



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



Memorandum

To: Earl E. Devaney
Inspector General

11-15-06P05:04 RCVD

KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: R. Thomas Weimer *R. Thomas Weimer*
Assistant Secretary – Policy, Management and Budget

Subject: Management's Response to Independent Auditors' Report for Fiscal Year 2006
(Assignment No. X-IN-MOA-0018-2006)

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 Fiscal Year 2006. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Reportable Conditions that are considered to be Material Weaknesses

A. Controls over the Indian Trust funds

Management does not concur. A variety of actions already have been taken to significantly improve internal control activities and systems for Indian Trust Funds and extensive amounts of documentation have been provided for consideration. Additional activities are underway to continue the substantial improvement in controls over the Indian trust funds noted in the audit report for both OST and BIA. Based on the results of our extensive internal controls testing, these controls are in place and operating effectively; therefore, there is no adverse material impact on the current financial internal control environment.

We believe that there is a high degree of accuracy in the Trust Fund account balances, the accounting and asset management resource systems are reliable, and monies are being properly and timely accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented, we

believe that our efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and that this would more accurately be classified as a reportable condition.

Other Reportable Conditions

B. Application and general controls over financial management systems

Management concurs. During FY 2006 Interior has substantially improved its policies and guidance, and will continue its efforts to enhance application and general controls over financial management systems during FY 2007 to address the issues noted in the audit report. We note, however, that although compliance with policies and guidance needs improvement, actual physical testing of our financial systems has demonstrated positive results. We are not aware of any breaches or successful penetration attempts over the past year.

C. Controls over property, plant, and equipment

Management does not concur. Formal procedures were in place to establish cost structures to ensure that costs are recorded appropriately as capitalized or expensed, review procedures are in place, interest is being applied appropriately, and project listings are maintained. The differences were identified during management's review and appropriate actions were taken to correct prior period transactions. An adjustment of \$93 million was made to correct the accounting for certain assets. This is less than 1 percent of Interior's reported property, plant, and equipment.

D. Reporting the Sport Fish Restoration and Boating Trust Fund

Management does not concur. Interior had controls in place and operating to identify new accounting treatments and standards in a timely and effective manner. Implementation of the new standard that addressed the Fund required significant preparation and coordination. The standard's requirements are that when multiple responsible entities can be **clearly identified** (emphasis added) then each entity should report their portion. It continues on to state that when those portions cannot be separated, the entity with the program management responsibility should report the fund.

Interior attempted to engage all parties related to this fund many times throughout the year. Absent their cooperation, we were forced to continue to report the fund in its entirety. That this was not completed until the fund management agency and the other component entities cooperated and collaborated on the preferred treatment of these funds were coordinated does not represent a weakness in internal controls.

E. Controls over the U.S. Park Police Pension Plan

Management does not concur. During FY 2006, a contractor performed a complete audit of the data supporting the U.S. Park Police actuarial liability. Specifically, using all of the supporting annuitant documentation from the plan administrator, the initial annuity amount and the FY 2006 annuity for each annuitant were recalculated. All differences were summarized and

are in the process of being resolved. The differences identified were .15% of current year payments, and less than .01% of the total liability.

F. Controls over charge cards

Management concurs. Interior continues to believe it has a generally well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior continued to: monitor approving official reviews; train and otherwise educate cardholders, agency/organization program coordinators (A/OPCs), and approving officials on charge card responsibilities; and monitor the use of charge cards. In addition, through quarterly reviews of the personnel/payroll system, Interior continued to identify newly-appointed supervisors who will have approving official responsibility and to identify open accounts of former employees that need to be closed by the A/OPC.

G. Control assessment and assurance statement process

Management partially concurs. OMB Circular Number A-123, *Management's Responsibility for Internal Control*, Appendix A, (A-123) provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The Department took a top-down approach in assessing internal controls over financial reporting to support management's assurance at the department-wide level. The top-down approach focused the Department's resources on the items most material and most at risk to the Department's financial reporting. Interior management believes it complied with all of the minimum indicators of compliance of A-123, Appendix A (see OMB Bulletin No. 06-03, Section 7.20), so that it has complied with Circular No. A-123, Appendix A.

However, Interior management concurs that the recommendations made can assist in its constant effort to improve its assurance process, documentation, and testing of key controls.

H. Controls over spending authority

Management partially concurs. Interior management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation has occurred.

INTERNAL CONTROL OVER RSI AND RSSI

I. Museum Collections

Management does not concur. Our approach to accounting for museum collections was in accordance with FASAB SFFAS No. 29 and established industry practices. For example, the American Association of Museums bases their accreditation criteria in a large part upon the

environmental conditions, protections that the facilities can sustain, and industry best practices that directly tie to this concept. In addition, the Heritage Health Index Report on the State of America's Collections identified safe environment and proper care of collections to be the most fundamental responsibility of preservation. The facts and the flexibilities in this standard, as well as our participation in the Governmentwide task force developing implementation guidance, have confirmed our approach and interpretation.

We believe that our interpretive differences should not be considered a non-compliance or significant deficiency because the standard allows maximum flexibility for the preparer to base their presentation on their reading of the standard.

INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS

J. Single Audit Act Amendments of 1996

Management concurs. During FY 2006 Interior has taken steps to obtain single audit reports and issue management decisions on audit findings, timely, and to improve the process. During FY 2007 the Department will continue working to revise policies and processes to improve compliance with the Single Audit Act and OMB Circular Number A-133.

K. Potential non-compliance with the *Anti-Deficiency Act*, acquisition regulations, and leasing laws and regulations

Management partially concurs. Interior management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation may have occurred.

L. Federal Financial Management Improvement Act of 1996

Management does not concur. As detailed under Section I, Interior believes that their financial management systems related to museum collection condition disclosures do comply with the applicable Federal accounting standard. This compliance is confirmed by our work with the implementation task force.

Furthermore, as discussed in Section A, it is Interior's position that the material weakness regarding control over Indian Trust Funds is no longer a material weakness. Significant corrective actions have been taken; 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 now properly and timely being accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented to address the deficiencies in controls related to Indian Trust Funds, management has downgraded the matter to a bureau-level reportable condition. We believe that the Department's financial statements and related disclosures are in full compliance with the Federal accounting standards and that substantial compliance is achieved.