial balance.

We suggest that the ABMC's European Regional Office record all imprest cash funds in the trial balance.

**2) Translate Foreign Currency Account Balance at the United States Treasury Exchange Rate**

During our testwork over cash, we noted the ABMC's Pacific Regional Office used an old purchase rate instead of Treasury's September 30, 1998 exchange rate to translate its local currency to U.S. dollars.

We suggest the ABMC's Pacific Regional Office translate foreign currency account balances into U.S. dollars using the Treasury exchange rate.

**3) Improve Contribution Accounting Controls**

During fiscal year 1997, the ABMC established a policy on accounting for contributions. However, during our contribution testwork, we noted that ABMC:

- Recorded unconfirmed pledges of \$250,000 as contributions;
- Did not calculate the present value of its contributions;
- Did not correctly disclose contributions with restrictions; and
- Did not record revenue of \$25,000 for the in-kind services received.

We suggest the ABMC:

- Modify its accounting policy for contributions and then follow the policy to:
  - Record only confirmed pledges as contributions;
  - Calculate present value of contributions, using the treasury discount rate;
  - Disclose the amount of contributions with restrictions; and
  - Recognize revenue for in-kind services when received.

## APPENDIX B (Continued)

- Review the recording and disclosure of contribution accounts as part of year end closing procedures to assure proper accounting and disclosure.

### 4) Improve Property, Plant, and Equipment Controls

During our testwork over property, plant, and equipment (PP&E), we noted:

- The ABMC Mediterranean Regional Office recorded depreciation incorrectly for a capitalized asset;
- The ABMC European Regional Office did not capitalize a van that was acquired during FY 98; and
- The ABMC European Regional Office recorded PP&E at the amount obligated rather than the actual expense amount.

We suggest that:

- The ABMC Mediterranean Regional Office review depreciation amounts as part of year end closing procedures to ensure accurate recording;
- The ABMC European Regional Office review object class 3200 transactions in the accounting system as part of year end closing procedures to ensure that all equipment greater than \$25,000 is recorded as a capitalized asset; and
- All PP&E be capitalized at actual cost.

### Liabilities

#### 5) Improve Liabilities and Expenditures Accounting Controls

During our testwork over accounts payable and accrued salaries payable, we noted that the ABMC incorrectly accounted for liabilities and expenses in its financial statements:

- European Regional Office liabilities of \$29,004 were misclassified; and
- Headquarters WWII expense was overstated by \$12,611.

We suggest that the ABMC review its recording and classification of liabilities and expenses as part of year end closing procedures to assure proper accounting and disclosure.

### Expenses

#### 6) Improve Receipt and Expenditure Controls

During our testwork over receipts and expenditures in Manila, we noted that the ABMC's Pacific Regional Office can improve its internal controls over receipts and expenditures. We found:

## APPENDIX B (Continued)

- No supporting documentation for five acknowledgment receipts;
- Missing requisitions for nine expenditures;
- Missing approval authority for two expenditures;
- Missing minimum number of proper vendor quotations for six expenditures exceeding \$2,500; and
- Twelve sales invoices were not stamped received and verified to indicate inspection of goods.

Further, our testing of the ABMC expense controls disclosed the following:

- The European Regional Office had sixteen payment vouchers with no receiving stamps;
- The Washington D.C. Office had five payment vouchers with no receiving stamps; and
- The Mediterranean Regional Office had two time sheets, which were not properly authorized.

We suggest the ABMC improve expense controls by:

- Documenting receipt for all goods or services before the appropriate invoice is paid;
- Obtaining approved requisitions for all expenditures;
- Obtaining minimum vendor quotations for purchases over \$2,500; and
- Approving all time sheets.

### **Budgetary Accounts**

#### **7) Improve Budgetary Accounting Controls**

Our testing of budgetary accounting controls at the ABMC Headquarters disclosed the following:

- Sixteen obligations were recorded at the time of disbursement rather than at time the goods were ordered;
- Seven obligation amounts from the obligating document did not agree with the obligation amounts recorded in the accounting system;
- Three obligating documents for travel did not contain a dollar amount;
- One obligation was recorded for the wrong vendor; and
- Obligating documents were not used for vouchers that were paid to one vendor.

We suggest that:

- The ABMC strictly enforce its policy of preparing an obligation document for all expenditures in the accounting system when ordered;
- All travel authorizations contain an estimate of fares, per diem, and other costs;
- The ABMC agree vendor name on obligations and disbursements; and



**APPENDIX B  
(Continued)**

- The ABMC reconcile all obligating documents for the month to the amount reported in the accounting system.

**Financial Reporting**

**8) Implement the Applicable NCIB Standards**

The ABMC's financial statements do not present information about the World War II Memorial Trust Fund in a form that is consistent with the requirements of The National Charities Information Bureau (NCIB) Standards. This well respected, national charity rating agency has published nine standards on governance, policy and program fundamentals, and reporting and fiscal fundamentals. A poor compliance report from them could negatively impact WWII fund raising.

We suggest that the ABMC staff review the standards and present those applicable to the Commission for adoption and implementation.

**Electronic Data Processing**

**9) Obtain Year 2000 Compliant Software**

During our review of general EDP controls, we noted that the accounting databases used by the ABMC in the Washington, European Regional and Mediterranean Regional Offices are not year 2000 compliant. Management has identified this condition, and a new, compliant system is being implemented.

We suggest that ABMC complete its implementation of the new integrated financial management system in FY 1999.

## APPENDIX C

## STATUS OF PRIOR YEAR AUDIT FINDINGS

Reportable Condition	Title	Status
1.*	Inadequate Controls Over Information Technology Systems	Repeated – Appendix A
2.*	Improper Recording of Accounts Payable and Other Accruals	Repeated – Appendix A
3.*	Inadequate Preparation and Approval of Bank Reconciliation of Foreign Bank Accounts	Corrected and Closed
4.	Lack of Documented Policies and Procedures for Fund Balance with Treasury	Corrected and Closed
Other Matters	Title/Description	Status
1.	Lack of comprehensive current accounting policies or procedures.	Open
2.	No full compliance with the United States Standard General Ledger (SGL).	Open
3.	European regional office did not perform surprise cash counts of cemetery imprest funds.	Closed
4.	Not properly disclosing and explaining budget clearing account (BCA) differences in the Financial Statements	Closed
5.	Foreign bank account balances were not translated at the United States Treasury rates on September 30, 1997.	Closed
6.	ABMC should use the effective interest method to amortize their investment premiums and discounts.	Open
7.	ABMC does not perform analytical review procedures.	Closed
8.	ABMC does not have a consistent personal property accountability system. The WDC office does not perform periodic physical inventories.	Closed
9.	ABMC does not fully comply with the Prompt Payment Act.	Open
10.	ABMC has not updated individual personnel files for general salary increases in the European and Mediterranean Regions.	Closed
11.	ABMC does not have current, written administrative fund control procedures.	Open
12.	ABMC's Federal Managers Financial Integrity Act (FMFIA) report may be incomplete.	Closed
13.	There is no segregation of duties between general ledger responsibilities and reconciliation of the general ledger to the bank statements.	Open
14.	There is no segregation of duties between purchase order approval and certification of goods as received and accepted.	Closed
15.	ABMC disbursed \$8,287 to an individual for services performed after the contract expired.	Closed
16.	In the European Region, cemetery superintendents approve and sign their own timesheets.	Closed
17.	There is no independent check of the payroll calculated by the automated system or by manual calculation in the European Regional Office.	Closed
18.	The Mediterranean Regional Office does not post transactions to the general ledger timely.	Open

\*These items are also considered material weaknesses.

Open comments from the FY 1997 audit have not been repeated in Appendix B of this report.

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