

## CHAPTER 2. IMPROVING FINANCIAL ACCOUNTABILITY

***GOAL:** Prepare timely, unqualified bureau and consolidated financial statements and make financial management information accessible throughout the year.*

The Department is committed to preparing and publishing complete, concise, understandable, and meaningful information about the financial and operating performance of the Department and the individual bureaus, offices, and programs which comprise the Department. The Chief Financial Officers' Act (CFO Act), as amended by the Government Management Reform Act (GMRA), requires agencies to prepare and publish annual agencywide financial statements beginning with FY 1996.

The Department's financial reporting goals are to achieve and maintain unqualified audit opinions for departmental and bureau financial statements, to strengthen financial controls, and to ensure that financial data produced for management decisionmaking is reliable, verifiable, and consistent with the annual audited financial statements.

In FY 1996, the Department prepared its first Accountability Report under a pilot program established by the Office of Management and Budget under the Government Management Reform Act. The Department's Accountability Report provides readers with consolidated financial statement data and information on operating performance and management integrity which demonstrates Interior's stewardship over the assets, missions, and responsibilities entrusted to it. The report integrates the multiple financial management and performance measurement requirements of the CFO Act, the Government Performance and Results Act (GPRA), the GMRA, and the Federal Managers' Financial Integrity Act (FMFIA) into a comprehensive process.

The Department continues to prepare Accountability Reports on an annual basis, revising and expanding the content of the report as necessary to adapt to changing requirements and to meet the needs of interested parties. The Department's financial reporting strategy also includes the preparation of bureau annual reports and financial statements. The Department believes that there are significant and long-term benefits of bureauwide statements, including verification of the financial and cost accounting data used by management, presentation of a clear and concise summary of bureau operations, accomplishments and concerns, and identification and correction of operating weaknesses such as inventory management and collection of accounts receivable by working capital funds.

### Improving Financial Management Reporting

The Department's goal is to prepare timely, unqualified bureau and consolidated financial statements and to make financial management information accessible throughout the year.

Key laws such as the Chief Financial Officers Act, the Government Management Reform Act, the Government Performance and Results Act, the Debt Collection Act, and the Federal Financial Management Improvement Act have established new standards and high expectations for government operations. In response to these new laws and other initiatives, such as the implementation of Federal Accounting Standards Advisory Board (FASAB) pronouncements, the Department continues to reshape the way it conducts business. To comply with the new standards and to meet these high expectations, timely and reliable financial and performance information will permit stakeholders and decisionmakers to track progress and evaluate the results of Interior's programs.

In order to achieve the goal of unqualified (clean) audit opinions and maintain this level of achievement, the Department will continue to improve the quality of the financial data and related information available at year-end for annual financial reporting purposes. The following initiatives will be taken:

- Increase analyses of interim data, including preparation of quarterly financial statements, to assist in the analysis of financial information throughout the year; and
- Improve technical tools including adoption of departmentwide financial data consolidation software to ensure that the same data is used for bureau financial reports, consolidated Department reports, and FACTS I and FACTS II reporting to Treasury.

The benefits of financial statement audits and, in particular, obtaining unqualified opinions are twofold: (1) providing quality data to external parties; and (2) ensuring that the books and records used by management can withstand the rigors of the audit process. Unqualified opinions provide independent assurance to external users that the information being provided is reliable. Moreover, the discipline required to produce annual financial statements and audits demand that proper management attention and oversight is directed to improving agency financial management and complying with applicable laws and regulations.

Financial statement audit results are summarized in *Exhibit 2-1*.

### ***FY 2000 Accomplishments***

During FY 2000, the Department continued to improve the reporting of financial information. Significant accomplishments include the following:

- *Prepared the Department's fourth Accountability Report under an OMB-sponsored pilot program:* The FY 1999 Accountability Report included audited consolidated financial statements for the Department, which for a third year in a row, received an unqualified audit opinion. This report included enhanced segment and program information that linked financial and GPRA performance information.

Exhibit 2-1

**Department of the Interior  
Financial Statement Audit Results  
FY 1991 to FY 1999**

	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
<b>Departmental Consolidated</b>	N/A	N/A	N/A	F/S prepared but not audited	Qualified	Qualified	Unqualified	Unqualified	Unqualified
<b>Fish and Wildlife Service</b>	F/S prepared but not audited	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>U.S. Geological Survey</b>	F/S prepared but not audited	Disclaimer	Disclaimer	Disclaimer	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Bureau of Indian Affairs</b>	F/S prepared but not audited	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified	Qualified	Qualified	Unqualified
<b>Bureau of Land Management</b>	Disclaimer	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Minerals Mgmt Service</b>	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No Statements Prepared	Unqualified *
<b>Bureau of Mines</b>	F/S prepared but not audited	Unqualified	Unqualified	Unqualified	Unqualified	Bureau Eliminated	N/A	N/A	N/A
<b>National Biological Service</b>	N/A	N/A	N/A	Unqualified	Unqualified	Merged with USGS	N/A	N/A	N/A
<b>National Park Service</b>	F/S prepared but not audited	Disclaimer	Disclaimer	Disclaimer	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Bureau of Reclamation</b>	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No report issued
<b>Office of Surface Mining</b>	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Departmental Offices</b>	F/S prepared but not audited	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Office of Territories and Int'l Affairs</b>	F/S prepared but not audited	F/S prepared but not audited	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Combined with Dept Offices	N/A

\* Custodial revenues only.

- Prepared and audited FY 1999 financial statements for the Department's nine bureaus and operating components:* Of the nine audited Interior bureaus issuing financial statements, all received unqualified audit opinions, indicating that the financial information presented was fairly stated in all material respects. For the first time, the Bureau of Indian Affairs received an unqualified opinion on its financial statements. The audit opinion for the Bureau of Reclamation's FY 1999 financial statements has not been issued to date pending the results of certain FY 2000 audit procedures. All bureaus and operating components continue to demonstrate significant progress in improving the quality of financial data and financial statement presentation. *Exhibit 2-1* presents a summary of the Department's progress in the preparation and audit of financial statements.
- Participated in the Association of Government Accountants (AGA) Certificate of Excellence Program:* The Department's FY 1999 Accountability Report was submitted for review under the Certificate of Excellence Program for the third year. The comments received from this review continue to be used to improve Interior's Accountability Reports.
- Enhanced the Consolidated Financial Statement application to permit bureau access to the Hyperion Enterprise application:* This system enhancement allows each bureau finance office to participate directly in the data collection process via a new Citrix server capability. This capability is being used in preparing the FY 2000 financial statements within the Department (see Chapter 3 for further information).

***Planned Actions*****Ongoing Activities**

- Continue to prepare and audit bureau and Department annual financial statements.
- Further streamline the financial data collection process to permit more timely preparation of the annual audited financial statements as well as the preparation of periodic unaudited financial reports for management. This will include continued enhancement of the Consolidated Financial Statement application to further streamline the process. The streamlining will provide a single FACTS II submission to the Department of the Treasury for FY 2000 information and improved FACTS I reporting capabilities submission that the Department provides.

**FY 2001 Planned Activities**

- Complete the preparation and audits of the FY 2000 consolidated financial statements by the statutory deadline of March 1.
- Continue preparing quarterly financial statements, including the Statement of Budgetary Resources, for bureaus and operating components.
- Investigate more cost-effective approaches to the audit of Department, bureau, and operating component financial information to ensure the continuing preparation and publication of meaningful financial information including contracting out annual financial statement audits.
- Investigate establishing an audit committee to oversee financial statement audit activities.

**FY 2002 and Beyond Planned Activities**

- Continue to improve the quality and timeliness of financial reporting.
- Test preparation of monthly financial statements for bureaus and operating components.
- Achieve unqualified audit opinions for all bureau and operating component financial statements and the Department's consolidated financial statements.

## ***Correction of Federal Financial Management Improvement Act Deficiencies***

The Federal Financial Management Improvement Act of 1996 (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act, and the Government Management Reform Act. The FFMIA requires that federal agencies conform to the governmentwide Standard General Ledger, comply with all applicable federal accounting standards, and establish financial management systems that support full disclosure of federal financial data, including the full costs of federal programs and activities. The auditor is to include a statement regarding compliance with these provisions in the audit report on agency financial statements. If an agency is not in compliance with these requirements, the FFMIA requires that the agency head establish a remediation plan necessary to bring the agency's financial management systems into substantial compliance.

For FY 1999, the Office of the Inspector General (OIG) reported in its opinion on the Department's consolidated financial statements that the Bureau of Land Management (BLM), did not comply with the requirements for federal financial management systems and federal accounting standards in processing assembled land exchanges, and that the material internal control weaknesses concerning the ineffective general controls over the Bureau of Indian Affairs' (BIA) automated information systems and the Minerals Management Service (MMS) financial management and accounting processes resulted in substantial non-compliance with FFMIA.

The Department did not concur with the Office of Inspector General's assessment that the \$4.5 million related to assembled land exchanges held by custodians in financial institutions not designated as depositories of the Secretary of the Treasury represented a substantial noncompliance with federal financial management systems and federal accounting standards. However, the Department took the following steps to improve control over land exchanges.

- ***BLM Land Exchanges:*** BLM intensified its programmatic and financial oversight of assembled land exchanges. BLM initiated a procurement for an independent audit of the financial records for assembled land exchanges; established procedures to ensure that all aspects of land exchange transactions are properly accounted for in its financial system; updated internal directives; provided new training programs to staff and private appraisers; implemented new technical review and compliance criteria; established an independent agency land exchange review team, the National Land Exchange Team, to review and approve land exchanges; engaged the Solicitor's Office for quality control and compliance reviews of proposed land exchanges; and, revised cash management policies and procedures to address and resolve the deficiencies cited with escrow and third party accounts, and ensure compliance with U.S. Treasury regulations.

The Department did concur with the findings related to Bureau of Indian Affairs automatic updating systems and the Minerals Management Service financial management and accounting processes. The following steps are underway to correct these deficiencies:

- ***BIA Automatic Financial System:*** BIA identified and reported this issue as a material weakness in the Department's FY 1999 Accountability Report and developed a comprehensive corrective action plan with a targeted completion date of December 31, 2001. During FY 2000, BIA made significant progress in the remediation of this weakness. In accordance with the recommendations of a National Academy of Public Administration

(NAPA) report, BIA relocated its Division of Information Resources Management and Division of Accounting Management to Reston, Virginia. In addition, BIA and the Assistant Secretary of Indian Affairs recruited and filled key accounting and information resources management positions including the Chief Financial Officer, the Chief Information Officer (CIO) and the Deputy CIO; developed an automated information system technology security plan; and, commenced the development of policies, standards, and procedures to address the internal control deficiencies identified by the OIG. The remaining milestones in the corrective action plan, and any additional issues identified in the FY 2000 audited financial statement process, are expected to be resolved during FY 2001.

- *MMS Financial Management and Accounting Processes:* MMS identified and reported this issue as a material weakness in the Department's FY 1999 Accountability Report and provided a comprehensive corrective action plan with a targeted completion date of December 31, 2001. During FY 2000, MMS made significant progress in the remediation of this weakness by developing and implementing an improved internal control structure; revising internal policies and procedures to address the accounting operation deficiencies identified by the OIG; completing the required General Ledger account, payroll and daily synchronization report reconciliations; implementing the Standard General Ledger (SGL) at the transaction level; correcting erroneous prior fiscal year data; implementing monthly and year-end closeout procedures; training staff; and, contracting with KPMG to perform a comprehensive internal control and organizational assessment of its Accounting Operations Division. MMS expects to complete the remaining milestones in the corrective action plan, and address any additional issues identified in the FY 2000 audited financial statement process, during FY 2001.