Inspector General
Audit Opinion

Audit Report No. 98-I-442

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

APR 30 1998

Memorandum

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

From: Robert J. Williams *Robert J. Williams*
Acting Inspector General

Subject: Report on Department of the Interior Consolidated Principal Financial Statements for Fiscal Years 1996 and 1997 (No. 98-I-442)

In accordance with the Chief Financial Officers Act of 1990, we audited the Department of the Interior's consolidated principal financial statements for the fiscal years ended September 30, 1996, and 1997, as contained in the Department's accompanying "Annual Report - Fiscal Year 1997." The Department of the Interior is responsible for these consolidated financial statements, and we are responsible for expressing an opinion, based on our audit, on these consolidated financial statements.

Our audit, which was completed on April 30, 1998, was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance that the accompanying financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 15 to the financial statements, certain Departmental bureaus restated certain balances on their respective financial statements for fiscal year 1996 to comply with the provisions of Office of Management and Budget Bulletin 97-01, "Form and Content of Agency Financial Statements," and to provide a "more meaningful year to year comparison." The restatements were based on a change in accounting policy and a change in accounting method.

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 three-tenths of

1 percent of the Department's consolidated assets, liabilities, financing sources, and operating expenses.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Department of the Interior and its bureaus as of September 30, 1997, and the results of operations and custodial activities for the year then ended in conformity with the accounting standards and policies described in the notes to the financial statements. Also, as reported in our fiscal year 1996 audit report (No. 97-I-932), issued in June 1997, we found that except for the Bureau of Indian Affairs failure to provide adequate documentation or reliable accounting information to support the amounts of $170 million for other structures and facilities, $17 million in accounts receivable, $136 million of revenue, and $19 million of bad debt expense, the consolidated financial statements present fairly the consolidated financial position and results of operations and custodial activities in conformity with the accounting standards and policies described previously.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in Note 16 related to the Indian Trust Funds and the stewardship assets and the supplemental information that follows the notes to the financial statements were not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on this information.

As part of our audit, we evaluated the internal control structures for the Department's 10 operating entities, tested their compliance with selected provisions of laws and regulations, and reviewed the financial information presented in the Department's most recent report required by the Federal Managers' Financial Integrity Act of 1982 and compared it with the results of our evaluations of the entities' internal control structures. 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.

We found that the internal control structure in effect on September 30, 1996, and 1997, for the Department's 10 operating entities 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. However, the internal control weaknesses that we considered to be reportable conditions which need to be corrected are discussed below.

During our audit, we noted that the Bureau of Indian Affairs internal controls were not sufficient to provide reasonable assurance that (1) accounts receivable will be timely recorded and collected; (2) property transactions will be properly recorded and adequately supported; and (3) effective and periodic information integrity reviews will be made of the financial information contained in the general ledger control accounts and their related subsidiary ledgers, listings, and reconciliations. In addition, we noted certain matters involving the Bureau's general controls over its automated information system at its operations service center that we considered to be a reportable condition. Specifically, the system contained weaknesses in the areas of system security (which involves safeguarding computer hardware), application use, segregation of duties, system software controls, and continuing computer operations in the event of system failure.

We also noted that the general controls over the Minerals Management Service Royalty Management Program's automated information system contained weaknesses in the areas of security program development, access controls, software development and change management controls, separation of duties, system software controls, and service continuity that we considered to be a reportable condition.

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 during 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 consolidated financial statements is consistent with the information presented in the financial statements.

The Bureau of Indian Affairs did not comply with all of the requirements of the Debt Collection Improvement Act of 1996, the Prompt Pay Act, and the Credit Reform Act of 1990. In addition, as stated above in the discussion on internal controls, the ineffective general controls over the automated information systems used by the Minerals Management Service and the Bureau of Indian Affairs are significant departures from certain requirements of Office of Management and Budget Circulars A-127 and A-130. These departures are instances of substantial noncompliance with the requirements of Federal financial management systems under the Federal Financial Management Improvement Act.

Except as mentioned above, our review of prior Office of Inspector General and General Accounting Office reports found that there were no reports that had significant unresolved or unimplemented recommendations that affected the Department's consolidated financial statements.