



## United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET

Washington, DC 20240


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### Memorandum

To: Earl E. Devaney  
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From: P. Lynn Scarlett   
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Subject: Management Response to Draft Independent Auditors' Report on  
Department Consolidated Financial Statement for Fiscal Year 2004  
and 2003 (Assignment No. X-IN-MOA-0054-2004)

The Department has reviewed the subject report and provides its responses to the findings and recommendations. The Department appreciates the recognition noted in several findings and recommendations of the substantial improvement and progress achieved during fiscal 2004, and we are pleased that the result of the audit is an unqualified opinion on the Department Consolidated financial statements.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

#### Reportable Conditions that are considered to be Material Weaknesses

##### A. Controls over property, plant and equipment

**Management concurs.** Interior developed and commenced implementation of a strategy to communicate and ensure compliance with the new property policies developed in fiscal 2003. Web-based training modules on the new property policies were developed but the release of the training was postponed in order to assess policy changes necessitated by the Financial and Business Management System (FBMS) implementation. During fiscal 2005, Interior plans to release the web-based training modules and aggressively monitor bureau compliance with the new policy guidance. Corrective action plans to resolve the

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deficiencies noted in the audit will be developed at both the Department and bureau-level with the expectation that all corrective action milestones will be completed by the end of the third fiscal quarter. FBMS implementation will establish standard processes and property systems for use throughout Interior.

**B. Process for year-end closing**

**Management concurs.** During fiscal 2004, Interior implemented the second phase of its Transformation of Financial Management Project to address these and other financial management issues. The goal in fiscal 2004 was to continue progress made in the first year of Transformation and meet existing and new requirements like reducing year-end adjustments, issuing interim financial statements, improving interim and year-end financial analysis and reconciliations, and meeting the advanced due date for annual audited financial statements and Performance and Accountability Report (PAR). At the same time, Interior was transitioning from current practices and systems to an integrated, enterprise approach to financial management. Interior made substantial progress during fiscal 2004 in addressing these priorities, as well as other initiatives aimed at improving the year-end closing process and financial reporting, including reducing the number of year-end adjustments from 295 for fiscal 2003 to 124 for fiscal 2004 (a 58 percent reduction) and issuing bureau and Departmental financial statements at agreed times in the annual audit plan. Interior recognizes that until the implementation of FBMS is complete, many of the issues pertaining to the financial reporting and year-end closing processes will not be mitigated, but management is committed to continue improving its year-end closing processes.

**C. Reconciliation of intra-governmental transactions and balances**

**Management concurs.** The Federal government is implementing a new system which will track intra-governmental transactions. Interior is committed to using the new system when it becomes available government-wide and expects that the new system will assist Interior in future years to reconcile non-fiduciary transactions and balances on a quarterly basis with other agencies. In addition, Interior will improve trading partner coding of transactions within FBMS.

**D. Controls over the Indian Trust Funds**

**Management concurs.** Management concurs with the recommendations to develop and implement additional procedures and internal controls to

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address the issues noted in the audit. A variety of actions are underway within Interior to improve internal controls for non-Federal Indian Trust Funds, including providing an accounting for non-Federal accounts.

#### **Other Reportable Conditions**

##### **E. Application and general controls over financial management systems**

**Management partially concurs.** While management agrees that continued improvement is beneficial and has already implemented many of the recommendations, management does not concur that the finding rises to the level of a reportable condition. Interior has made substantial progress in improving controls over its systems in fiscal 2004. This is demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent by July 2004, and 98 percent by the end of fiscal 2004. Interior will continue its efforts to improve and enhance application and general controls in fiscal 2005 to address the issues noted in the audit report.

##### **F. Controls over accruals**

**Management concurs.** During fiscal 2004, Interior revised its processes and controls to calculate accruals to prepare quarterly financial reports and meet the accelerated reporting deadlines. Interior is committed to continue its improvement of the accrual calculations process for fiscal 2005.

##### **G. Controls over legal and environmental contingencies**

**Management concurs.** In fiscal 2005 Interior will continue training personnel and enhancing its processes and systems for determining and tracking legal and environmental contingencies.

##### **H. Financial management at the Bureau of Indian Affairs**

**Management concurs.** Interior is committed to improving financial management and reporting in the Bureau of Indian Affairs. During fiscal 2005 Interior will establish a performance improvement plan to ensure that appropriate financial and program staffing and other resources are directed at financial management and reporting functions, improved processes and procedures are implemented to promote better financial analysis, and improved transaction entries and reconciliations are performed.

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**I. Controls over revenue and other financing sources**

**Management concurs.** This finding relates to billing, receivables and deferred revenue transactions in several bureaus. Interior intends to work with these bureaus to improve the billing and collections processes, record transactions appropriately, and monitor accounts to assure consistent processing of agreements between Federal entities.

**J. Controls over grants**

**Management concurs.** Interior will continue to work with its financial assistance programs to implement revised policies and improvements so that grantee monitoring processes comply with the requirements of the *Single Audit Act Amendments of 1996*. During fiscal 2004, improvements were implemented in several areas. Interior added additional staff resources to more aggressively monitor single audit reporting and grantee compliance. In addition, new policies were implemented which become effective in fiscal 2005 and will provide for capital improvement funding among insular area grantees based on project quality and the history of financial management and compliance with grant requirements. Further, Single Audit Act compliance for insular area grantees is now a "threshold requirement", meaning grants cannot be awarded until compliance is achieved or there is agreement on a schedule to achieve compliance.

**K. Controls over payment in lieu of taxes**

**Management concurs.** Interior has developed new procedures that segregate the duties for calculating, recording, approving, and disbursing payments. The required approval process has been expanded to include senior Department management. These officials now provide approval of payments prior to disbursement. The duties for disbursement are now segregated and will be performed by the National Business Center. In fiscal 2005, payment calculation will be determined by automated models accurately reflecting proper consumer price indices.

**L. Controls over budgetary transactions**

**Management concurs.** Interior bureaus and offices have made improvements in recording obligations and are committed to further improving and enhancing controls over budgetary transactions.

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**M. Controls over charge cards**

**Management concurs.** Interior believes it has a well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior will continue to monitor supervisory reviews and approval, train and otherwise educate cardholders and supervisors on charge card responsibilities, and monitor bureau enforcement of charge card policies. In addition, through quarterly reviews of the personnel/payroll system, Interior will continue to identify newly appointed supervisors who will have approving official responsibility. These efforts are expected to continue to improve the program.

**N. Controls over benefit programs**

**Management concurs.** During fiscal 2005, Interior will develop and implement appropriate policies, guidance and controls to ensure that benefit programs are properly determined and presented in financial reports.

**INTERNAL CONTROL OVER RSI AND RSSI**

**0. Deferred maintenance reporting.**

**Management concurs.** Interior has taken extensive steps in the past few years to improve deferred maintenance reporting. Interior has identified a Departmental mission critical FMFIA material weakness entitled "Maintenance Management Capability". Corrective actions for this material weakness are closely monitored and will be ongoing until Interior's maintenance management system is fully implemented, and the 5-year comprehensive condition assessment cycle is completed and used to better quantify the Department's deferred maintenance backlog. Interior believes that it is making good progress and these efforts will continue in fiscal 2005.

**P. Stewardship assets and investments**

**Management concurs.** Interior agrees that known and recorded archeological sites and paleontological sites, and museum collections should be periodically inventoried and condition assessments performed. We will continue to improve our processes to address these concerns. Interior will also continue to refine and improve a consistent approach for determining and reporting on the condition of Stewardship assets.

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Interior will consider seeking further guidance from the Federal Accounting Standards Advisory Board.

## COMPLIANCE AND OTHER MATTERS

### Q. Single Audit Act Amendments of 1996

**Management concurs.** Interior will continue the improvements initiated during Fiscal 2004 and will work with financial assistance programs and the Office of Inspector General to ensure compliance with the *Single Audit Act Amendments of 1996*.

### R. Debt Collection Improvement Act of 1996

**Management concurs.** During fiscal 2004, Interior's Office of Financial Management worked closely with bureaus and offices to improve debt referral performance and address debt management issues. Interior believes that good progress was made in its debt management program during fiscal 2004. Excluding the Bureau of Indian Affairs, Interior referred approximately 96 percent of its eligible debt to Treasury, exceeding its internal goal of 94 percent established for fiscal 2004. However, the Bureau of Indian Affairs only referred 49 percent of its eligible debt to Treasury resulting in an overall Department referral rate of 62 percent. To attain the desired level of performance and achieve full compliance with the *Debt Collection Improvement Act of 1996* will require the resolution of issues identified in the audit concerning the Bureau of Indian Affairs and Minerals Management Service. Debt management improvements will again be a primary focus during Interior's next phase of the comprehensive Finance Transformation project.

### S. Prompt Payment Act

**Management concurs.** Interior monitors on-time payments for all of its bureaus and offices. Most of the bureaus and offices were able to meet or exceed the Interior goal of 97 percent or better on-time payment performance. Several bureaus and offices were slow to improve payment processing issues. During fiscal 2005 Interior will focus on improving payment processing in these bureaus and offices, and address the deficiencies noted in the audit report 2005.

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**T. Federal Financial Management Improvement Act (FFMIA) of 1996**

**Management concurs.** Interior recognizes that improved controls will result in more efficient and improved financial reporting. While Interior recognizes that the audit revealed areas at the time of the reviews which can be improved, management believes that it has made substantial improvement as outlined in the response to Finding E and that it is operating a sound "risk-based" security program. During fiscal 2005, Interior will strive to continue its improvements in security and general controls over its financial management systems and the FFMIA components related to Federal accounting standards and the U.S. Standard General Ledger at the transaction level. This will include improved monthly financial statement reporting, monitoring or performance metrics, and periodic reviews of financial performance with senior Department and bureau management.

We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department of the Interior.