1996 Inspector General Audit Opinion

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

Memorandum JUN 12 1997

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

From: Robert J. Williams
Assistant Inspector General for Audits

Subject: Report on Department of the Interior Consolidated Principal Financial Statements for Fiscal Years 1995 and 1996

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, 1995, and 1996, as contained in the Department's accompanying "Annual Report - Fiscal Year 1996." 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 May 30, 1997, was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and notes. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

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, Office of Inspector General financial operations represent less than three tenths of one percent of the Department's consolidated assets, liabilities, financing sources, and operating expenses.

As discussed in Note 1 to the financial statements, the National Biological Service and the Bureau of Mines were closed during fiscal year 1996. The operations of the National Biological Service were transferred to the U.S. Geological Survey. In addition, certain programs of the Bureau of Mines were transferred to the U.S. Geological Survey and the Helium Program of the Bureau of Mines was transferred to the Bureau of Land Management. The remaining programs and functions of the Bureau of Mines were transferred to other Federal agencies or were eliminated.

As discussed in Note 14 to the financial statements, the Department said that it restated the consolidated financial statements for fiscal year 1995 because of certain accounting changes. These changes included: (1) redefining reporting entities of the Department to include the Land and Water Conservation Fund, the Historic Preservation Fund, and the Reclamation Fund, which resulted in an increase in total assets of $13.7 billion, and (2) implementing Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," which requires that depreciation be recognized for all general property, plant, and equipment and that stewardship and heritage assets not be reported in the agency's financial statements. The implementation of this standard resulted in a $13.6 billion prior period adjustment to the Department's net position. In addition, the consolidated financial statements for fiscal year 1995 were restated for $643 million in the other transfers account that was not reported previously.

In our opinion, except as discussed in the following paragraph, the consolidated financial statements present fairly the consolidated financial position of the Department of the Interior and its bureaus as of September 30, 1995, and 1996, and the results of their operations and custodial activities for each of the fiscal years ended September 30, 1995, and 1996, in conformity with the accounting standards and policies described in the notes to the financial statements.

The Bureau of Indian Affairs could not provide adequate documentation or reliable accounting information to support, for fiscal year 1996, 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. In addition, the Bureau could not provide adequate documentation or reliable accounting information to support, for fiscal year 1995, amounts for four accounts ($3.5 billion for property, plant, and equipment; $12 million in accounts receivable; $14 million in deferred revenue; and $175 million in revenue) and the effect that these accounts had on net position.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The stewardship assets and supplemental information that follow 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 of the 11 operating entities that make up the Department, tested their compliance with selected provisions of laws and regulations, and reviewed the financial information presented in the Department's overview. We also reviewed 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.

Except as discussed below, we found that the internal control structure in effect on September 30, 1995, and 1996, of the 11 operating entities that make up the Department 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. The internal control weaknesses discussed below are considered to be reportable conditions that need to be corrected.

During our audit of the 11 operating entities, we noted that the internal controls for four accounts (property, plant, and equipment; accounts receivable; revenue; and bad debt expense) at the Bureau of Indian Affairs and two accounts (property, plant, and equipment and construction-in-progress) at the National Park Service did not ensure that transactions were properly recorded and accounted for to permit reliable financial reporting in a timely manner. In addition, internal controls at the U.S. Fish and Wildlife Service did not provide reasonable assurance that costs of construction would not be included in both the construction-in-progress general ledger account and in the building or the structures general ledger account.

In addition, we found weaknesses in the internal controls at the administrative service centers operated by the U.S. Geological Survey and the Bureau of Reclamation and at the Bureau of Indian Affairs Operations Service Center. These centers provide a majority of the Department's financial information through automated systems, including the Federal Financial System and the Payroll/Personnel System. Specifically, we noted weaknesses in data center management and operations; computer system physical and logical security; local area network security; and contingency planning, backup, and disaster recovery. Management of these administrative service centers have agreed to initiate actions to correct most of these control weaknesses.

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 title to the completed portions, which totaled $334 million, of the Navajo Indian Irrigation Project had not been transferred to the Bureau of Indian Affairs from the Bureau of Reclamation pursuant to the agreement made by these bureaus under Public Law 87-483, which authorized the construction of the project. This issue is a reportable condition that needs to be corrected.

Except as mentioned in the previous four paragraphs, our review of prior audit reports related to the scope of this audit disclosed that there were no reports that had significant unresolved or unimplemented recommendations that affected the Department's consolidated financial statements.