



GAO

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United States Government Accountability Office  
Washington, DC 20548

July 28, 2011

The Honorable Max Cleland, Secretary  
American Battle Monuments Commission  
Courthouse Plaza II, Suite 500  
2300 Clarendon Boulevard  
Arlington, VA 22201

Subject: *American Battle Monuments Commission: Improvements Needed in Internal Controls and Accounting Procedures – Fiscal Year 2010*

Dear Mr. Secretary:

On March 1, 2011, we issued our report expressing our opinion on the American Battle Monuments Commission's (the Commission) fiscal years 2010 and 2009 financial statements and our opinion on the Commission's internal control as of September 30, 2010.<sup>1</sup> We also reported on the results of our tests of the Commission's compliance with selected provisions of laws and regulations during fiscal year 2010.

During the fiscal year 2010 audit, we identified several internal control deficiencies<sup>2</sup> that, while not material individually or in the aggregate to the Commission's financial statements, warrant management's attention. The purpose of this report is to present these deficiencies, provide recommendations to address these matters, and provide an update on the status of our prior years' recommendations. Because of their sensitive nature, we are providing detailed information regarding our findings and recommendations on the Commission's information systems security controls in a separate Limited Official Use Only report.

### **Results in Brief**

During our fiscal year 2010 financial statement audit, we identified nine deficiencies in the Commission's internal controls and accounting procedures at Commission headquarters and its Paris Overseas Office.

At the Commission's headquarters, we identified the following internal control and accounting procedure deficiencies:

1. Management's discussion and analysis did not include a financial analysis.
2. Not all budgetary information was fully disclosed in the financial statements.
3. Monitoring controls over cash accounts were not fully effective.

<sup>1</sup>GAO, *Financial Audit: American Battle Monuments Commission's Financial Statements for Fiscal Years 2010 and 2009*, GAO-11-320 (Washington, D.C.: Mar. 1, 2011).

<sup>2</sup>A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

4. Active Contracts List was not current, complete, or reconciled to accounting information.
5. Budgetary procedures were not fully effective in ensuring contracts were signed before funds were obligated.
6. Year-end reconciliation of accounts payable detail to the general ledger was not timely and accurate.

At the Commission's Paris Overseas Office, we identified the following internal control and accounting procedure deficiencies:

7. Documentation of personnel actions was not current.
8. Controls over approvals and invoice dates were not always effective.
9. Rome office contract files were not current.

To assist the Commission management, we present at the end of our discussion of each of the findings, our recommendations for corrective action. We are making a total of 15 recommendations to address the internal control deficiencies discussed in this report.

As a result of our fiscal years 2006 through 2009 audits of the Commission's financial statements, we have provided the Commission with 91 recommendations to improve its internal control and accounting procedures. Through February 11, 2011, the date of our completion of the fiscal year 2010 audit, the Commission had implemented 66 recommendations, or about 73 percent of the recommendations we have made from the 2006-2009 audits.

In commenting on a draft of this report, the Commission stated it agreed with the issues raised and would fully respond at a later date. The Commission's response is reprinted in its entirety in enclosure II.

### **Scope and Methodology**

As part of our fiscal year 2010 financial statement audit of the Commission, we determined whether the Commission maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010. We also tested compliance with selected provisions of laws and regulations that had a direct and material effect on the financial statements. In conducting the audit, we reviewed applicable Commission policies and procedures, assessed controls over the recording and processing of transactions, examined relevant documents and records, and interviewed management and staff. We also tested internal control over financial reporting. We did not evaluate all internal controls relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to those controls over financial reporting. We performed our audit of the Commission's fiscal year 2010 financial statements in accordance with U.S. generally accepted government auditing standards. We believe that our audit provided a reasonable basis for our conclusions in this report. Further details on our fiscal year 2010 Commission financial statement audit methodology are presented in enclosure I.

## **Findings at Commission Headquarters**

During our fiscal year 2010 audit, we identified six control deficiencies related to accounting procedures at the Commission's headquarters in Arlington, Virginia. After the discussion of each of our findings, we present related recommendations for corrective action.

### **1. Management's Discussion and Analysis did not include a financial analysis.**

During our fiscal year 2010 audit, we found that the Commission did not include a financial analysis within its Management's Discussion and Analysis (MD&A). The MD&A is provided by management to explain how an entity has performed in the past, its financial condition, and its future prospects. Although unaudited, the MD&A is required to accompany the financial statements by U.S. generally accepted accounting principles and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. While the Commission did provide some information on its fiscal year obligations by object class in the MD&A, it did not provide any analysis of that information or any other financial information pertinent to the Commission's financial condition.

OMB Circular No. A-136, section II.2.7, Analysis of Entity's Financial Statements and Stewardship Information, instructs entities to compare their current year amounts to the prior year and provide an analysis of their overall financial position and results of operations within the MD&A. Specifically, this section of the circular provides that an entity's analysis should communicate to users of the financial statements management's understanding of:

- the relevance of particular balances and amounts shown in the financial statements, particularly if relevant to important financial management issues;
- major changes in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays (explaining the underlying causes of the changes); and
- its stewardship information.

The section also provides that the following items are useful to include in a financial statement analysis:

- explanations for variances that exceed 10 percent and that are material to the entity;
- significant issues qualitative in nature and relating to financial management; and
- overall financial condition and financial management issues occurring since the previous reporting period that impact the entity's current financial status.

The circular further provides that the MD&A should include a discussion of key financial-related measures which emphasizes financial trends and forward-looking information and includes an assessment of financial operations.

Commission management stated it was unable to fully comply with the requirement to include a financial analysis in the Commission's MD&A accompanying the financial statements as it was identified late in the reporting process. As a result, the Commission did not provide information to assist users of its financial statements in understanding the Commission's financial results, position, and condition.

**Recommendation for Executive Action:**

We recommend that the Commission instruct the Director of Finance at Commission headquarters to:

1. include a financial analysis as part of its Management Discussion and Analysis within its reporting process to accompany future annual financial statements.

**2. Not all budgetary information was fully disclosed in the financial statements.**

During our fiscal year 2010 audit, we found that the Commission's controls over financial reporting were not fully effective in ensuring that the Commission disclosed all appropriate budget information in its 2010 financial statements. Specifically, the Commission did not disclose in a draft of its fiscal year 2010 financial statements differences between amounts reported on its Statement of Budgetary Resources (SBR) and actual amounts reported for the entity in the *Budget of the United States Government* (President's Budget). The Commission also did not disclose the availability of published information regarding the President's Budget.

OMB Circular A-136, *Financial Reporting Requirements*, section II.4.9.35, Explanation of Differences Between the SBR and the Budget of the U.S. Government, states that entities should explain material differences between amounts reported on their SBR and actual amounts reported for the entity in the Budget of the United States Government. Since the Commission's fiscal year 2010 financial statements were issued before the fiscal year 2012 budget was available, this reconciliation is based on the fiscal year 2009 SBR and actual amounts for fiscal year 2009 in the most recently published fiscal year 2011 budget. Section II.4.9.35 of A-136 also states that reporting entities are to disclose, if the President's Budget for the current fiscal year has not yet been published, when the budget is expected to be published, and indicate where it will be available.

Commission management stated that it had overlooked this disclosure in preparing the draft financial statements and accompanying note disclosure because historically there have been no material differences in amounts reported. While the Commission ultimately added this disclosure in the final version of the fiscal year 2010 financial statements once we brought this matter to its attention, the Commission's internal controls over its financial reporting process did not prevent or detect this omission. Without this information, users of the Commission's financial statements did not have relevant information concerning the Commission's budgetary activity.

**Recommendation for Executive Action:**

We recommend that the Commission instruct the Director of Finance at Commission headquarters to:

2. strengthen controls over financial reporting to ensure the complete disclosure of budgetary activity, including an explanation of any differences between amounts reported in the Commission's Statement of Budgetary Resources and actual amounts reported for the entity in the *Budget of the United States Government*, along with the availability of published information.

### **3. Monitoring controls over cash accounts were not fully effective.**

During our fiscal year 2010 audit, we found that the Commission did not have effective monitoring controls to ensure that any differences between its general ledger cash accounts and Treasury records were identified and appropriately resolved. Specifically, during our interim testing of cash accounts at Commission headquarters, we identified an unknown difference in the amount of over \$67,000 between the Government-Wide Accounting (GWA) system<sup>3</sup> maintained by the Treasury Department and the Commission's general ledger for Fund 0100 as of May 31, 2010. During year-end testing, we followed up on this difference with the Commission's Senior Accountant, who stated that the Commission was not able to identify this difference, believing it was the cumulative effect of a number of transactions. The Commission ultimately made an adjusting journal entry to bring the general ledger account for Fund 0100 into balance with the GWA system as of September 30, 2010.

Also, during our year-end testing of cash activity for each Commission business unit, we identified small differences at the Paris Overseas Office, the Rome office, and the Manila American Cemetery. Commission officials explained that these differences were due to imprest fund revaluations at year-end and that another small difference was due to an uncorrected journal entry related to payroll. However, the Commission had not identified these differences on its cash reconciliations.

While all of these amounts were not material to its financial statements, they raised concerns about the Commission's monitoring of the completeness and accuracy of data recorded in account 1010, *Fund Balance with Treasury*, and the accountability over cash, an asset susceptible to theft or loss if not properly controlled. According to *Standards for Internal Control in the Federal Government*,<sup>4</sup> reconciliations are a control activity for accountability of government resources and achieving effective results, and internal control monitoring should assess the quality of these reconciliations. The lack of timely and effective monitoring of cash reconciliations can lead to unresolved differences between the Commission's actual cash and what is reflected in its general ledger, potentially leading to misstatements in the Commission's financial statements.

#### **Recommendation for Executive Action:**

We recommend the Commission instruct the Director of Finance at Commission headquarters to:

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<sup>3</sup>The GWA system provides federal agencies with an account statement (similar to bank statements provided to customers) of their Fund Balance with Treasury, which presents appropriation and non-expenditure activity, as well as, payments, deposits, and intra-governmental actions that affect the Fund Balance with Treasury.

<sup>4</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

3. monitor monthly cash reconciliations for all Fund Balance with Treasury accounts Commissionwide to ensure their completeness and accuracy.

#### **4. Active Contracts List was not current, complete, or reconciled to accounting information.**

During our fiscal year 2010 audit, we found that the Active Contracts List, used by the Commission to monitor the status of contracts over \$100,000 at headquarters, was not current, complete, or reconciled to the relevant account balances. This list, maintained on an electronic spreadsheet by the acquisitions office at headquarters, was intended to provide information to monitor the Commission's largest contracts. This list included the contractor's name, purpose of the contract, the total cost, contract end dates, contracting officer, project manager, and the status of actions taken to date. However, in reviewing this list, we found that it did not contain information on several active contracts over \$100,000. We were also unable to determine from this list whether (1) all contract work had been completed, (2) a 5 percent retention fee had been paid as required by contract, and (3) payments were pending due to disagreements on work performed. Further, we found that amounts on the list did not reconcile to contract amounts contained within an undelivered orders report produced by the Commission's accounting system. Without this reconciliation, there is no assurance that information on the Active Contracts List reflects all transactions processed through the Commission's accounting system.

According to *Standards for Internal Control in the Federal Government*,<sup>5</sup> reconciliations are a control activity for accountability of government resources and achieving effective results. Reconciliations also ensure that transactions and events are properly authorized and executed. Commission officials explained that contracts missing from the list had originated overseas and that the headquarters acquisitions office was not responsible for those contracts. However, if the Commission is to effectively monitor its largest contracts globally, either all contracts should be included, or the Paris office should maintain and submit an Active Contracts List for review by headquarters. Although the Active Contracts List was developed by the Commission as a monitoring tool and control activity to ensure the proper execution of transactions and events, if it is incomplete and inaccurate, the ability of the Commission headquarters to effectively monitor the status and accuracy of its largest contracts is impaired.

#### **Recommendations for Executive Action:**

We recommend that the Commission instruct the Director of Human Resources and Administration at Commission headquarters to:

4. maintain a consolidated Active Contracts List, or require the Paris Overseas Office to maintain a separate list, with information on each contract including the name of the contact person; the status of work completed; whether retainage amounts had been paid; and whether any amounts were pending due to disagreements on work performed; and
5. ensure that the Active Contracts List is reconciled to contracts on the undelivered orders report produced by the Commission's accounting system.

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<sup>5</sup>GAO/AIMD-00-21.3.1.

**5. Budgetary procedures were not fully effective in ensuring contracts were signed before funds were obligated.**

During our fiscal year 2010 audit, we found that the Commission's controls over its budgetary activity were not fully effective in ensuring that funds were obligated only after contracts were signed. Specifically, as part of our audit, we reviewed 20 contracts at Commission headquarters that exceeded \$100,000 which included a determination of proper obligation. We compared the date of the original, signed contract to the obligation date on the purchase order form which serves as the input into the Commission's accounting system. Of the 20 contracts tested, three purchase order forms indicated obligation dates before the signed contract date.

The Commission's budgetary procedures and 31 U.S.C. § 1501 require that contracts be completed and signed before funds are obligated. However, Commission personnel did not always adhere to these procedures. The Commission's CFO stated that the obligation dates entered into the accounting system for the three purchase order forms may have been the dates when a budget check was made by Commission personnel to ensure that sufficient funds were available. For the three cases, the dates ranged from 3 to 14 days before the contract signature date, which Commission personnel considered a timing difference. Obligation of funds without documentary evidence of an executed contract is inconsistent with budgetary procedures required by law and can result in inaccurate recording of obligated funds.

**Recommendation for Executive Action:**

We recommend that the Commission instruct the Director of Finance at Commission headquarters to:

6. follow existing budgetary procedures to ensure that contracts are officially agreed to and executed as of or before the date of obligation.

**6. Year-end reconciliation of accounts payable detail to the general ledger was not timely and accurate.**

During our fiscal year 2010 audit, we found that the Commission did not effectively ensure that its accounting procedures requiring reconciliation of its accounts payable were timely performed to accurately reflect balances at year-end. Specifically, we found that the general ledger accounts payable balance at Commission headquarters was less than the supporting Aged Vendor Liability Report balance by over \$61,000 as of September 30, 2010. This was inconsistent with the Commission's accounting and year-end closing procedures, which require accounts to be supported by underlying transactions. We found that the Commission had not identified this difference itself because its personnel had not reconciled the general ledger accounts payable account with underlying records.

When we presented this matter to Commission accounting staff, they stated that the difference was not reconciled because it was immaterial to the financial statements and other items were a higher priority during the 2010 year-end closing. Working with Commission staff, we identified two transactions in the detailed Aged Vendor Liability Report which were erroneously marked for manual cash clearance, which comprised most of the difference. However, these transactions were timely processed and paid which properly reduced the general ledger account balances for

both accounts payable and the Fund Balance with Treasury. Commission personnel found that the remaining small difference was due to an entry at the beginning of the year that had not been adjusted.

According to *Standards for Internal Control in the Federal Government*,<sup>6</sup> reconciliations are a control activity for accountability of government resources and achieving effective results. Not adhering to accounting procedures requiring reconciliation could result in the Commission's financial statements being misstated.

### **Recommendation for Executive Action:**

We recommend that the Commission instruct the Director of Finance at Commission headquarters to:

7. direct accounting staff to follow existing accounting procedures to perform timely reconciliations of accounts payable general ledger balances to the Aged Vendor Liability Report balances to ensure reporting of accurate information, particularly at year-end.

### **Findings at the Commission's Paris Overseas Office**

During our fiscal year 2010 audit, we identified three control deficiencies related to accounting procedures at the Commission's Paris Overseas Office in Garches, France. This includes control deficiencies identified during audit site work at the Commission's Rome, Italy office, for which the Paris Overseas Office has oversight responsibility. After the discussion of each of our findings, we present related recommendations for corrective action.

#### **7. Documentation of personnel actions was not current.**

During our fiscal year 2010 audit, we found that the Commission's Paris and Rome offices procedures were not always effective in ensuring that documentation of personnel actions was current in employee official personnel files. We identified a similar issue at Commission headquarters during our fiscal year 2009 audit. Specifically, in testing a statistical sample of payroll transactions as part of our fiscal year 2010 audit, we found that personnel files for one employee in the Paris Overseas Office and one employee in the Rome office did not contain current personnel forms as follows:

- It is Paris Overseas Office policy to prepare a Form ABM 87, *Notice of Personnel Action*, for its foreign employees, have it approved, and put into each employee's official personnel file.<sup>7</sup> We found that in May 2010, all French employees received an across-the-board pay increase of 4 percent. For French employees in our sample, we found all were correctly paid the pay increase; however, one employee's personnel file did not contain a current Form ABM 87. Human capital personnel stated that ABM 87 forms for the pay increase had been prepared for all French employees but the missing form may have been misplaced or misfiled.

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<sup>6</sup>GAO/AIMD-00-21.3.1.

<sup>7</sup>The Form ABM 87 was developed by the Commission when it had its own pay system for foreign employees. It is Paris Overseas Office policy to prepare a Form SF-50, *Notification of Personnel Action*, for all U.S. employees.

- It is Rome office policy to prepare a Form SF-50, *Notification of Personnel Action*, for all U.S. and foreign employees, have it approved, and put into each employee's official personnel file. We found that while one employee had received a pay increase and was being correctly paid, a current SF-50 reflecting the pay increase was not in the employee's personnel file. The personnel specialist did not have an explanation for the missing document.

According to OPM, the SF-50 is used to document official personnel actions, such as pay increases and promotions, and a copy is to be placed in each employee's official personnel file. Because the SF-50 is also used to make future employment, pay, and qualification decisions, incomplete personnel files could affect such decisions. As indicated above, the Paris and Rome offices have used different forms to document official personnel actions for their foreign employees. Since the Paris Overseas Office is now providing oversight over Rome office operations, forms for official personnel actions on foreign employees could be standardized for consistency.

**Recommendations for Executive Action:**

We recommend that the Commission instruct the Director of Human Resources at the Commission's Paris Overseas Office to:

8. follow existing policy to prepare, approve, and file current forms to support pay changes in foreign employee's official personnel file;
9. direct the Rome office personnel specialist to follow existing policy to prepare, approve, and file current forms to support pay changes in employee's official personnel files; and
10. establish a consistent policy for Paris and Rome offices to support changes in employee's official personnel files by using an SF-50, *Notification of Personnel Action*, for all employees.

**8. Controls over approvals and invoice dates were not always effective.**

During our fiscal year 2010 audit, we found that Commission controls were not always effective in ensuring that the receipt and acceptance of goods and services were properly authorized and that invoice dates were accounted for in a consistent manner. Specifically, we found for sample transactions tested

- it was sometimes unclear whether individuals signing and dating the approval of goods and services received were authorized approving officials. Finance Directorate personnel in the Paris Overseas Office were not always able to determine and explain who initialed or signed certain documents because they were either unfamiliar with the name of the signer or the signature was illegible. The office did not maintain a list of authorized signers with their signature. The policies and procedures of the Paris Overseas Office call for the Superintendent or Assistant Superintendent at the cemeteries and directors or other authorized personnel at the Paris Overseas Office to sign for receipt of goods and services. Without an authorized signature for goods/services received, the Commission is at risk of not receiving items ordered, items being misappropriated, or paying fictitious vendor invoices.

- invoice dates entered into the Commission's accounting system did not come from a consistent source but either from a date on the cover sheet when the voucher package had been prepared or the date on the invoice. This was because the Commission's accounting procedures did not specify the date to be used. The date of the invoice is the date to use as it usually represents the date when goods have been shipped or services have been provided. The date is important in order to record transactions in the proper period, particularly at year-end to avoid misstatements in the Commission's financial statements.

### **Recommendations for Executive Action:**

We recommend that the Commission instruct the Finance Directorate's Finance Officer at the Commission's Paris Overseas Office to:

11. instruct Commission personnel to print their name and sign when approving the receipt of goods and services;
12. maintain an authorized list of approving Commission officials with their signature that Finance Directorate personnel can verify when processing invoices for payment; and
13. modify existing accounting procedures to instruct Finance Directorate personnel to enter the date on the invoice into the accounting system.

### **9. Rome office contract files were not current.**

During our fiscal year 2010 audit, we found that Rome office contract files had not been updated for payments and other activity from April through November 2010. Effective April 1, 2010, the Engineering Directorate at the Paris Overseas Office became responsible for all overseas engineering and maintenance projects with related contracts as a result of a Commissionwide reorganization. At that time, the Rome office physically transferred its engineering and maintenance contract files to the Paris office. In November 2010, at the time we performed our audit site work at the Paris office, we found the Rome office contract files still in sealed shipping boxes.

Engineering Directorate personnel at the Paris office stated that due to their existing workload, they had not updated the Rome office contracts. As a result, the Directorate could not provide an accrual report on the status and estimated amount of services provided but not paid as of year-end for Rome office engineering and maintenance contracts. In order to fairly present the Commission's financial statements at year-end, amounts for unpaid services on engineering and maintenance projects must be accrued for expense and accounts payable accounts.

While the Rome office contracts had not been incorporated into Paris office files and reports, the Rome office accountant had included an estimate for unpaid engineering and maintenance amounts based upon contract activity as part of year-end closing procedures. Without this effort, the Commission's financial statement balances at year-end would have been incomplete and inaccurate.

## Recommendations for Executive Action:

We recommend that the Commission instruct the Director of the Engineering Directorate at the Commission's Paris Overseas Office to:

14. instruct personnel to update and maintain all engineering and maintenance contract files for which the office is responsible to include the Rome office; and
15. prepare an accrual report on all engineering contracts to determine the amount of work performed but not yet paid at year-end for accounting and inclusion in financial statements to include the Rome office.

## Status of Prior Years' Recommendations

As a result of our fiscal years 2006 through 2009 audits of the Commission's financial statements, we have provided the Commission with 91 recommendations to improve its internal control and accounting procedures.<sup>8</sup> As summarized in table 1, as of February 11, 2011, the date of audit completion for the fiscal year 2010 audit, the Commission had implemented 66, or about 73 percent, of our recommendations related to our prior years' findings on internal control and accounting procedures issues.

**Table 1: Status of Fiscal Years 2006 through 2009 Internal Control and Accounting Procedure Recommendations**

<b>Fiscal year ended Sept. 30</b>	<b>Total number of recommendations</b>	<b>Number of closed recommendations</b>	<b>Number of open recommendations</b>
2006	15	13	2
2007	5	5	0
2008	26	23	3
2009	45	25	20
<b>Total</b>	<b>91</b>	<b>66</b>	<b>25</b>

Source: GAO analysis as of February 11, 2011.

The Commission stated it has actions under way to address the remaining 25 recommendations.

## Commission Comments and Our Evaluation

In its written comments, reprinted in enclosure II, the Commission stated that it agreed with the issues raised in the report and would provide a full response to each recommendation as part of its 31 U.S.C. § 720 letter to the Congress. As part of our fiscal year 2011 financial statement audit, we will follow up on all of these matters to determine the status of related corrective actions.

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<sup>8</sup>An additional 107 recommendations for fiscal years 2006-2009 related to the Commission's information systems security controls are presented in Limited Official Use Only reports.

This report contains recommendations to the Commission. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. You must also send a written statement to the House and Senate Committees on Appropriations with the Commission's first request for appropriations made over 60 days after the date of this report.

We are sending copies of this report to interested congressional committees and the Director of the Office of Management and Budget. This report is available at no charge on the GAO Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by Commission management and staff during our audit of the Commission's fiscal year 2010 financial statements. If you have any questions regarding this report, please contact me at (202) 512-3406 or [sebastians@gao.gov](mailto:sebastians@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Steven J. Sebastian". The signature is fluid and cursive, with a large initial "S" and "J".

Steven J. Sebastian  
Director  
Financial Management and Assurance

Enclosures - 3

### Scope and Methodology

In order to fulfill our responsibilities as the auditor of the American Battle Monuments Commission's (Commission) fiscal year 2010 financial statements, we did the following:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. This included selecting statistical samples of payroll and nonpayroll expenditures primarily to determine the validity of activities reported in the Commission's financial statements. We projected any errors in dollar amounts to the population of transactions from which they were selected. In testing some of these samples, certain attributes were identified that indicated deficiencies in the design or operation of internal control. These attributes, where applicable, were statistically projected to the appropriate populations.
- Assessed the accounting principles used and significant estimates made by Commission management.
- Evaluated the overall presentation of the financial statements.
- Obtained an understanding of the Commission and its operations, including its internal control over financial reporting.
- Considered the Commission's process for evaluating and reporting on internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982.
- Assessed the risk of (1) material misstatements in the financial statements, and (2) material weaknesses in internal control over financial reporting.
- Tested relevant internal control over financial reporting.
- Evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Tested compliance with selected provisions of the following laws:
  - the Commission's enabling legislation codified in 36 U.S.C. Chapter 21;
  - public laws applicable to the World War II Memorial Fund;
  - Buffalo Soldiers Commemoration Act of 2005;
  - Continuing Appropriations Resolution, 2010;
  - Consolidated Appropriations Act, 2010;
  - Antideficiency Act;
  - Pay and Allowance System for Civilian Employees; and
  - Prompt Payment Act.

We performed audit site work at Commission headquarters in Arlington, Virginia; its Paris Overseas Office in Garches, France; its Rome office in Rome, Italy; its North Africa American Cemetery in Carthage, Tunisia; and its Suresnes American Cemetery in Suresnes, France. We also conducted analytical reviews and other audit procedures on the Commission's Manila American Cemetery in the Philippines.

Our work was conducted from May 5, 2010, through February 11, 2011, pursuant to our authority to conduct an annual audit of the Commission's financial statements under 36 U.S.C. § 2103.

Comments from the American Battle Monuments Commission



Established by Congress 1923

AMERICAN BATTLE MONUMENTS COMMISSION

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Arlington, VA 22201-3367

July 19, 2011

Mr. Steven J. Sebastian  
Director, Financial Management and Assurance  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. Sebastian:

This responds to your July 8, 2011, memorandum regarding your proposed report: *American Battle Monuments Commission: Improvements Needed in Internal Controls and Accounting Procedures – Fiscal Year 2010* (GAO-11-577R).

We agree with the issues raised in your report and are considering its recommendations, but we have no specific response at this time. However, we do not anticipate that we will disagree with any of the recommendations. The Commission will provide a full response to each recommendation as part of our 31 U.S.C. 720 letter to the Congress, which is due 60 days after the issuance of the report.

Most respectfully,

A handwritten signature in black ink, appearing to read "Max Cleland".

Max Cleland  
Secretary

**GAO Contact and Staff Acknowledgments**

**GAO Contact**

Steven J. Sebastian, (202) 512-3406 or [sebastians@gao.gov](mailto:sebastians@gao.gov)

**Staff Acknowledgments**

In addition to the contact named above, Roger R. Stoltz, Assistant Director; Taya R. Tasse; Tory E. Wudtke; Melanie B. Swift; and Brian Harechmak made key contributions to this report.

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