



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, D.C. 20036

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

Subject: Management's Response to Independent Auditors' Report for Fiscal Year 2008
(Assignment No. X-IN-MOA-0011-2008)

The Department has reviewed the draft report prepared by KPMG LLP and provides its response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements. The Department appreciates the recognition noted in several findings and recommendations of the improvement and progress achieved during FY 2008. 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.

I. Reportable Conditions that are considered to be Material Weaknesses

A. Controls over Unfilled Customer Orders

Management concurs. Interior agrees that the open unobligated amounts for unfilled customer orders at the close of the fiscal year were incorrectly removed. Although system limitations did contribute to this treatment, we feel that our components believed that the actions taken were part of a conservative management control process on estimated budget authority. Once identified, Interior took immediate action to analyze and correct these balances and believes that this issue is resolved. Management will work with all components to improve controls and procedures to ensure a standard and consistent accounting treatment for all customer orders.

II. Reportable Conditions that are considered to be Significant Deficiencies

B. General and Application Controls over Financial Management Systems

Management concurs. During FY 2008 Interior continued to improve its policies/guidance and will continue to enhance application and general controls over financial management systems during FY 2009. Although compliance with policies and guidance needs improvement, actual physical testing of the financial systems has demonstrated positive results. Interior is 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.

C. Controls over Property

Management concurs.

1. **General Property, Plant and Equipment.** Interior management recognizes the need to continuously evaluate and improve the methodology utilized for all facets of project and property recognition. These improvements will include the controls over individual projects, communication with internal and external stakeholders, consistent cost structures, as well as the periodic inventory and certification control procedures.
2. **Heritage Assets and Stewardship Land.** Interior agrees that the implementation related to the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land* created challenges due to the complex ownership surrounding Interior's stewardship responsibilities and the century plus time period spanning their acquisition. However, Interior will continue to strengthen and improve all aspects of reporting in this area.

D. Controls over Undelivered Orders

Management concurs. Interior agrees that continuing to improve the quarterly review and certification of the undelivered orders (UDO) balances must be sustained. Both Interior and the components will work to improve the effectiveness of the review and certification process. Interior agrees that documentation modifying orders that had expired or that were extended 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 bringing each component together to address these concerns in an integrated and consistent basis.

E. Grant Monitoring Controls

Management concurs. Interior will continue to 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. Management will continue to improve the procedures in place to determine if any modifications would yield a more timely and effective treatment.

F. Controls over the Indian Trust Funds

Management does not concur. Upon careful consideration of the significant corrective action progress, procedures, and internal controls that have been implemented, we continue to believe that the 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 which revealed 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, that the accounting and asset management resource systems are reliable, and that 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.

G. Single Audit Act Amendments of 1996

Management concurs. During FY 2009 Interior will work to obtain Single Audit, Financial Status, Grant Performance, and Annual Reports in a timely manner. Enhancements will continue to be made to the business process for complying with the Single Audit Act.

H. Federal Financial Management Improvement Act of 1996

Management does not concur. Interior does not agree with the finding as it relates to applicable Federal accounting standards.

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