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February 1998

# FINANCIAL AUDIT

## American Battle Monuments Commission's Financial Statements for Fiscal Year 1997



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**Accounting and Information  
Management Division**

B-276278

February 27, 1998

The Honorable Arlen Specter  
Chairman  
The Honorable John D. Rockefeller  
Ranking Minority Member  
Committee on Veterans' Affairs  
United States Senate

The Honorable Bob Stump  
Chairman  
The Honorable Lane Evans  
Ranking Minority Member  
Committee on Veterans' Affairs  
House of Representatives

This report presents the results of the audit of the American Battle Monuments Commission's (ABMC) financial statements for the year ended September 30, 1997.

We are sending copies of this report to the Senate and House Committees on Appropriations; the Secretary of the Treasury; the Director of the Office of Management and Budget; the Chairman of the ABMC; and other interested parties. Copies will be made available to others upon request.

Should you or your staffs have any questions concerning the audit, please contact me on (202) 512-9489 or Roger Stoltz, Assistant Director, on (202) 512-9408.



David L. Clark  
Director, Audit Oversight  
and Liaison

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## Abbreviations

ABMC	American Battle Monuments Commission
CPA	certified public accountant
FMFIA	Federal Managers' Financial Integrity Act of 1982
KPMG	KPMG Peat Marwick LLP
OMB	Office of Management and Budget

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**Accounting and Information  
Management Division**

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General Frederick F. Woerner, Chairman  
American Battle Monuments Commission

In accordance with section 602 of the Veterans' Benefits Improvements Act of 1996 (Public Law 104-275), we are responsible, beginning with the fiscal year ended September 30, 1997, for conducting the first agencywide audit of the financial statements of the American Battle Monuments Commission (ABMC) since its establishment in 1923. To help fulfill these responsibilities, we contracted with KPMG Peat Marwick LLP (KPMG), an independent certified public accounting (CPA) firm. KPMG's report dated January 13, 1998, is in appendix I.

We concur with KPMG's report which indicated the following:

- The ABMC's balance sheet as of September 30, 1997, was reliable in all material respects.
- For a first year audit, it was not feasible for KPMG to extend the necessary auditing procedures to determine if the ABMC's remaining principal financial statements for the fiscal year ended September 30, 1997, were reliable in all material respects.
- ABMC management fairly stated that internal controls in place as of September 30, 1997, were effective in (1) assuring material compliance with laws governing the use of budget authority and with other relevant laws and regulations and (2) safeguarding assets against loss from unauthorized acquisition, use, or disposition. However, ABMC management also fairly stated that internal controls in place as of September 30, 1997, were not effective in ensuring that transactions were properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability of assets. In this regard, KPMG noted four areas of reportable conditions, three of which it considered to be material weaknesses.
- No reportable instances of noncompliance with laws and regulations tested were found.

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**Opinion on Balance  
Sheet**

We concur with KPMG's opinion that the ABMC's balance sheet presents fairly, in all material respects, the financial position of the Commission as of September 30, 1997, in conformity with the comprehensive basis of accounting specified in Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements, as described in note 1. As described in notes 1 and 12, the ABMC changed its accounting policies by early implementation of this bulletin.

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## Disclaimer of Opinion on Other Financial Information

The scope of KPMG's work was not sufficient to express an opinion on the remaining principal statements as follows:

- statement of net cost and changes in net position,
- statement of budgetary resources, and
- statement of financing.

KPMG could not express an opinion on these statements because (1) 1997 was the first year that the ABMC was required to prepare agencywide financial statements and have them audited and (2) it was not feasible to extend audit procedures to audit October 1, 1996, opening balances necessary to express an opinion for the fiscal year ended September 30, 1997. Also, the overview and the required supplemental stewardship information, consisting of a statement of heritage assets, was included for the purpose of additional information and was read for consistency, but was not audited.

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## Opinion on Management's Assertion About the Effectiveness of Internal Controls

We concur with KPMG's opinion that the ABMC management fairly stated that internal controls in place as of September 30, 1997, provided reasonable assurance that controls were effective in (1) assuring material compliance with laws governing the use of budget authority and with other relevant laws and regulations and (2) safeguarding assets against loss from unauthorized acquisition, use, or disposition. In addition, we concur with KPMG's opinion that ABMC management also fairly stated that internal controls in place as of September 30, 1997, were not effective in ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability of assets. The ABMC made its assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, Management Accountability and Control.

Based on the results of its audit work, KPMG identified four areas of reportable conditions, the first three of which it considered to be material weaknesses:

- inadequate controls over information technology systems,
- improper recording of accounts payable and other accruals,
- inadequate preparation and approval of bank reconciliations of foreign bank accounts, and

- 
- lack of documented policies and procedures for Fund Balance with Treasury.

These areas are discussed in more detail in the enclosed KPMG report. Many of these weaknesses are systems related. The ABMC stated in its fiscal year 1997 FMFIA report that during fiscal year 1998 it plans to select a commercial off-the-shelf system from approved vendors on the GSA Financial Management Systems Software schedule. The single, integrated financial management system selected is to conform to all current guidance and be Year 2000 compliant.<sup>1</sup> Therefore, KPMG's suggested interim improvements or items for consideration in ABMC's new system will be presented in a separate management letter to the ABMC. This letter will also present a number of less significant items, along with suggestions for improvements. KPMG discussed the results of its work with ABMC management which provided comments on a report draft and which agreed with the presentation in KPMG's report contained in appendix I. We concur with KPMG's conclusions and suggestions in these areas.

Also, KPMG did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. KPMG limited its internal control testing to those controls necessary to achieve the objectives outlined in its opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. KPMG also cautions that projecting its evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

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## Compliance With Laws and Regulations

KPMG also reported that the results of its test of the ABMC's compliance with selected provisions of certain laws and regulations disclosed no reportable instances of noncompliance which could have a direct and material effect on the financial statement amounts. However, KPMG noted that the three material internal control weaknesses identified above based upon its fiscal year 1997 financial statement audit were not identified by ABMC

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<sup>1</sup>The Year 2000 problem is rooted in the way dates are recorded and calculated in many computer systems. For the past several decades, systems have typically used two digits to represent the year in order to conserve on electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from the year 1900. As a result, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

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management in the Commission's fiscal year 1997 FMFIA report. This conflict is reportable under OMB Bulletin No. 93-06, as amended, Audit Requirements for Federal Financial Statements.

KPMG further stated that the objective of its audit of the ABMC's balance sheet was not to provide an opinion on overall compliance with selected provisions of certain laws and regulations. Accordingly, KPMG did not express such an opinion. We concur with KPMG's conclusions regarding the ABMC's compliance with laws and regulations.

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## Objectives, Scope, and Methodology

ABMC management is responsible for

- preparing agencywide financial statements beginning for fiscal year 1997 in conformity with the basis of accounting described in note 1;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the ABMC's balance sheet as of September 30, 1997, is reliable (free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in note 1) and (2) management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon criteria established under FMFIA and OMB Circular No. A-123, Management Accountability and Control. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information appearing with the ABMC's agencywide financial statements.

To help fulfill these responsibilities, we contracted with the independent CPA firm of KPMG Peat Marwick LLP to perform a financial statement audit in accordance with generally accepted government auditing standards, OMB's Bulletin No. 93-06, and GAO's Financial Audit Manual. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the workpapers of the CPA firm, met with partners and staff members, evaluated the key judgments, met with officials of the ABMC, performed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances.

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The audit was conducted in accordance with generally accepted government auditing standards.

A handwritten signature in black ink that reads "David L. Clark". The signature is written in a cursive style with a large, stylized initial 'D'.

David L. Clark  
Director, Audit Oversight  
and Liaison

January 13, 1998

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# Report on Audit of the American Battle Monuments Commission

## Independent Auditors' Report

### **KPMG** Peat Marwick LLP

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

#### INDEPENDENT AUDITORS' REPORT

The Acting Comptroller General of the United States  
United States General Accounting Office, and

The Commissioners  
American Battle Monuments Commission:

We have audited the accompanying balance sheet of the American Battle Monuments Commission (the ABMC) as of September 30, 1997, and were engaged to audit the related statements of net cost and changes in net position, budgetary resources, and financing for the year then ended. We have also examined management's assertions, included in its representation letter dated January 13, 1998, regarding the effectiveness of the ABMC's internal controls over financial reporting that were in place as of September 30, 1997. The objective of our audit was to express an opinion on the fair presentation of the ABMC's balance sheet. The objective of our examination of management's assertions regarding internal controls over financial reporting was to express an opinion on management's assertions. In connection with our audit, we also tested the ABMC's compliance with certain provisions of applicable laws and regulations.

In our opinion:

- The ABMC's balance sheet as of September 30, 1997 is presented fairly, in all material respects, in conformity with the comprehensive basis of accounting specified in Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*;
- We were unable to express an opinion on the ABMC's statements of net cost and changes in net position, budgetary resources, and financing for the year ended September 30, 1997, because the ABMC's financial statements for the year ended September 30, 1996, were unaudited and it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to those balances; and,
- The ABMC management fairly stated its assertions that internal controls in place as of September 30, 1997, provide reasonable assurance that controls were effective in assuring material compliance with laws governing the use of budget authority and with other relevant laws and regulations, and that assets were safeguarded against loss from unauthorized acquisition, use, or disposition. However, the ABMC management can not provide reasonable assurance that internal controls in place as of September 30, 1997 met the objective that transactions were properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

Member Firm of  
KPMG International

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We noted reportable conditions in the following four areas, the first three of which we consider material weaknesses:

- Inadequate Controls Over Information Technology Systems
- Improper Recording of Accounts Payable and Other Accruals
- Inadequate Preparation and Approval of Bank Reconciliations of Foreign Bank Accounts
- Lack of Documented Policies and Procedures for Fund Balance with Treasury

We noted no instances of reportable noncompliance with laws and regulations we tested.

Our conclusions and the scope of our work are discussed in more detail below.

**OPINION ON FINANCIAL STATEMENTS**

We have audited the accompanying balance sheet of the ABMC as of September 30, 1997. This statement is the responsibility of the ABMC's management. Our responsibility is to express an opinion on this statement based on our audit.

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of the American Battle Monuments Commission as of September 30, 1997 in conformity with the comprehensive basis of accounting specified under OMB Bulletin No. 97-01. However, misstatements may nevertheless occur in other financial information reported by the ABMC as a result of the internal control weaknesses described below.

The ABMC's financial statements for the year ended September 30, 1996 were not audited and thus it was not practical for us to extend our auditing procedures sufficiently to satisfy ourselves as to the October 1, 1996 balances of assets, liabilities, and net position. These amounts enter into the determination of fiscal year 1997 results of operations and changes in net position. Accordingly the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the ABMC's statements of net costs and changes in net position, budgetary resources, and financing for the year ended September 30, 1997.

As described in Note 1, these financial statements were prepared in conformity with OMB Bulletin No. 97-01, which is a comprehensive basis of accounting other than generally accepted accounting principles. As described in Notes 1 and 12, the ABMC changed its accounting policies through early implementation of this bulletin.

**OPINION ON MANAGEMENT'S ASSERTIONS ABOUT THE EFFECTIVENESS  
OF INTERNAL CONTROLS OVER FINANCIAL REPORTING**

We have examined management's assertions, included in its representation letter dated January 13, 1998, regarding internal controls designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition
- Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the financial statements
- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and maintain accountability for assets

Management has asserted that internal controls in place as of September 30, 1997, provide reasonable assurance that controls were effective in assuring material compliance with laws governing the use of budget authority and with other relevant laws and regulations and that assets were safeguarded against loss from unauthorized acquisition, use, or disposition. However, the ABMC management cannot provide reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets.

In our opinion, management's assertions that internal controls in place as of September 30, 1997, provide reasonable assurance that controls were effective in assuring material compliance with laws governing the use of budget authority and with other relevant laws and regulations and that assets were safeguarded against loss from unauthorized acquisition, use or disposition, but not that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets, are fairly stated in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management Accountability and Control*.

A material weakness is a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. Reportable conditions also involve 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 of management in the financial statements. We noted certain matters involving the internal controls over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified

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Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended.

Our consideration of internal controls would not necessarily disclose all internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The matters that we consider to be reportable conditions are listed below, the first three of which are considered to be material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the ABMC's balance sheet as of September 30, 1997.

**(1) Inadequate Controls Over Information Technology Systems**

The ABMC's current information technology systems utilized by the Washington D.C. office and the foreign regions contain the following weaknesses:

- The systems do not require an obligation to be recorded prior to an expenditure being recognized. The developmental software utilized by the database does not include this feature, due to certain limitations.
- 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.
- All operations databases used by the ABMC can be modified by any personnel who has access to the ABMC local area network. However, personnel do have varying levels of responsibilities.
- Within the ABMC-Headquarters Office, there is no month-end processing to close transactions and lock month-end transactions from further modification. Due to the above mentioned access ability, all financial transactions of the ABMC are available for modification or deletion.
- Accounting personnel in the ABMC-Headquarters and the European Regional Offices 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 ABMC-Headquarters, the Mediterranean and the Pacific Regional Offices do 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 network utilized at the ABMC-Headquarters does not lock users out after repeated invalid sign-on attempts. Users can repeatedly type the incorrect identification or password and attempt to gain access to the systems.
- The ABMC-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.

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- The ABMC-Headquarters, the Mediterranean and Pacific Regional Offices do 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, the site is not considered a secure site to ensure proper control and safeguarding of financial data.
- Sufficient training in systems administration and support has not been provided to all personnel in charge of the systems in all locations.
- The network server used by the ABMC-European Regional Office is at full capacity, and currently will not allow employees to save information. The server is also performing at a slow pace and will not allow additional software to be loaded.

**(2) Improper Recording of Accounts Payable and Other Accruals**

The ABMC does not have policies and procedures to ensure proper accrual of accounts payable and accruals at the Regional Offices and Headquarters. We noted the following problems:

- The ABMC does not have a written policy to perform cut-off procedures at fiscal year-end.
- The ABMC-Mediterranean Regional Office's current policy is to record all open purchase orders as accounts payable at fiscal year-end, with no analysis performed for the proper segregation between accounts payable and undelivered orders.
- The ABMC did not properly recognize separation pay liability in the Mediterranean Regional Office.
- The ABMC European and Mediterranean Regions' original accrual for unfunded leave only included the Headquarters employees, and omitted the cemetery employees' accrual which amounted to \$198,000.
- There is improper segregation of duties in the ABMC European Regional Office since one employee has both certifying and disbursing responsibilities.

We were able to obtain assurance over the proper balance of accounts payable and accruals at September 30, 1997, through performing detailed cutoff testwork at ABMC-Headquarters and all regions. All adjustments proposed by us were recorded by ABMC.

**(3) Inadequate Preparation and Approval of Bank Reconciliations of Foreign Bank Accounts**

We noted the following regarding Foreign bank accounts:

- The ABMC did not perform monthly bank reconciliations for its foreign commercial bank accounts for five months during fiscal year 1997, due to a delay in filling an open position.
- For the reconciliations performed during the year, no approvals were documented on the reconciliation, thus we were unsure whether the reconciliations were reviewed by the appropriate supervisor.

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- The balance per ABMC's general ledger for one commercial bank account did not agree with the bank confirmation received and with the bank statement.

We were able to obtain assurance over the proper balance at September 30, 1997, through a detail review of the fiscal year end reconciliation, confirming all balances, and agreeing all reconciling items to subsequent bank statement activity and other supporting documentation.

**(4) Lack of Documented Policies and Procedures for Fund Balance with Treasury**

The ABMC-European Regional Office does not have updated accounting policies and procedures covering the Fund Balance with Treasury accounts. The European Regional Office's most recent copy of Federal accounting regulations was dated 1985. The following weakness underlies the need for updated policies and procedures addressing Fund Balance with Treasury:

The ABMC-European Regional Office does not properly reconcile the Treasury FMS Form 6652 in a reasonable time after receipt. The FMS Form 6652 represents differences between the amount of Fund Balance with Treasury per Treasury's records and the amount per the ABMC's records. The General Accounting Office Audit Report, *Financial Audit: Reconciliation of Fund Balances with Treasury*, dated June 24, 1997, documents the procedures an agency should perform in reconciling the differences reported by Treasury.

We were able to obtain assurance over the fund balance with Treasury account balances through detailed reconciliation procedures. All adjustments proposed by KPMG were recorded by ABMC.

We also noted other matters involving the internal controls and its operation that we do not consider to be reportable conditions. These matters will be reported to the ABMC's management in a separate letter.

**COMPLIANCE WITH LAWS AND REGULATIONS**

As part of obtaining reasonable assurance about whether the ABMC's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 93-06, as amended.

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With respect to FMFIA, OMB Bulletin No. 93-06, as amended, requires the agency's independent auditors to report if there is a conflict between the agency's most recent FMFIA report and the auditors' evaluation of internal controls based on their audit of the agency's financial statements. Accordingly, as part of our audit of the ABMC's balance sheet, we obtained an understanding of the ABMC's process for evaluating and reporting on internal controls and accounting systems as required by the FMFIA and compared the ABMC's fiscal year 1997 FMFIA report results to the results of our evaluation of internal control made as part of our audit. We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations.

In the above section addressing internal control over financial reporting, we reported material internal control weaknesses related to (1) the inadequacy of controls over information technology, (2) the ABMC's accrual process at fiscal year end, and (3) the reconciliation process for foreign bank accounts. These matters were not identified by the ABMC management as weaknesses within their fiscal year 1997 FMFIA report, although ABMC management stated that their accounting system did not comply with OMB Circular A-127, *Financial Management Systems*.

#### **RESPONSIBILITIES**

**Management's Responsibility.** Management is responsible for:

- Preparing the financial statements in conformity with the comprehensive basis of accounting specified in OMB Bulletin No. 97-01
- Maintaining adequate internal controls designed to fulfill control objectives
- Complying with applicable laws and regulations

**Auditors' Responsibility.** Our responsibility is to express an opinion on the balance sheet as of September 30, 1997 based on our audit. Standards, identified below, require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement.

We are also responsible for expressing an opinion, based on our examination, on whether management's assertions regarding the effectiveness of internal controls is fairly stated, in all material respects, based on criteria established under FMFIA and OMB Circular A-123, *Management Accountability and Control*.

As part of obtaining reasonable assurance about whether the balance sheet is free of material misstatement, we performed tests of the ABMC's compliance with certain provisions of laws and regulations. However, the objective of our audit of the ABMC's balance sheet was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the balance sheet
- Assessed the accounting principles used and significant estimates made by management
- Evaluated the overall financial statement presentation
- Assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the balance sheet
- Obtained an understanding of the internal controls over financial reporting
- Obtained an understanding of the internal controls related to performance measures reported in the Overview of the ABMC's Annual Financial Report
- Assessed the design of performance measure controls and whether they had been placed in operation
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances
- Tested compliance with certain provisions of laws and regulations that may materially affect the financial statements:
  - Antideficiency Act
  - Budget Accounting and Procedures Act
  - Federal Managers' Financial Integrity Act
  - Prompt Payment Act
  - Civil Service Reform Act and Fair Labor Standards Act
  - 36 U.S.C. 121, ABMC
  - Korean War Veterans Memorial Thirty-Eighth Anniversary Commemorative Coin Act
  - VA, HUD, and Small Agency Appropriations Act (FY 97)
- Performed such other procedures as we considered necessary in the circumstances

Because of inherent limitations in internal controls, fraud may occur and not be detected. Also projections of any evaluation of internal controls over financial reporting to future periods are subject to the risk that the internal control procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audit of the balance sheet as of September 30, 1997, in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06, as amended. We conducted our examination of management's assertion regarding the effectiveness of the ABMC's internal control over financial reporting in place as of September 30, 1997, in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and examination provide a reasonable basis for our opinions.

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**Consistency of Other Information.** The Overview of the ABMC and the Required Supplemental Stewardship Information (RSSI) in the ABMC's Annual Financial Report contain a wide range of data, some of which are not directly related to the financial statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the financial statements. If, based on such reading, the auditor concludes that there is a material inconsistency, the auditor should determine whether the financial statements, the report, or both require revision.

The information presented in the Overview of the ABMC and the RSSI have not been subjected to the auditing procedures applied in the audit of the balance sheet, and accordingly, we express no opinion on it. However, from our reading of this information we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

**Agency Comments and Our Evaluation.** The ABMC management has agreed with our assessment of the reportable conditions and corrective action is being taken.

**Distribution.** This report is intended solely for the information and use of the General Accounting Office, management of the ABMC, others within the organization, and Congress, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*KPMG Peat Marwick LLP*

January 13, 1998  
Washington, D.C.

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**American Battle Monuments Commission**

**AMERICAN BATTLE MONUMENTS COMMISSION**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997**

**Overview**

**AMERICAN BATTLE MONUMENTS COMMISSION**

**OVERVIEW**

History and Mission

Prior to 1923, no federal agency was responsible for commemorating the sacrifices and achievements of United States Armed Forces. After World War I, many American military units erected monuments and markers where they had served in Europe. These monuments and markers came in assorted sizes, shapes, and description. Too many bore little relationship to the achievements of the units, were poorly designed and constructed, erected on land not owned by the units, and without provision for future maintenance.

In response to this, Congress in 1923 created the American Battle Monuments Commission (ABMC), a small, independent agency of the Executive Branch of the Federal Government. Congress gave ABMC the responsibility of commemorating the sacrifices and achievements of American armed forces where they have served since April 6, 1917, the date of United States entry into World War I.

From appropriated funds which are available until expended, the ABMC administers, operates, and maintains 24 permanent American Military Cemeteries on foreign soil and 27 stand alone memorials, monuments, and markers, six of which are in the United States, and the remaining 21 in 16 countries around the world. Presently, 124,914 U.S. War Dead are interred in these cemeteries – 30,921 from World War I, 93,243 from World War II, and 750 from the Mexican War. Additionally, 5,857 American veterans and others are interred in the Mexico City and Corozal (Panama) American Cemeteries. Commemorated individually by name on stone tablets at the World War I and II cemeteries and three memorials on U.S. soil are the 94,120 U.S. servicemen and women who were Missing In Action, or lost or buried at sea during the World Wars and the Korean and Vietnam Wars. In addition, 37,278 Korean War dead are honored in the Korean War Veterans Memorial data base.

The ABMC also administers trust funds to: (1) build memorials authorized by Congress, but financed primarily from private contributions, commemorative coin proceeds, and investment earnings; (2) decorate grave sites with flowers from private contributions; and (3) maintain and repair nonfederal war memorials with private contributions.

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Organization and Operations

The ABMC policy making body is comprised of an 11 member Board of Commissioners appointed by the President for an indefinite term and who serve without pay. The Commissioners establish policy and ensure proper staff functioning in carrying out the mission of the agency. During inspections, they observe, inquire, comment upon and make recommendations on any and all aspects of Commission operations. Daily ABMC operations are directed by a compensated Executive Level Secretary appointed by the President of the United States.

The Commission's headquarters office in Arlington, Virginia, provides oversight for two regional offices, three cemeteries, and 10 memorials, monuments, and markers. The European Region, headquartered in Paris, France, is responsible for 17 cemeteries and 15 memorials, monuments, and markers. The Mediterranean Region, headquartered in Rome, Italy, operates and maintains four cemeteries, one memorial, and one monument.

For Fiscal Year (FY) 1997, ABMC was authorized and employed 364 full-time civilian employees. Additionally, the Department of Defense (DoD) assigned and paid six active duty military officers for which ABMC reimbursed DoD for five from appropriated general funds and one from the World War II Memorial Trust Fund. U.S. citizens constitute 54 staff members while the remaining 310 are foreign service nationals employed in the countries where ABMC operates.

The care of these shrines to our War Dead requires a formidable annual program of maintenance and repair of facilities, equipment, and grounds. This care includes upkeep of 131,000 graves and headstones; 73 memorial structures (within and external to the cemeteries) on 1,648.5 acres of land. Additionally, ABMC maintains 41 buildings, utilities, and maintenance facilities; 67 miles of roads and paths; 911 acres of flowering plants, fine lawns and meadows; nearly 3 million square feet of shrubs and hedges; and over 11,000 ornamental trees. Care and maintenance of these resources is exceptionally labor intensive - therefore, personnel costs accounted for 72 percent of the budget for FY 1997. The remaining 28 percent is required to fund the operations, including unprogrammed requirements resulting from natural disasters and foreign currency fluctuations.

In 1985, the U.S. Government embarked on a long term program to lower the value of the U.S. dollar in foreign markets in order to make U.S. goods and services more competitive. Through its efforts, the dollar's exchange rate has decreased significantly in most of the countries where ABMC's installations are located. In order to insulate the Commission's annual appropriation against major changes in its purchasing power due to currency exchange fluctuations, legislation was enacted in 1988 establishing an ABMC currency fluctuation account in the U.S. Treasury. Monies from the current appropriation are deposited in the account when the exchange rates are less than the budgeted rates. During FY 1997, \$982,830 in exchange losses in Europe were partially offset by gains of

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\$352,548 in the Mediterranean area. ABMC's net foreign currency exchange loss for FY 1997 was \$ 630,282.

Performance Goals and Results

The American Battle Monuments Commission prepared a Strategic Performance Plan for FY 1998-2003 and an Annual Performance Plan for FY 1998 in accordance with the Government Performance and Results Act. These plans were coordinated with key Congressional Staffs and the Office of Management and Budget. While we anticipate there will be a number of changes as we implement these plans, we feel we have made a creditable start in developing a "road-map" for the Commission. The following goals and results are directly related to our Strategic Performance Plan.

Goal

To provide the most extensive and best possible support to the next of kin and our many customers who utilize the services of the American Battle Monuments Commission.

Results

The ABMC provides information and assistance on request by relatives and friends of the War Dead interred in or commemorated at its facilities. These services include burial and memorialization information, letters authorizing fee-free passports for members of the immediate family traveling overseas primarily to visit the cemetery, travel and accommodation information, floral decorations of grave or memorial sites utilizing funds provided by the donor, color Polaroid photographs of the decoration in place, color lithographs of the cemetery or memorial where a serviceman or woman is buried or commemorated by name on which has been mounted a photograph of the appropriate headstone or section of the Tablet of the Missing, and escort of relatives within the cemetery to the grave or memorial site.

In addition to responding to inquiries by friends and relatives of the Missing and War Dead, we also provide information to the Executive Branch, members of Congress, historians, and other interested individuals.

During FY 1997, ABMC responded to approximately 7,000 inquiries, requiring over 5,200 written responses. In addition, we mailed out over 1,500 cemetery lithographs. Through streamlining of internal procedures, we were able to reduce turn around time on most correspondence by a minimum of 3 workdays from 13 to 10 days when compared to FY 1996.

Nearly ten million American and foreign citizens visited ABMC cemeteries, memorials, monuments, and markers during the fiscal year. Most visitors paid homage collectively to the interred Honored War Dead. Many had a more personal reason for visiting - a friend

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or relative who never returned home. Regardless of the visitor's motivation, ABMC employees dedicated themselves to making each visit gratifying and memorable.

Throughout the year at sites around the world, ABMC hosts a variety of special events and commemorations including Memorial Day, the Fourth of July, and Veteran's Day. In addition, many military units hold ceremonies to honor their fallen comrades and local organizations pay tribute to those who died while liberating the region. Some received national attention and publicity, many drew local attention only. All reflected solemn respect for America's Honored War Dead, and appreciation for the sacrifices of all veterans.

Goal

Conduct an effective engineering maintenance and repair program at all ABMC cemeteries, memorials, and monuments in order to sustain the desired standards.

Results

One of our greatest challenges is dealing with aging facilities and equipment. Our cemetery memorials range in age from 50 to 80 years old with Mexico City being over 100 years old. The permanent structures and plantings which make our facilities among the most beautiful memorials in the world are aging and require increased funding to maintain them at the current standards. Our maintenance and engineering budget is stretched to the limit. Accordingly, we have prioritized this spending carefully.

During FY 1997, we developed a worldwide comprehensive engineering and maintenance repair list identifying \$12.1 million which allows us to place our resources against the most critical projects. By prioritizing our requirements on a world wide basis, we are able to more effectively manage our limited resources. At the end of FY 1997, ABMC's backlog was \$10.6 million.

Congress, recognizing this critical requirement, has appropriated an additional \$3.0 million for FY 1998 specifically to reduce our backlog of maintenance and engineering projects.

Goal

Modernize ABMC's accounting systems and funding processes to ensure funding obtained is used and accounted for in the most effective manner.

Results

Our accounting system does not comply with current OMB Circular A-127 requirement to maintain a single integrated financial management system. During FY 1997 we contracted with the Department of Treasury's Financial Management Services Center to study our accounting system, provide alternatives and recommendations, and design a new system. A new system, which we plan to implement in FY 1999, will provide an integrated Year

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2000 compliant system which will conform with all current guidance and allow us to prepare comprehensive financial statements.

The ABMC has made other significant strides over the last several years to streamline its operating processes and procedures. Currently, we have approximately 90% of our employees paid through electronic funds transfer (EFT). The Headquarters Office pays approximately 70% of its vendor purchases through EFT with our goal being to reach 90% worldwide in FY 1999.

During FY 1997, we began providing travel cards to our frequent travelers to enable us to reduce cash advances. Beginning in FY 1998, we will utilize "Impact Cards" for small purchases, allowing us to significantly reduce our cash disbursements.

Goal

Establish a World War II Memorial in the Washington DC area to honor those who served in the Armed Forces of the United States during World War II and commemorate the participation of the nation in that war.

Results

In 1993, Congress directed the ABMC to establish a World War II Memorial in Washington, DC or its environs. It will be the first national memorial dedicated to all who served during World War II, and the first to acknowledge the commitment and achievement of the entire nation. Congress provided legislative authority for siting the memorial in the prime area of the national capital, which includes the National Mall. The Commission of Fine Arts, the National Capital Planning Commission and the Department of Interior approved selection of the Rainbow Pool site, a 7.4 acre rectangular area at the east end of the Reflecting Pool between the Lincoln Memorial and the Washington Monument.

This prominent location is commensurate with the historical importance and lasting significance of World War II to America and the world. The memorial site was dedicated by President Clinton on Veteran's Day, November 11, 1995.

The design of Friedrich St. Florian, a professional architect based in Providence, RI, was selected for the memorial through a two-stage, open competition modeled on the GSA's Design Excellence Program. President Clinton announced Mr. St. Florian's selection during a White House Ceremony on January 17, 1997.

In March 1997, the American Battle Monuments Commission was pleased to announce the selection of former Senator Robert Dole as the World War II Memorial Campaign Chairman. Senator Dole is being assisted in this endeavor by Mr. Fred Smith, Chairman and CEO of Federal Express. They are soliciting donations from corporations and selected individuals. At the same time, the ABMC is conducting a national direct mail

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program both to educate the American public on the memorial project and to solicit donations.

ABMC is also working with veterans organizations and associations and with civic, patriotic, business and other groups on various types of fund raising activities.

The memorial will be funded almost entirely by private contributions as specified in Public Law 103-32. The goal for donations from individuals, corporations, and foundations is \$100 million. Cash and pledges received through September 30, 1997 amounted to \$20.4 million.

Limitations on Financial Statements

Public Law 104-275, signed by the President on October 9, 1996, requires the ABMC to prepare agency wide financial statements annually, beginning with FY 1997, and to have such financial statements audited by the U.S. General Accounting Office (GAO) in accordance with generally accepted government auditing standards.

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. Also, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

The first audit was limited to the ABMC's balance sheet as of September 30, 1997, and was performed by the public accounting firm of KPMG Peat Marwick LLP under contract to the GAO. An audit of all the ABMC's financial statements will be performed for FY 1998, and each year thereafter.

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**Balance Sheet**

**AMERICAN BATTLE MONUMENTS COMMISSION  
BALANCE SHEET  
As of September 30, 1997**

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>
<b><u>Entity Assets</u></b>			
Intragovernmental:			
Fund balances with Treasury (note 2)	\$4,822,661	\$779,448	\$5,602,109
Treasury investments, net (note 3)		6,465,824	6,465,824
Interest receivable		178,712	178,712
Governmental:			
Cash and foreign accounts (note 4)	1,141,971		1,141,971
Contributions receivable (note 5)		6,020,000	6,020,000
General property, plant, and equipment, net (note 6)	298,559		298,559
<b>Total Entity Assets</b>	<b><u>\$6,263,191</u></b>	<b><u>\$13,443,984</u></b>	<b><u>\$19,707,175</u></b>
<b><u>Liabilities</u></b>			
Governmental liabilities:			
Covered by budgetary resources:			
Accounts payable	\$569,369	\$1,426,079	\$1,995,448
Accrued salaries and benefits	1,196,848	92,124	1,288,972
Not covered by budgetary resources:			
Unfunded annual leave	662,451		662,451
Separation pay liability (note 9)	922,438		922,438
<b>Total Liabilities</b>	<b><u>3,351,106</u></b>	<b><u>1,518,203</u></b>	<b><u>4,869,309</u></b>
Commitments and Contingencies (notes 5, 8, 13)			
<b><u>Net Position</u></b> (note 10)			
Unexpended appropriations	4,183,488		4,183,488
Cumulative results of operations	(1,271,403)	11,925,781	10,654,378
<b>Total Net Position</b>	<b><u>2,912,085</u></b>	<b><u>11,925,781</u></b>	<b><u>14,837,866</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$6,263,191</u></b>	<b><u>\$13,443,984</u></b>	<b><u>\$19,707,175</u></b>

The accompanying notes are an integral part of these statements.

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**Statement of Net Cost and Changes in Net Position**

**AMERICAN BATTLE MONUMENTS COMMISSION  
STATEMENT OF NET COST AND CHANGES IN NET POSITION  
For the Year Ended September 30, 1997  
(Unaudited)**

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>
			<u>Total</u>
<b><u>Costs</u></b>			
Program operations:			
Operations and maintenance	\$20,171,572		\$20,342,010
Property, plant, and equipment	1,010,460	\$56,972	1,067,432
Administrative management		1,400,677	1,400,677
Fund raising		4,558,257	4,558,257
Design and construction		1,151,622	1,151,622
Foreign currency losses, net	630,282		630,282
Depreciation	85,440		85,440
Deferred maintenance (note 7)			
Net Cost of Operations	<u>21,897,754</u>	<u>7,167,528</u>	<u>170,438</u>
			29,235,720
<b><u>Financing Sources</u></b>			
Appropriations used	20,350,792		20,350,792
Foreign currency stabilization	630,282		630,282
Contributions		9,369,913	133,936
Investment earnings		419,164	419,164
Imputed financing (note 11)	578,700		578,700
Total financing sources	<u>21,559,774</u>	<u>9,789,077</u>	<u>133,936</u>
			31,482,787
Net results of operations, before cumulative effect of changes in accounting policies	(337,980)	2,621,549	(36,502)
			2,247,067
Less: Cumulative effect of changes in accounting policies (note 12)	<u>(114,747,134)</u>		<u>(114,747,134)</u>
Net Results of Operations	(115,085,114)	2,621,549	(36,502)
			(112,500,067)
<b><u>Changes in Net Position</u></b>			
Increase in unexpended appropriations - unobligated	1,943,080		1,943,080
Net position - start of year	<u>116,054,119</u>	<u>9,046,766</u>	<u>293,968</u>
			125,394,853
Net Position - end of the year	<u>\$2,912,085</u>	<u>\$11,668,315</u>	<u>\$257,466</u>
			\$14,837,866

The accompanying notes are an integral part of these statements.

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**Statement of Budgetary Resources**

**AMERICAN BATTLE MONUMENTS COMMISSION  
STATEMENT OF BUDGETARY RESOURCES  
For the Year Ended September 30, 1997  
(Unaudited)**

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>
<b><u>Budgetary Resources</u></b>			
Budgetary authority	\$22,265,000		\$22,265,000
Unobligated balances, net - start of year	176,050		176,050
Spending authority from offsetting collections		\$3,806,832	\$3,806,832
Adjustment - Transfer from cumulative results of operations		2,880,412	2,880,412
<b>Total Budgetary Resources</b>	<b>\$22,441,050</b>	<b>\$6,687,244</b>	<b>\$29,128,294</b>
<b><u>Status of Budgetary Resources</u></b>			
Obligations incurred	\$20,497,970	\$6,687,244	\$27,185,214
Unobligated balances, net - end of year	1,943,080		1,943,080
<b>Total Status of Budgetary Resources</b>	<b>\$22,441,050</b>	<b>\$6,687,244</b>	<b>\$29,128,294</b>
<b><u>Outlays</u></b>			
Obligations incurred	\$20,497,970	\$6,687,244	\$27,185,214
Plus: obligated balances, net - start of year	4,085,074	1,416,819	5,501,893
Less: obligated balances, net - end of year	(3,997,787)	(2,052,440)	(6,050,227)
<b>Total Outlays</b>	<b>\$20,585,257</b>	<b>\$6,051,623</b>	<b>\$26,636,880</b>

The accompanying notes are an integral part of these statements.

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**Statement of Financing**

**AMERICAN BATTLE MONUMENTS COMMISSION  
STATEMENT OF FINANCING  
For the Year Ended September 30, 1997  
(Unaudited)**

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>
<b><u>Obligations and Nonbudgetary Resources</u></b>			
Obligations incurred	\$20,497,970	\$6,687,244	\$27,185,214
<b><u>Resources That Do Not Fund Net Cost of Operations</u></b>			
Undelivered orders - start of year	2,723,513	1,184,959	3,908,472
Less: Undelivered orders - end of year (note 10)	<u>(2,240,408)</u>	<u>(534,237)</u>	<u>(2,774,645)</u>
Total Resources That Do Not Fund Net Cost of Operations	483,105	650,722	1,133,827
<b><u>Costs That Do Not Require Resources</u></b>			
Depreciation	85,440		85,440
Imputed retirement, rent, and audit services	<u>578,700</u>		<u>578,700</u>
Total Costs That Do Not Require Resources	664,140		664,140
<b><u>Financing Sources Yet to be Provided</u></b>			
Increase in unfunded annual leave	252,539		252,539
Net Cost of Operations	<u>\$21,897,754</u>	<u>\$7,337,966</u>	<u>\$29,235,720</u>

The accompanying notes are an integral part of these statements.

**Notes to the Financial Statements**

**AMERICAN BATTLE MONUMENTS COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 1997**

**Note 1. Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the American Battle Monuments Commission (ABMC) in accordance with a comprehensive basis of accounting other than generally accepted accounting principles as specified in Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year (FY) ending September 30, 1998. However, the ABMC has chosen to implement the provisions of this bulletin with the preparation of its FY 1997 financial statements.

**B. Reporting Entity and Funding Sources**

The ABMC is an independent agency within the Executive Branch of the Federal Government. The ABMC was created by an Act of March 4, 1923, the current provisions of which are now codified in 36 U.S.C. ch. 8. The ABMC's mission is to commemorate the sacrifices and achievements of U.S. Armed Forces where they have served overseas since April 6, 1917, and at locations within the United States when directed by the Congress. The ABMC designs, administers, constructs, operates, and maintains 24 American military cemeteries and 27 memorials, monuments, and markers (herein collectively referred to as memorials). All of the cemeteries are located on foreign soil. Six memorials are located in the United States, and the remainder in sixteen foreign countries. The ABMC is headquartered in Arlington, Virginia. Field operations are conducted through offices located in Paris, France; Rome, Italy; Manila, the Philippines; Mexico City, Mexico; and Panama City, Panama. The ABMC is also responsible for designing and constructing the national World War II Memorial, to be located on the Mall in Washington, D.C.

The ABMC's programs are funded primarily through permanent and indefinite appropriated funds. The ABMC also administers several trust funds established to: (1) build memorials authorized by the Congress, but which are funded primarily by private contributions, commemorative coin sales proceeds, and investment earnings; (2) decorate grave sites; and (3) maintain and repair certain non-federal war memorials.

**C. Basis of Accounting**

The ABMC proprietary (assets, liabilities, equity, revenue, and expenses) accounts are maintained on the accrual basis, where appropriated funds are accounted for by appropriation year, operating expenses are recorded as incurred, and depreciation is taken on property, plant, and equipment not otherwise classified as heritage assets. The ABMC budgetary accounts are maintained on a budgetary basis, which facilitates compliance with legal constraints and statutory funds control requirements.

**D. Fund Balances with Treasury**

The ABMC's cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury are comprised of appropriated general funds and trust funds.

**E. Investments**

In accordance with Public Law 103-32, the ABMC is authorized to invest World War II Memorial Trust Fund receipts in U.S. Treasury securities. Treasury investments are recorded at par value plus unamortized premium or less unamortized discount.

**F. Foreign Currency**

The ABMC operating offices maintain accounts of foreign currencies to be used in making payments in foreign countries. These accounts are reported at the U.S. dollar equivalent using the exchange rate in effect on the last day of the fiscal year.

**G. Contributions**

Contributions or unconditional promises to give to the ABMC are recognized as revenue in the period a written pledge is received. Conditional promises to give are recorded as revenue when the conditions have been met. Contributions with donor-imposed restrictions that are met in the same year as received are reported as contributions revenue. In-kind contributions of goods and services are recognized at fair value by the ABMC at the time the goods are received or the services are performed.

**H. Materials & Supplies Inventories**

The ABMC has determined that it is more cost beneficial to record materials and supplies as an expense when purchased rather than when consumed. Consequently, the ABMC reports no materials or supplies inventories.

**I. Property, Plant, and Equipment**

Purchases of general property, plant, and equipment (PP&E) of \$25,000 or less are expensed in the year of acquisition. Purchases of personal property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over five years. Expenditures relating to real property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over ten years.

Heritage assets are assets possessing significant cultural, architectural, or aesthetic characteristics. The ABMC considers cemeteries, memorials, monuments, and markers acquired through purchase or transfer to be heritage assets. Heritage assets are acquired through purchase or transfer and are accounted for in the ABMC's property records, and are not presented in the balance sheet. Withdrawals of heritage assets are recorded upon formal agreement with recipients. Additional information concerning heritage assets is found in the Statement of Heritage Assets as required supplemental stewardship information.

Cemetery land is owned by the foreign countries in which cemeteries are located, and is provided to the United States in perpetuity. The buildings and other improvements located on cemetery land possess historical significance, and therefore are reported in the Statement of Heritage Assets.

**J. Deferred Maintenance**

Deferred maintenance is maintenance not performed when it should have been. The ABMC has deferred maintenance at many of its properties. Condition inspections of real property utilizing the condition assessment survey methodology are conducted at least biennially. As a result of these inspections, the ABMC estimates the cost to perform maintenance identified as necessary, but unperformed, during the current accounting period.

**K. Pensions, Leave, and Separation Pay**

Most ABMC civilian U.S. nationals hired after December 31, 1983 are covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1984. ABMC civilian U.S. nationals hired on or before December 31, 1983 could elect to transfer to FERS, or remain with the Civil Service Retirement System (CSRS). For FERS employees, the ABMC withholds .8 percent of base pay, and as employer contributes 11.4 percent of base pay to this retirement system. For Federal Insurance Contribution Act tax and Medicare, the ABMC withholds 7.65 percent from FERS employees' earnings, matches this amount on a dollar-for-dollar basis, and remits the total amount to the Social Security Administration. The ABMC withholds 7 percent of base pay plus 1.45 percent for Medicare from CSRS employees' earnings, which is matched dollar-for-dollar and then remitted to the CSRS and the Social Security Administration. The U.S. Office of Personnel Management is responsible for government-wide reporting of FERS and CSRS assets, accumulated plan benefits, and unfunded liabilities.

On April 1, 1987 the Federal government instituted the Thrift Saving Plan (TSP), a retirement savings and investment plan for employees covered by FERS and CSRS. The ABMC contributes a minimum of 1 percent of FERS employees' base pay to the TSP. FERS employees have the option of contributing up to 10 percent of their base pay on a tax deferred basis to FERS, which the ABMC matches up to 4 percent of base pay. CSRS employees may contribute up to 5 percent of their base pay to TSP on a tax deferred basis, and receive no matching contribution from the ABMC.

Retirement and other benefits for military personnel assigned to the ABMC are provided by the Military Retirement System (MRS). The military services bill the ABMC quarterly for reimbursement of assignees' pay and benefits, including MRS related amounts. The Department of Defense is responsible for reporting MRS assets, accumulated plan benefits, and unfunded liabilities.

Retirement and other benefits for the ABMC's foreign national employees are paid by the ABMC in accordance with the provisions of ten host nation agreements negotiated by the U.S. Department of State.

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Annual leave is accrued as earned, and the resulting unfunded liability is reduced as leave is taken. Separation pay is provided in certain countries according to host nation agreements. Separation pay is accrued as earned, and is paid when the foreign national leaves the employ of the ABMC. Each year the balance in the accrued separation pay and annual leave accounts is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave and separation pay, funding will be obtained from future financing resources. Such leave and other types of unvested leave are expensed when incurred.

**L. Imputed Financing**

The ABMC received imputed financing for retirement, rent, and audit services during FY 1997, which was paid by others. The ABMC recognized these expenses and related imputed financing in the financial statements.

**M. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported during the reporting period. Actual results could differ from those estimates.

**N. Comparative Data**

Comparative data for the prior year have not been presented because FY 1997 is the first year for which an audited balance sheet for the ABMC has been prepared.

**Note 2. Fund Balances with Treasury**

All undisbursed account balances with the U.S. Treasury, as reflected in the ABMC's records, as of September 30, 1997 were:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
General Fund Balance	\$3,276,893		\$3,276,893
Monument Fund -			
Washington Office		\$16,274	16,274
Floral Decorations Fund		52,966	52,966
Korean War Memorial Fund		128,421	128,421
Monument Fund -			
European Offices		66,717	66,717
WW II Memorial Fund		515,070	515,070
Currency Fluctuation	<u>1,545,768</u>		<u>1,545,768</u>
	<u>\$4,822,661</u>	<u>\$779,448</u>	<u>\$5,602,109</u>

Fund Balances with Treasury in the ABMC's accounting records are lower than its balances confirmed with the U.S. Treasury's accounting records by \$106,652. This difference is due to old, unidentified amounts which the Treasury has not yet removed from its accounting records.

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**Note 3. Treasury Investments, Net**

World War II Memorial Fund investments in U.S. Treasury Notes, which are marketable securities due within one year, as of September 30, 1997, were as follows:

<u>Cost</u>	<u>Amortization Method</u>	<u>Interest Rates</u>	<u>Premium/(Discount)</u>	<u>Investment, Net</u>
<u>\$6,450,000</u>	Interest	<u>5.375 to 8.875%</u>	<u>\$15,824</u>	<u>\$6,465,824</u>

Cost approximated market for these investments as of September 30, 1997.

**Note 4. Cash and Foreign Accounts**

Outside the United States the ABMC makes payments in U.S. and foreign currencies through imprest cash funds and Treasury designated depository commercial bank accounts which as of September 30, 1997 were:

Imprest Cash Funds	\$13,926
Foreign Bank Accounts	<u>1,128,045</u>
	<u>\$1,141,971</u>

**Note 5. Contributions Receivable**

During the year ended September 30, 1997 the ABMC received written pledges of \$6,020,000 from the private sector to be used for the World War II Memorial. Substantially all of the ABMC's contributions are from major corporations and foundations. These pledges were recorded as contributions to the ABMC as of September 30, 1997. The ABMC believes that these contributions are fully collectible. Therefore, no allowance for uncollectible accounts has been established. However, \$2 million is contingent upon the ABMC receiving contributions to fund the remaining costs of the project. Amounts due in future years are as follows:

<u>Fiscal Year</u>	<u>Totals</u>
1998	\$1,480,000
1999	1,380,000
2000	1,330,000
2001	1,330,000
2002	<u>500,000</u>
	<u>\$6,020,000</u>

All contributions received in FY 1997 were deposited into the designated trust fund. Donors placed no additional restrictions on the use of the funds.

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**Note 6. General Property, Plant and Equipment, and Heritage Assets**

General property, plant, and equipment with a cost basis of \$25,000 or less and heritage assets collectively totaling \$1,067,432 were expensed by the ABMC in FY 1997. An additional \$5,891,306 of general property, plant, and equipment capitalized in prior years was deducted from the ABMC's net position as of October 1, 1996 to reflect the cumulative effect of a change in accounting policy to expense property with a cost basis of \$25,000 or less. The ABMC previously capitalized property items using various thresholds at different locations.

General property, plant, and equipment as of September 30, 1997 was:

<u>Category</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$70,513	\$37,548	\$32,965
Equipment	<u>567,102</u>	<u>301,508</u>	<u>265,594</u>
	<u>\$637,615</u>	<u>\$339,056</u>	<u>\$298,559</u>

Heritage assets totaling \$107,225,655 were removed from the ABMC's financial records as of October 1, 1996, and which represents the cumulative effect of a change in accounting policy in accordance with the provisions of Statement of Federal Accounting Standard # 6, Accounting for Property, Plant, and Equipment. There was no change in the number of physical units or acreage of cemeteries or memorials in FY 1997.

**Note 7. Deferred Maintenance**

Maintenance and repairs performed on real property in FY 1997 totaled \$1.9 million, with \$1.5 million of that amount applied to deferred maintenance projects. Using condition assessment surveys to identify needed maintenance and repairs, engineering maintenance projects totaling approximately \$10.6 million were identified at the end of FY 1997 as necessary to maintain real property in an acceptable condition.

**Note 8. Leases and Other Occupancy Agreements**

The ABMC has no capital leases. Operating lease costs (rent) for ABMC headquarters will be \$308,000 annually, beginning in FY 1998. ABMC headquarters received free rent valued at \$256,750 in FY 1997. The European office occupies a facility owned by the American Embassy in Paris. While no formal occupancy agreement exists, the Embassy allows the ABMC free use of the facility, with the understanding that the ABMC is responsible for all utilities, maintenance, and repairs. The European Director's living quarters are rented under a three year renewable operating lease. The Mediterranean office occupies commercial office space under a six year renewable operating lease. The Mediterranean Director's living quarters are rented under a six year operating lease, with a two year renewal option.

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Future minimum payments due on operating leases are as follows:

<u>Fiscal Year</u>	<u>Totals</u>
1998	\$395,471
1999	375,196
2000	354,921
2001	356,441
2002	313,071
After five years	<u>1,433,624</u>
	<u>\$3,228,724</u>

**Note 9. Separation Pay Liability and Pensions and Other Retirement Benefits Expense**

Under the host nation agreement, Mediterranean Region (Italian) employees earn separation pay for each year of service with the ABMC. The ABMC recognized \$922,438 of separation pay as an unfunded liability as of September 30, 1997 for Italian employees.

A portion of pension and other retirement benefits (ORB) expense is funded by an imputed financing source to recognize the amount of pension and ORB unfunded liabilities assumed by the Office of Personnel Management (OPM). The ABMC incurred \$614,014 of pension and ORB costs in FY 1997, \$284,720 of which were imputed. Pensions and ORB costs were computed in accordance with cost factors provided by OPM.

**Note 10. Net Position**

Net position balances as of September 30, 1997 were:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
Unexpended appropriations:			
Unobligated	\$1,943,080		\$1,943,080
Undelivered orders	<u>2,240,408</u>	<u>          </u>	<u>2,240,408</u>
	<u>\$4,183,488</u>	<u>          </u>	<u>\$4,183,488</u>
Cumulative results of operations:			
Unrestricted	(\$1,271,403)	\$11,391,544	\$10,120,141
Undelivered Orders	<u>          </u>	<u>534,237</u>	<u>534,237</u>
	<u>(\$1,271,403)</u>	<u>\$11,925,781</u>	<u>\$10,654,378</u>
Total Net Position	<u>\$2,912,085</u>	<u>\$11,925,781</u>	<u>\$14,837,866</u>

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**Note 11. Imputed Financing**

As of September 30, 1997, the ABMC received imputed financing in the following amounts:

Pension and ORB costs assumed by the Office of Personnel Management	\$284,720
Free rent for headquarters office space	256,750
Audit services paid for by the U.S. General Accounting Office	<u>37,230</u>
	<u>\$578,700</u>

**Note 12. Cumulative Effect of Changes in Accounting Policies**

The cumulative effect of changes in accounting policies which reduced net position as of October 1, 1996 were:

Removal of Heritage Land	\$ 8,337,996
Removal of Heritage Buildings	8,510,774
Removal of Heritage Memorials	90,376,885
Removal of General PPE previously capitalized at \$25,000 and below	5,891,306
Removal of Supply Inventory	437,769
Pre-FY 1997 Accumulated Depreciation	253,616
Addition of Separation Pay Liability	922,438
Other	<u>16,350</u>
	<u>\$114,747,134</u>

**Note 13. Contingencies**

The Korean War Veterans Memorial (KWVM) was transferred by the ABMC to the National Parks Service (NPS), U.S. Department of the Interior, on July 26, 1995. Perpetual maintenance funds of \$1.1 million were provided to the NPS at the time the construction permit was granted by the Department of the Interior. Following the transfer, the Army Corps of Engineers initially identified design and construction shortfalls estimated at \$500,000. In October 1996, the NPS took the position that it never officially accepted responsibility for the KWVM, and declined to expend funds from the KWVM perpetual maintenance fund to pay for the necessary corrective actions. The Army Corps of Engineers also took the position that it was not responsible for making the necessary repairs, and pursued warranty and liability issues with the KWVM's architectural and engineering, and construction contractors. In February 1997, the ABMC earmarked \$100,000 to address the most pressing repair requirements. Subsequently, this amount was increased to \$187,000, which was obligated in FY 1997. An additional \$113,000 has been earmarked for obligation in FY 1998, for an ABMC total of \$300,000. The NPS has agreed to contribute \$600,000 to the repair fund, but the Army Corps of Engineers declined to participate. Some repairs were completed by Veterans Day, 1997, but others will not be completed until midsummer of 1998. Total repair costs are estimated to be \$1,260,000 as of September 30, 1997, of which approximately \$360,000 is presently unfunded, and under further discussion.

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**Required Supplemental Stewardship Information**

**REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION**

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Statement of Heritage Assets  
(Unaudited)

**24 CEMETERIES**

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
<u>European Region</u>					
Aisne Marne American Cemetery	Belleau, (Aisne), France	2,289	1,060	42.5	WW I
Ardennes American Cemetery	Neupre, Belgium	5,328	462	90.5	WW II
Brittany American Cemetery	St James, (Manche), France	4,410	498	7.5	WW II
Brookwood American Cemetery	Brookwood, England	468	563	4.5	WW I
Cambridge American Cemetery	Cambridge, England	3,812	5,126	30.5	WW II
Epinal American Cemetery	Epinal, (Vosges), France	5,255	424	48.6	WW II
Flanders Field American Cemetery	Waregem, Belgium	368	43	6.2	WW I
Henri-Chapelle American Cemetery	Henri-Chapelle, Belgium	7,989	450	57.0	WW II
Lorraine American Cemetery	St. Avold, (Moselle), France	10,489	444	113.5	WW II
Luxembourg American Cemetery	Luxembourg	5,076	371	48.7	WW II
Meuse-Argonne American cemetery	Romagne, (Meuse), France	14,246	954	130.5	WW I
Netherlands American Cemetery	Margraten, Holland	8,302	1,723	65.5	WW II
Normandy American Cemetery	Colleville Sur-Mer, France	9,387	1,557	172.5	WW II
Oisne-Aisne American Cemetery	Fere-en-Tardenois, France	6,012	241	36.5	WW I
Somme American Cemetery	Bony, (Aisne), France	1,844	333	14.3	WW I
St Mihiel American Cemetery	Thiaucourt, Meurthe, France	4,153	284	40.5	WW I
Suresnes American Cemetery	Seine, France	1,565	974	7.5	WW I/II
<u>Mediterranean Region</u>					
Florence American Cemetery	Florence, Italy	4,402	1,409	70.0	WW II
North Africa American Cemetery	Carthage, Tunisia	2,841	3,724	27.0	WW II
Rhone American Cemetery	Draguignan, Var, France	861	294	12.5	WW II
Sicily-Rome American Cemetery	Nettuno, Italy	7,861	3,095	77.0	WW II
<u>Other</u>					
Corozal American Cemetery	Panama City, Panama	5,044		16.0	*
Mexico City American Cemetery	Mexico City, Mexico	1,563		1.0	Mex Am
Manila American Cemetery	Luzon, Phillipines	17,206	36,282	152.0	WW II
Sub Total		130,771	60,311	1,272.3	

\* Acquired by Executive Order from the former Panama Canal Zone

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27 MEMORIALS, MONUMENTS & MARKERS

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
American Expeditionary Forces Monument	Washington, DC			0.1	WW I
East Coast Memorial	New York City, NY		4,601	0.8	WW II
Honolulu Memorial	Honolulu, HI		28,796	1.0	WW II/Korea/Vietnam
Korean War Veterans Memorial	Washington, DC		37,278	7.5	Korea
West Coast Memorial	San Francisco, CA		412	1.3	WW II
Audenarde Monument	Audenarde, Belgium			0.4	WW I
Bellicourt Monument	St. Quentin, France			1.8	WW I
Brest Naval Monument	Brest, France			1.0	WW I
Cabanatuan Memorial	Luzon, Philippines				WW II
Cantigny Monument	Cantigny, France			0.4	WW I
Chateau-Thierry Monument	Chateau-Thierry, France			58.9	WW I
Chaumont Marker	Chaumont, France				WW I
Gibraltar Naval Monument	Gibraltar			0.1	WW I
Guadalcanal Memorial	Guadalcanal, Solomon Is			0.5	WW II
Kemmel Monument	Ypres, Belgium			0.2	WW I
Marine Monument Belleau Wood	Aisne, France			199.6	WW I
Montfaucon Monument	Montfaucon, France			9.6	WW I
Montsec Monument	Thiaucourt, France			47.5	WW I
Papua Marker	Port Moresby, New Guinea				WW II
Point du Hoc Ranger Monument	St. Laurent -sur-Mer, France			29.8	WW II
Saipan Monument	Saipan, Northern Mariana Islands				WW II
Santiago Surrender Tree	Santiago, Cuba				Sp American War
Sommepy Monument	Sommepy, France			15.0	WW I
Souilly Marker	Souilly, France				WW I
Tours Monument	Tours, France			0.5	WW I
Utah Beach Monument	Sainte Marie-du-Mont, France			0.5	WW II
Western Naval Task Force Memorial	Casablanca, Morocco				WW II
Sub Total		0	71,087	376.5	
Grand Total		130,771	131,398	1,648.5	

See notes 1J and 7 regarding deferred maintenance.

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