United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

JUL 25 1996

Memorandum

To: Assistant Secretary - Policy, Management and Budget and Chief Financial Officer, Department of the Interior

From: Judy Harrison Judy Harrison
Assistant Inspector General for Audits

Subject: Report on Department of the Interior Consolidated Financial Statements for Fiscal Year 1995

In accordance with the Chief Financial Officers Act of 1990, we audited the Department of the Interior's consolidated financial statements for the fiscal year ended September 30, 1995, as contained in the accompanying Department's "Annual Report - Fiscal Year 1995." These consolidated financial statements are the responsibility of the Department of the Interior, and our responsibility is to express an opinion, based on our audit, on these consolidated financial statements. We did not, however, audit $12.9 billion, or approximately one half of the amount, reported for property, plant, and equipment. Management's assertions about the reasonableness of these amounts were examined by other auditors, whose reports were provided to us, and our opinion as it relates to the reasonableness of the reported balances for property, plant, and equipment is based solely on the reports of the other auditors. In addition, as discussed in Note 1 to the financial statements, the accompanying consolidated financial statements do not include certain conservation trust funds with assets of approximately $13 billion that are held by the U.S. Treasury and the financial statements of the Indian Trust Funds. The Indian Trust Funds are administered, accounted for, and maintained by the Bureau of Indian Affairs on behalf of Native American tribes and individuals. The financial statements are being audited by a private accounting firm and will be issued separately.

Our audit, which was completed on July 2, 1996, was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

The Office of Inspector General is not independent with respect to amounts relating to its financial operations that are included in the consolidated financial statements. However, the Office of Inspector General's financial operations represent less than one tenth of one percent of the Department's consolidated assets, liabilities, financing sources, and operating expenses.

We found that except for the amounts reported for property, plant, and equipment and the cumulative results of operations, as discussed below, the financial statements and accompanying notes present fairly the Department's assets, liabilities, and net position; expenses and revenues; collections and disposition of collections; and changes in net position. We also found that these financial statements are presented in conformity with the accounting standards and policies described in the notes to the financial statements. The fiscal year 1994 consolidated financial statements, as contained in the accompanying Department's "Annual Report - Fiscal Year 1995," were not audited by us. Accordingly, we do not express an opinion on them.

We were unable to audit the amounts reported for property, plant, and equipment and the effect that this property has on the cumulative results of operations because the information and records were not available to support and substantiate $3.5 billion of the $25 billion reported for property, plant, and equipment. In addition, the material differences between the amounts reported in the subsidiary records and the related general ledger accounts were not reconciled.

As part of our audit, we evaluated the internal control structures of the 12 operating entities that make up the Department and tested their compliance with selected provisions of laws and regulations, and we reviewed the financial information presented in the Department's overview. We also reviewed the most recent report required by the Federal Managers' Financial Integrity Act of 1982 and compared it with the results of our evaluation of the internal control structure. However, because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may occur and not be detected. We also caution that projecting our evaluations to future periods is subject to the risk that controls or the degree of compliance with the controls may diminish.

Except as discussed below, we found that the internal control structure in effect on September 30, 1995, was sufficient to safeguard assets against loss from unauthorized use or disposition; ensure that transactions were properly recorded, processed, and summarized; and provide reasonable assurance that any losses, noncompliance, or misstatements that are material to the financial statements would be detected. In addition, except as discussed below, we found that there were no material instances of noncompliance with selected provisions of laws and regulations that we tested, and nothing came to our attention in the course of our other audit work to indicate that material noncompliance with such provisions occurred. Further, we found that the financial information in the overview relating to the financial statements is consistent with the information presented in the financial statements.

During our audit, we noted that: (1) certain internal controls were not sufficient to ensure that the differences between the amounts reported in the subsidiary records and the related general ledger accounts for property, plant, and equipment were reconciled and that necessary adjustments were made; (2) controls had not been established to ensure that intrabureau transactions were identified and adjusted to prevent the duplicate reporting of the transactions in the financial statements; and (3) a working capital fund's policies and procedures were not adequate to enable management to properly monitor the financial performance of the various activities in order to control and ensure compliance with the requirements regarding cost recovery, capital investment plans, rate setting, and the use of funds that are overrecovered. Since our reports on the individual bureaus' financial statements included recommendations to correct these deficiencies, we are not making any additional recommendations to the Department.

Except as mentioned in the previous paragraph, our review of prior Office of Inspector General and General Accounting Office audit reports disclosed that there were no significant unresolved recommendations that affected the Department's consolidated financial statements.