United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

November 28, 2003

Memorandum

To: The Secretary

From: Earl E. Devaney
Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior's Fiscal Year 2003 Annual Report on Performance and Accountability
(Report No. X-IN-MOA-80-2003)

INTRODUCTION

This report presents the results of the audit of Department of the Interior's (DOI) financial statements as of September 30, 2003 and for the year then ended. We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to perform the audit. The contract required that KPMG perform its audit in accordance with the Comptroller General of the United States of America's *Government Auditing Standards,* the Office of Management and Budget's Bulletin 01-02 *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*. Also, we identify the top management challenges for DOI in this report.

FINDINGS

In its audit report dated November 28, 2003 (Attachment 1), KPMG issued an unqualified opinion on DOI's financial statements for fiscal years 2003 and 2002. The report identified 13 internal control weaknesses over financial reporting, 2 internal control weaknesses over required supplementary information and required supplementary stewardship information, and 4 instances of noncompliance with laws and regulations. Details follow:

✓ *INTERNAL CONTROLS OVER FINANCIAL REPORTING*

Deficiencies in internal controls are described as reportable conditions, with the most serious conditions identified as material weaknesses.

Material weaknesses are significant deficiencies in the design or operation of one or more components of internal controls which do not reduce to a relatively low level the risk that a material misstatement to the financial statements could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. KPMG identified material internal control weakness in the following areas:

A. Recording, classifying, and accounting for property, plant, and equipment
B. Recording transactions promptly and properly in financial reports
C. Reconciling intra-governmental transactions
D. Recording promptly and properly Indian trust funds transactions

Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. KPMG identified reportable conditions in the following areas:

E. Safeguarding electronic information in the financial management systems
F. Calculating accruals
G. Recording and disclosing legal claims and assessments
H. Estimating environmental liabilities
I. Accounting for and classifying revenue transactions
J. Monitoring grants
K. Reconciling intra-departmental transactions
L. Recording promptly and properly budgetary transactions
M. Using charge cards

✓ *INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION AND REQUIRED SUPPLEMENTARY STEWARSHIP INFORMATION*

KPMG identified significant deficiencies in internal control over required supplementary information and required supplementary stewardship information which it believes could adversely affect DOI's ability to collect, process, record, and summarize information in the following areas:

N. Reporting deferred maintenance
O. Maintaining and approving support for and performing annual inventories of stewardship assets

✓ *NONCOMPLIANCE WITH LAWS AND REGULATIONS*

KPMG identified noncompliance with the following laws and regulations:

P. *Single Audit Act Amendments of 1996*
Q. *Debt Collection Improvement Act of 1996*

R. *Prompt Pay Act*
S. *Federal Financial Management Improvement Act of 1996*

✓ *DOI CORRECTIVE ACTIONS*

Although DOI has made progress in correcting financial management weaknesses, significant changes are still needed in its financial management infrastructure. These changes include: (1) acquiring and implementing a new financial management system, (2) developing DOI-wide financial policies that all finance and program offices are required to implement and follow, (3) ensuring that DOI's policy-setting representatives have the authority to enforce financial policies and that sufficient resources are available to monitor compliance with the policies, and (4) enhancing the depth and breadth of its financial management personnel. In its response, which has been incorporated into the report, DOI indicated general concurrence with the findings and recommendations.

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express opinions on the DOI's financial statements; conclusions on the effectiveness of internal control; conclusions on whether DOI's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

MANAGEMENT CHALLENGES

We identified, in accordance with Public Law 106-531, *Reports Consolidation Act of 2000*, the most serious management challenges facing the DOI. The challenges, which are discussed in detail in "Management Challenges" (Attachment 2), are in the following areas:

- Financial Management
- Information Technology
- Health, Safety and Emergency Management
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Procurement, Contracts, and Grants

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to 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.

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions, please contact me at (202) 208-5745.

Attachments (2)