



THE ASSOCIATE DEPUTY SECRETARY OF THE INTERIOR  
WASHINGTON

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Memorandum

To: Earl E. Devaney  
Inspector General

KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

From: James E. Cason *James E. Cason*  
Associate Deputy Secretary and Chief Financial Officer

Subject: Management's Response to the Independent Auditors' Report on the Department of the Interior Financial Statements for Fiscal Year 2007 and 2006 (Assignment No. X-IN-MOA-0012-2007)

The Department has reviewed the draft report prepared by KPMG LLP and provides the following in response to the findings and recommendations. Interior is pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements and that no Material Weaknesses were identified. The Department appreciates the recognition noted in several findings and recommendations regarding the improvement and progress achieved during Fiscal Year 2007. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management at the Department of the Interior.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**I. Reportable Conditions that are considered to be Material Weaknesses**

**A. None Reported**

**II. Reportable Conditions that are considered to be Significant Deficiencies**

**A. General and Application Controls over Financial Management Systems**

**Management concurs.** During FY 2007 Interior continued to improve its policies and guidance, and will continue to enhance application and general controls over financial management systems during FY 2008. Although compliance with policies and guidance needs improvement, actual physical testing of our financial systems has demonstrated positive results. We are

constantly striving to implement improvements and strengthen the related programmatic aspects of the IT security program (including awareness training), and will continue to review all aspects of the IT program for refinement as appropriate.

**B. Controls over Accruals**

**Management concurs.** Interior management recognizes the need to continuously evaluate and revise accrual methodologies in a dynamic and multi-faceted operational environment. Interior components make every effort to properly develop and analyze reasonableness of the accrual methodologies. The differences identified primarily relate to the underlying assumptions utilized and differing views as to what should be included. Management will work with all components to improve processes to ensure that evaluations are conducted and will review the integral pieces of the methodology documentation for consistency.

**C. Controls over Undelivered Orders**

**Management concurs.** Interior agrees that two components did not perform a quarterly review and certification of the undelivered orders (UDO) balances due to the components' inability to generate an aged UDO report from the accounting system. Both Interior and these components will work to obtain the necessary aged UDO report required for the review and certification requirements on a quarterly basis.

Interior agrees that documentation including or modifying orders that had expired can be improved and completed in a timely manner. This is a complex process that impacts many areas and functional disciplines across Interior. Management is committed to bring all components together to address these concerns from an integrated and consistent basis.

**D. Financial Reporting Controls**

**Management partially concurs.** Interior does not agree with the finding. Interior believes that there are adequate and mitigating controls currently in place to ensure proper control of journal entry adjustments to financial statement amounts. Nonetheless, Interior concurs that additional actions can be taken to improve the documentation of these controls.

**E. Controls over Charge Cards**

**Management concurs.** Although compliance issues were identified, Interior continues to believe it has a charge card program that has effective internal controls, Management intends to review the existing controls and to consider development of new or additional control tests. Beginning in September 2007,



new Approving Official and cardholder training were launched. This training will soon be rolled out across the Department for completion by December 31, 2007.

**F. Controls over Grants**

**Management concurs.** Interior will work with the components to ensure that all necessary reports are obtained and that management decisions on audit findings are issued in a timely and compliant manner. In addition, Interior will review and revise, if necessary, any required reconciliations between the grant system and the accounting system. Management will review the procedures in place to determine if any modifications would yield a more timely and effective treatment.

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

**Management does not concur.** Upon careful consideration of the significant corrective action progress and procedures and internal controls that have been implemented, Interior continues to believe that efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and provide for reliable information. This position is based on the results of extensive internal controls testing and that controls are in place and operating effectively; therefore, there is no adverse impact on the current financial internal control environment. We believe that there is a high degree of accuracy in the Trust Fund account balances, accounting and asset management resource systems are reliable, and monies are being properly and timely accounted for.

The concerns regarding historical differences do not imply that a current control deficiency exists. Current system design and operations allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Therefore, these four historical differences do not fit the description of a current control deficiency and should not continue as a barrier to recognition of the improved control environment. The auditors' report did not contain findings suggesting current operational control deficiencies. Indian Affairs and the Office of the Special Trustee continue to seek resolution for the four inconsequential historic differences.

**H. Single Audit Act Amendments of 1996**

**Management concurs.** During FY 2008 Interior will ensure that it obtains Single Audit, Financial Status, Grant Performance, and Annual Reports and that it issues management decisions on audit findings in a timely manner. Enhancements will be made to the business process for complying with the Single Audit Act.

In closing, aggressive correction action plans will be established for each of these findings and they will be tracked through completion/correction. The Department is committed to improving these and all other elements of financial management.