



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

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Memorandum

To: Secretary

From: *for* Earl E. Devaney
Inspector General

Maury T. Kudaal

Subject: Independent Auditors' Report on the Department of the Interior Financial Statements for Fiscal Years 2006 and 2005 (Report No. X-IN-MOA-0018-2006)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Department of Interior (DOI) financial statements for fiscal years 2006 and 2005. The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), as amended, requires the DOI Inspector General or an independent auditor, as determined by the Inspector General, to audit the DOI financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the DOI fiscal years 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated November 15, 2006, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified eight reportable conditions in the DOI internal controls over financial reporting, of which one was considered to be a material weakness. KPMG also found one deficiency in the DOI internal controls over Required Supplementary Information. In addition, KPMG identified three instances where DOI did not comply with laws and regulations, including one instance of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

KPMG has also audited the financial statements for the Bureau of Indian Affairs, Bureau of Land Management, Bureau of Reclamation, Departmental Offices, Minerals Management Service, National Park Service, U.S. Fish and Wildlife Service, and the U.S. Geological Survey. In addition, KPMG audited the balance sheets of the Office of Surface Mining.

EVALUATION OF KPMG AUDIT PERFORMANCE

To ensure the quality of the audit work performed, the OIG:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with DOI management to discuss audit progress, findings, and recommendations;
- reviewed and accepted KPMG's audit report; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report dated November 15, 2006, and the conclusions expressed therein. We do not express an opinion on DOI financial statements, internal controls, or on whether DOI financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

REPORT DISTRIBUTION

The legislation, as amended, creating the OIG (5 U.S.C.A. app. 3) requires semiannual reporting to the 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.

The OIG appreciates the courtesies and cooperation extended to KPMG and the OIG staff during the audit. If you have any questions regarding the report, please contact me at 202-208-5745.

Attachment

cc: Chief Financial Officer
Chief Information Officer
Director, Office of Financial Management
Associate Director, Finance, Policy and Operations, Office of Financial Management
Audit Liaison Officer, Office of Financial Management
Focus Group Leader, Management Control and Audit Followup, Office of Financial Management