United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

November 15, 2005

Memorandum

To: Secretary

From: for Earl E. Devaney Mary L. Kendall
Inspector General

Subject: Independent Auditors' Report on the Department of the Interior's Annual Report on Performance and Accountability for Fiscal Year 2005 (Report No. X-IN-MOA-0011-2005)

INTRODUCTION

The Department of the Interior (DOI) contracted with KPMG LLP, an independent certified public accounting firm, to audit the financial statements of DOI for fiscal years 2005 and 2004. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget's Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual.*

FINDINGS

In its audit report dated November 15, 2005, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified 14 reportable conditions in DOI's internal controls over financial reporting, of which two were considered to be material weaknesses. KPMG also found three significant deficiencies in DOI's internal controls over Required Supplementary Information and Required Supplementary Stewardship Information. In addition, KPMG identified five instances where DOI did not comply with laws and regulations, including two instances of noncompliance with the Federal Financial Management Improvement Act (FFMIA).

KPMG is responsible for the attached auditors' report and for the conclusions expressed in the report. We do not express an opinion on DOI's financial statements, conclusions on the effectiveness of internal controls, conclusions on whether DOI's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

DOI CORRECTIVE ACTIONS

DOI agreed with 12 of the 14 reportable conditions over financial reporting, one of the three significant deficiencies in internal controls over Required Supplementary Information and Required Supplementary Stewardship Information, and three of the five instances of noncompliance with laws and regulations.

DOI partially concurred with KPMG's finding on controls over the Indian trust funds, which was considered a material weakness. Management will continue to develop and implement additional procedures and internal controls to address the issues noted in the audit. However, DOI stated that it is in a position to draw conclusions that the differences between supporting records and recorded transactions are few in number, small in size, and not widespread or systematic. KPMG reiterated that management had not resolved differences relating to the trust fund balances and did not have adequate controls to ensure that trust fund activity and balances were recorded properly and timely.

DOI also partially concurred with the reportable condition on application and general controls over financial management systems. DOI pointed out that it made substantial progress in improving controls over its systems in fiscal year 2005 and believed that there were no apparent systemic weaknesses at the Department level. KPMG acknowledged that DOI made improvements in security and controls but stated that it had identified a number of conditions that could have affected DOI's ability to detect unauthorized changes to financial information, to control electronic access to sensitive information, and to protect its information.

With regard to the finding on deferred maintenance estimates, which was considered a significant deficiency in internal control over the required supplementary information, DOI partially concurred. However, DOI stated that stewardship land managed by the Department does not have deferred maintenance as defined by the authoritative guidance. KPMG responded that as of September 30, 2005, DOI did not have documented evidence that it had completed condition assessments for all stewardship land, and that DOI was unable to demonstrate that maintenance had not been deferred for its stewardship land. KPMG also stated that DOI reported known instances of land that is in need of intervention and had requested future outlays to correct these conditions in various reports and budget requests.

The finding on stewardship reporting, which was considered a significant deficiency in the reporting of required supplementary stewardship information, was also partially concurred with by DOI. DOI admitted that processes can be improved related to stewardship reporting. DOI did not agree that condition assessments are required for stewardship land. DOI also believed that it is following standard practices. KPMG stated that DOI is required to disclose the condition of stewardship land in accordance with the accounting standards.

DOI partially concurred with the finding on noncompliance with the Single Audit Act Amendments of 1996, stating that while the noncompliance was at some bureaus, the instances did not rise to the level that justified reporting the noncompliance at the Departmental level. KPMG responded that DOI did not ensure that grantees submitted progress reports, completed single audits, and submitted single audit reports timely. KPMG also stated that DOI did not have single audit reports for 395 different grants and did not issue corrective action plans for 59 findings. Additionally, KPMG noted that one component did not obtain progress reports for 15 of a sample of 32 grants that it selected for testing. It reiterated its conclusion that DOI did not comply with the requirements of the Single Audit Act and the related OMB circular.

With regard to the finding on noncompliance with the Debt Collection Improvement Act of 1996, DOI disagreed, stating that it has appeals processes in place that, although they may vary from bureau to bureau, are defined by law and impact when payments become due for collection and subsequently eligible for debt referral. DOI also stated that, as Treasury guidance stipulates, amounts that are the subject of an administrative appeal do not become eligible for referral until the appeal is concluded and the amount of the debt is fixed. During fiscal year 2005, DOI claimed that it continued to improve its process to ensure eligible receivables were referred to Treasury in a timely manner. KPMG acknowledged that DOI is improving its debt referral processes but noted that, although Minerals Management Service (MMS) receivables represented DOI's largest receivables with the public, 9 of 32 receivables sampled that were over 180 days delinquent had not been referred to Treasury. KPMG also cited the Bureau of Indian Affairs (BIA) receivables as another example of receivables not referred in a timely manner. KPMG added that for BIA, the incorrect interest rate was applied.

The DOI response follows KPMG's audit report as an attachment to this memorandum.

REPORT DISTRIBUTION

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

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions regarding the report, please contact me at (202) 208-5745.

Attachment

cc: Chief Financial Officer
Deputy Chief Financial Officer
Director, Office of Financial Management
Audit Liaison Officer
Focus Leader for Management Control and Audit Follow-up,
Office of Financial Management