



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240



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Memorandum

To: Earl E. Devaney
Inspector General

KPMG LLP
2001 M. Street, N.W.
Washington, D.C. 20036

From: P. Lynn Scarlett *PL Scarlett*
Assistant Secretary - Policy, Management and Budget

Subject: Management Response to Draft Independent Auditors' Report for Fiscal Year 2005 (Assignment No. X-IN-MOA-0011-2005)

The Department has reviewed the draft 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 2005, 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. New accounting policies and procedures

Management concurs. Interior will improve its policies and procedures related to recording selected assets and liabilities in accordance with OMB guidance.

B. Controls over the Indian Trust Funds

Management partially concurs. Management concurs that the recommendations will improve our internal processes, and we will continue to develop and implement additional procedures and internal controls to 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. Interior contends that, based upon the reconciliations conducted by independent accounting firms, Interior is in a

position to draw conclusions with a high degree of confidence that the differences between supporting records and recorded transactions are few in number, small in size, and not widespread or systematic.

Other Reportable Conditions

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

Management concurs. Interior has implemented procedures to more timely reconcile and address trading partner differences. In addition Interior continues to actively work on improving trading partner coding of transactions.

D. **Application and general controls over financial management systems**

Management partially concurs. While management agrees that continued improvement is beneficial and continues to implement 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 2005 and believes there are no apparent systemic weaknesses at the Departmental level. Interior will continue its efforts to improve and enhance application and general controls in fiscal 2006 to address the issues noted in the audit report.

E. **Controls over property, plant and equipment**

Management concurs. During fiscal 2005, Interior continued to improve internal controls over property, plant, and equipment to ensure transactions are properly classified and recorded. A significant accomplishment included completing the land and land rights inventory reconciliation. Interior also released web-based training modules on new property policies and continued to aggressively monitor bureau compliance with the new policy guidance.

F. **Controls over accruals**

Management concurs. During fiscal 2005, Interior analyzed and revised a number of accrual calculations processes. Interior will continue to review and improve its controls over accruals.

G. **Controls over environmental contingencies**

Management concurs. In FY 2005, Interior established a departmental workgroup to standardize processes and documentation. In FY 2006, guidance and procedures will be revised to ensure that environmental information is effectively identified, maintained, and reported.

H. Financial Management at the Bureau of Indian Affairs

Management concurs. During fiscal 2005 Interior established a performance improvement plan to ensure that appropriate financial and program staffing and other resources were directed at financial management and reporting functions and continued to improve processes and procedures to promote better financial analysis, transaction entries and reconciliations were performed. In FY 2006, Interior will continue to improve financial management at the BIA.

I. Controls over revenue

Management concurs. Although Interior performed a detailed analysis of revenue transactions and adjusted the fiscal year 2005 financial statements accordingly, actions are planned to improve internal controls over the revenue process to ensure that the transactions are promptly and properly recorded for timely and reliable financial reporting. Interior is committed to improving its controls over revenue.

J. Controls over grants

Management concurs. Interior will continue to work with its financial assistance programs to improve grantee monitoring processes subject to the requirements of the *Single Audit Act Amendments of 1996*.

K. Segregation of responsibilities over purchases and entries

Management concurs. Interior will improve policies and procedures for better segregation of conflicting duties and to enhance review and approval responsibilities.

L. Controls over charge cards

Management concurs. Interior continues to believe it has a well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior continued to monitor supervisory reviews and approval, train and otherwise educate cardholders and supervisors on charge card responsibilities, and monitor the use of charge cards. In addition, through quarterly reviews of the personnel/payroll system, Interior continued to identify newly appointed supervisors who will have approving official responsibility.

M. Controls over obligations

Management concurs. Interior will implement new procedures for review and approval of purchase orders and revise guidance for the preparation and processing of transactions.

N. Controls over the U.S. Park Police Pension Plan

Management concurs. Interior will take action to investigate and resolve differences between the census data and the supporting documentation to ensure that the pension program is properly presented in the financial report.

INTERNAL CONTROL OVER RSI AND RSSI

O. Performance Measure Reporting

Management concurs. Interior will take action to improve internal control over reported performance measures including strengthening Interior's capability to collect, process, record, summarize, and report performance measurements in accordance with management's criteria.

P. Deferred maintenance estimates

Management partially concurs. Interior concurs that improvements can be made to processes related to management of appropriate cyclical reviews for those assets subject to deferred maintenance reporting, i.e., general property, plant and equipment, and constructed stewardship assets. However, Interior's consistent position has been that stewardship land managed by the Department does not have deferred maintenance as defined by SFFAS No. 6.

Q. Stewardship reporting

Management partially concurs. Interior concurs that processes can be improved related to stewardship reporting. However, Interior does not concur that condition assessments are required for stewardship land. While Interior believes that it is following standard practices, we will strive to improve our management of museum collections and other stewardship and heritage assets.

COMPLIANCE AND OTHER MATTERS

R. Single Audit Act Amendments of 1996

Management partially concurs. While Interior concurs that some bureaus must continue to take steps to obtain required reports from grantees previously issued grants, the Department and its bureaus have policies and processes in place that comply with the Single Audit Act and OMB Circular A-133. We do not agree that this issue rises to a Departmental level non-compliance issue.

S. Debt Collection Improvement Act of 1996

Management does not concur. Interior has an appeals process defined by law that impacts when payments become due for collection, and subsequently eligible for debt referral purposes. The appeals process may vary from bureau to

bureau as to the specifics of its process. 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. In FY 2005, Interior continued to improve its process to ensure eligible receivables were referred to the U.S. Department of the Treasury in a timely manner. Interior does not believe there is a noncompliance at the Departmental level.

T. OMB Circular No. A-25, User Charges

Management concurs. Interior will implement policies and procedures that comply with OMB Circular No. A-25; develop and implement a methodology to track administration costs; and, charge other Federal entities for the administration costs.

U. Federal Financial Management Improvement Act (FFMIA) of 1996

Management concurs. Interior will continue to improve its controls over 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.