



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

FEB 28 2001

Memorandum

To: Secretary

From: Earl E. Devaney
Inspector General

Subject: Independent Auditors Report on the Department of the Interior Annual Report for Fiscal Year 2000 (No. 01-I-257)

We found that the Department of the Interior's (DOI) Consolidated Balance Sheet as of September 30, 2000 and the Consolidated Statement of Net Cost of Operations, Consolidated Statement of Changes in Net Position, Consolidated Statement of Custodial Activity, Combined Statement of Budgetary Resources, and Combined Statement of Financing for the fiscal year ended September 30, 2000 were fairly presented in all material respects.

We also identified 14 internal control weaknesses and other reportable conditions, some of which are material and long-standing, and noncompliance with laws and regulations. These weaknesses, which the DOI has made progress in correcting, did not affect our audit opinion. However, continued improvement in these areas is critical to the DOI's ability to prepare financial statements in the future that are accurate and timely. These areas are as follows:

Description	Number of Affected Bureaus
Internal Control Weaknesses	
- Account Analysis and Reconciliation	9
- Construction-in-Progress	4
- Unliquidated Obligations	7
- Lands and Land Rights	1
- Accruals	4
- Trading Partners	9
- Property, Plant and Equipment	5
- Financial Management and Accounting - MMS	1
- Security and General Controls Over Financial Management Systems	4
- Trust Funds	1
- Budgetary Data Reporting	3
Reportable Conditions	
- Deferred Maintenance Management and Reporting	2
- Grant Payments at Fish and Wildlife Service	1
- Interior Franchise Fund	1
Noncompliance With Laws and Regulations	
- Debt Collection Improvement Act of 1996	1
- Prompt Payment Act	2
- Federal Financial Management Improvement Act of 1996	5

These issues are discussed in more detail in the Independent Auditors Report (Attachment 1), and recommendations to address the specific internal control and compliance issues are presented in separate reports to the bureaus and offices.

Of equal importance to financial management improvement is the support of senior officials of the DOI. During the audit of the fiscal year 2000 financial statements, we identified 32 potential qualification issues. When senior officials were tasked by the Chief of Staff to become more actively involved in resolving these issues, including a commitment of support from program staff, 31 of the 32 issues were resolved. Continued commitment from senior management and the support to finance offices from program personnel are essential to the future improvements in accounting and reporting of the DOI.

TOP 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, identified below, are discussed in detail in "Management Challenges" (Attachment 2).

- Financial Management
- Information Technology
- Health and Safety
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection/Restoration
- Revenue Collection
- Implementation of the Government Performance and Results Act
- Procurement, Contracts, and Grants

The Independent Auditors Report is intended for the information of management of the Department of the Interior, the Office of Management and Budget, and the Congress. The report, however, is a matter of public record, and its distribution is not limited.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides this audit report to the Congress.

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)

[CONTACT THE OFFICE OF FINANCIAL MANAGEMENT, FOR INFORMATION ON THE U.S. DEPARTMENT OF THE INTERIOR'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2000, WHICH ARE NOT INCLUDED, OR THE FINANCIAL STATEMENTS CAN BE FOUND AT <http://www.doi.gov/pfm/acct2000/index.html>]

Independent Auditors Report

Department of the Interior

Financial Statements

Fiscal Year 2000

We have audited the Department of the Interior's (DOI) principal financial statements for the fiscal year ended September 30, 2000. The DOI's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 2000 and the Consolidated Statement of Net Cost of Operations, Consolidated Statement of Changes in Net Position, Consolidated Statement of Custodial Activity, Combined Statement of Budgetary Resources, and Combined Statement of Financing for the fiscal year ended September 30, 2000. These financial statements are the responsibility of the DOI. Our responsibility is to express an opinion, based on our audit, on these principal financial statements.

We did not audit the financial statements of the Interior Franchise Fund (IFF) or the National Park Service, for which statements reflect total assets and expenses constituting 5 percent and 20 percent, respectively, of the consolidated totals of the DOI. In addition, we did not audit the amounts included by the Office of the Special Trustee for American Indians (OST) in the Fund Balance with Treasury, Treasury Securities, Other Government Securities, and Public Securities accounts, which represent less than 1 percent of the total consolidated assets of the DOI. The financial statements for the IFF and the National Park Service and the amounts included in the previously identified accounts by the OST were audited by other auditors, whose reports or work has been provided to us. Our opinion, insofar as it relates to the amounts included for the IFF and the National Park Service and the amounts included by the OST for the identified accounts, is based solely on the reports or work of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards, the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit work and the work of the other auditors provide a reasonable basis for our opinion. The objective, scope, and methodology of our audit are discussed in Appendix 1.

Opinion on Principal Financial Statements

In our opinion, based on our audit and the reports or work of other auditors, the principal financial statements (pages 102-135) present fairly, in all material respects, the financial position of the DOI as of September 30, 2000 and its consolidated statement of net cost, consolidated statement of changes in net position, consolidated statement of custodial activity, combined statement of budgetary resources, and combined statement of financing for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

As discussed in Note 18, the DOI changed its accounting for appropriations of trust and special receipt revenues in accordance with new guidance from the Department of Treasury. This change required a restatement of the beginning balances from Unexpended Appropriations to Cumulative Results.

As discussed in Note 22, the IFF's authorizing legislation is scheduled to expire on October 1, 2001, which creates uncertainty about the IFF's ability to continue as a going concern. The DOI's plans in regard to this matter are described in Note 22. The financial statements do not include any adjustments that might be necessary if the IFF is unable to continue as a going concern.

Our audit was conducted for the purpose of forming an opinion on the principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental financial and management information contained in the DOI's Accountability Report is presented for additional analysis and is not a required part of the principal financial statements. It is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," as amended. We applied certain limited procedures, including discussions with management, on the methods of measurement and presentation of this information to ensure compliance with OMB guidance and consistency with the financial statements. However, we were unable to assess control risk relevant to the DOI's intragovernmental transactions and balances with non-Department of the Interior trading partners, because the DOI did not perform all of the required reconciliations with its trading partners, as required by the January 7, 2000 technical amendment to OMB Bulletin No. 97-01. We found that the information presented in the Management's Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Information sections were consistent with the principal financial statements. This information, however, has not been subjected to the auditing procedures applied to our audit of the principal statements, and accordingly, we express no opinion on it.

Report on Internal Controls

We conducted our audit in accordance with generally accepted auditing standards, the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 01-02.

In planning and performing our audit, we considered the DOI's internal controls over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risks, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on the internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the DOI's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters involving the internal controls and their operation that we considered to be material weaknesses or reportable conditions.

Material Weaknesses

A. Account Analysis and Reconciliation

Account analyses and reconciliations between accounts, subsidiary records, and financial statements were not performed routinely throughout the year to identify and correct errors or inaccuracies. In fiscal year 2000, the DOI produced interim financial statements and performed limited account analyses and reconciliations for the period ended June 30, 2000, a positive step in improving financial management within the DOI. Most of the account analyses and reconciliations, however, were performed after the close of the fiscal year, resulting in over 1,000 adjustments to produce accurate financial information.

Although the DOI recognized the importance of ongoing account analyses and reconciliations, it has not been able to consistently implement these controls because of

limited resources in the finance offices. This weakness has not been disclosed in the DOI's FMFIA report.

Departmental Response: The Department concurs with this finding. While some adjustments are a normal and necessary part of the preparation of audited financial information, the Department understands the need for ongoing account analyses and reconciliations at the Bureau level. During FY 2000, the Department improved access to the Hyperion Enterprise Consolidated Financial Statement Application and began producing quarterly financial statements, which highlighted the need for periodic reconciliation of critical accounts during the year. The Department is reviewing the reconciliation processes based on an analysis of FY 2000 financial statement adjustments to identify areas for improvement and to streamline the reconciliation process. In addition, the Department is taking steps to address resource issues in finance offices, where possible, to provide resources for the reconciliation processes.

B. Construction-in-Progress (Repeat Condition)

The general ledger control accounts for construction-in-progress incorrectly included costs for completed projects, costs that should have been expensed when incurred, costs for land that should have been recorded in the standard general ledger for land, costs for grants that should have been expensed, and costs for projects where the construction had been placed in abeyance. To address these issues, DOI agencies need to establish and implement guidance identifying the appropriate charges to construction-in-progress.

Departmental Response: The Department concurs with this finding. Interior bureaus involved in this issue worked closely with the Office of Inspector General to resolve construction-in-progress reporting issues in FY 2000. Individual Bureaus are working to establish and implement guidance to ensure that the construction-in-progress improvements are maintained on an on-going basis.

C. Unliquidated Obligations (Repeat Condition)

Unliquidated obligations were not timely deobligated or adequately supported. In this regard, the DOI needs to (1) implement adequate policies and procedures to ensure that periodic assessments of the validity and accuracy of the unliquidated obligation transactions were conducted, (2) have procedures to update the general ledger undelivered orders account, (3) timely remove or deobligate the unliquidated obligations, and (4) follow established procedures for reviewing unliquidated obligations.

Departmental Response: The Department concurs with this finding. In FY 2000, improvements were made in individual bureaus to ensure the timely deobligation of unliquidated obligations. However, the Department recognizes that additional work is needed to appropriately address this issue and is committed to continuing to make improvements in this area.

D. Lands and Land Rights (Repeat Condition)

The inventory system to support the lands and land rights did not have complete and accurate information. To correct this problem, the DOI needs to establish adequate procedures for maintaining an accurate inventory of land and land rights and for reconciling its subsidiary records with its financial accounting system. The DOI has developed a five-year plan to address this issue.

Departmental Response: The Department concurs with this finding. This issue affects one bureau of the Department. Efforts are underway to continue to improve this bureau's procedures for maintaining land and land right records.

E. Accruals (Repeat Condition)

Liabilities were not properly accrued at year-end. During fiscal year 2000, the DOI estimated accrued liabilities for goods and services received at year-end. We found, however, that it did not include all goods and services that had been accepted but not billed to the DOI. To ensure proper year-end balances, invoices for goods and services that are not available when financial statements are prepared should be estimated for financial statement purposes. The intent of accruing liabilities at year-end is to properly report liabilities and expenses in the appropriate accounting period.

Departmental Response: The Department concurs with this finding. In FY 2000, the Department made certain improvements in recognizing accrual information. Additional efforts are planned for FY 2001 to further streamline the accrual process and provide more consistency in accounting for accruals across the Department.

F. Trading Partners (Repeat Condition)

Trading partners data, that is, transactions with other Federal agencies (intragovernmental) and within the DOI (intra-Departmental), were not properly summarized as required by the Treasury Financial Manual or accurately identified in the accounting system. The DOI sent out 32 requests to other Federal agencies requesting confirmation of \$11.3 billion in intragovernmental transactions. Of the 32, only 10 Federal agencies representing \$9 billion in transactions provided partial responses. Based on these partial responses, the DOI was able to reconcile transactions valued at \$3.8 billion, leaving \$7.5 billion unreconciled. For intra-Departmental transactions, the DOI was initially out of balance by over \$2 billion. The DOI was eventually able to reconcile the intra-Departmental transactions to within \$71 million; however, a significant amount of time and resources on the part of the DOI and bureau accounting staff were required to reconcile the data.

Departmental Response: The Department concurs with this finding. Intra-Department activity includes revenue and expense transactions of approximately \$890 million, assets and liabilities of approximately \$325 million, and transfers of approximately \$1,910 million. As noted above, DOI was able to reconcile the intra-Departmental

transactions to a net balance of under \$5 million, with a potential absolute value variance of up to \$71 million when considering individual account match-ups. This represents less than 3% of total intra-Department activity. In FY 2000, the Department made a major effort to improve tracking and reconciliation of activity with its trading partners that resulted in a significant improvement in the accuracy of data within the Department. The Department recognizes that additional steps, including quarterly reconciliations, are needed to streamline this process to eliminate the major effort required at the end of the year to reconcile out of balance conditions.

G. Property, Plant, and Equipment

The buildings subsidiary ledger, other structures and facilities subsidiary ledger, and equipment subsidiary ledger did not have sufficient internal control procedures to ensure that account balances were stated in accordance with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." For example, we identified items that had incorrect acquisition costs, items that had been demolished but not removed from the ledgers, and items that had not been included in the ledgers. We also found that property items that should have been expensed were included in the subsidiary ledgers as capitalized property. This weakness has not been disclosed in the DOI's FMFIA report.

Departmental Response: The Department concurs with this finding. Major steps have been taken in the Bureau of Indian Affairs and in other bureaus to improve property, plant and equipment accounting. However, much of this effort occurs at the end of a fiscal year. The Department intends to continue the improvements being made in accounting for property, plant and equipment to minimize year-end adjustments.

H. Financial Management and Accounting Processes at Minerals Management Service (Repeat Condition)

We were unable to express an opinion on the Minerals Management Service's (MMS) fiscal year 2000 financial statements for its appropriated funds because the MMS did not have financial data that were accurate, complete, and timely for fiscal year 2000. As a result of these and other conditions, the MMS missed critical milestones for the preparation of its fiscal year 2000 statements, resulting in the Office of Inspector General being unable to complete its audit.

The MMS has taken positive steps, however, to improve its financial management operations by creating a new unit that will be responsible for producing the financial statements and ensuring general ledger integrity. The MMS is in the process of hiring additional staff and implementing recommendations that were made by an outside contractor. The contractor was hired to review the MMS's internal control process.

Departmental Response: The Department concurs with this finding. The Minerals Management Service made significant improvements in FY 2000 and is placing a high priority on hiring additional personnel and addressing organization issues that led to this

situation. The Department and Minerals Management Service recognize additional improvements are necessary and are taking steps to ensure the continued improvement in the financial management of the bureau.

I. Security and General Controls Over Financial Management Systems

Security and general controls over the DOI's financial management systems were not adequately established or were not operating effectively to ensure that sensitive or critical financial data or systems were safeguarded. In addition, documents such as risk assessments, security plans, and control reviews were prepared with little or no support for the determinations presented and without an indication that senior management had a clear understanding of the risks being accepted. Although the Chief Information Officer has drafted a DOI computer security management program, the DOI reported the lack of effective security and general controls over automated information systems as a material weakness under the FMFIA. DOI senior management needs to emphasize the importance of implementing effective computer security management programs that include financial management systems.

Departmental Response: The Department concurs with this finding. Computer security has been identified as a material weakness of the Department and appropriate steps are being taken to address this issue, recognizing that computer security is a major issues facing the Federal government as a whole as well as private sector organizations.

J. Trust Funds

The OST is responsible for maintaining approximately 1,400 accounts for tribal and other special trust fund entities with combined monetary assets in excess of \$2.7 billion. The OST also maintains about 270,000 Individual Indian Monies accounts with a fund balance of approximately \$400 million. The independent auditors qualified audit report on trust funds concluded that (1) cash balances reflected in the accompanying combined financial statements are materially greater than balances reported by the U.S. Treasury; (2) inadequacies in various DOI Indian Trust Fund historical accounting systems and subsystems, controls, and records caused the systems to be unreliable; and (3) various tribal organizations and classes of individual Indians for whom the Office of Trust Funds Management (OTFM) holds financial assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM and certain of these parties have filed or are expected to file claims against the U.S. Federal Government. This may result in a potential liability of the U.S. Federal Government that is not reasonably estimable. The DOI's corrective action plan for these weaknesses is contained in the "High Level Implementation Plan."

Departmental Response: The Department concurs with this finding. There are long-standing, complicated problems with Indian Trust Fund management. The Department places a high priority on comprehensive Indian Trust reform efforts, including implementation of vital improvements to systems, policies and operations necessary to ensure meeting the trust obligations to Indian tribes and individuals.

K. Budgetary Data Reporting

Budgetary accounting information included in Hyperion (the system used by the DOI to prepare its financial statements) required a significant number of adjusting entries to reconcile to the budgetary information reported in the FACTS II (Federal Agencies' Centralized Trial-Balance System II) system. FACTS II is an automated system that allows agencies to submit one set of accounting data that fulfills the needs of the OMB and the U.S. Department of the Treasury. Unsupported adjustments were made to FACTS II budgetary data in order to comply with FACTS II system edit restrictions and to correct budgetary amounts. To address these issues, the DOI needs to (1) ensure beginning balances are accurate, (2) correct system posting model problems, and (3) enter transactions and adjustments accurately. This weakness has not been disclosed in the DOI's FMFIA report.

Departmental Response: The Department concurs with this finding. FY 2000 was the first year that the Department was required to submit budget execution data to the Department of the Treasury through the FACTS II reporting process. The issues identified relate primarily to implementing this new system, and actions are underway to address the issues raised in the implementation of the FACTS II system. In November 2000, the Department established a Budget Execution Reporting Working Group consisting of bureau and Departmental budget and finance personnel to improve the reporting of budget execution data. In addition, the Department is working closely with the OMB and the U.S. Department of the Treasury to address specific budget execution issues unique to the Department of the Interior. The Department is also arranging for comprehensive training of finance and budget execution personnel on budget accounting and reporting topics.

Reportable Conditions

L. Deferred Maintenance Management and Reporting (Repeat Condition)

Amounts reported for deferred maintenance were not adequately supported. We found that formal policies and procedures for conducting periodic condition assessment surveys and for computing, compiling, and reporting deferred maintenance funding estimates needed to be established by the DOI and the bureaus to promote consistency and accuracy. In addition, the supervisory and monitoring controls over deferred maintenance reporting require strengthening to ensure that deferred maintenance estimates are accurate and complete and are supported by adequate documentation.

Departmental Response: The Department concurs with this finding. The Department recognizes the need to continue to improve controls over deferred maintenance management and reporting. Progress is being made in implementing a process to perform condition assessments of facilities throughout the Department to appropriately determine estimated deferred maintenance costs. This process is a high priority of the Department,

and the Department has established a five-year capital planning process to improve facilities maintenance and construction planning.

M. Grant Payments at Fish and Wildlife Service

The Fish and Wildlife Service (FWS) could not verify that the drawdowns by grantees were for costs that the grantee incurred during fiscal year 2000. The FWS needs to improve its process to obtain information on costs incurred from grant recipients. Currently, the DOI is working with other Federal agencies as part of the Interagency Electronic Grants Committee to develop and implement electronic processes to streamline reporting processes for grantees, which will address this issue.

Departmental Response: The Department concurs with this finding. This issue has been identified as a material weakness of the Department and is being addressed by an improvement plan established by the Fish and Wildlife Service to resolve financial assistance management issues.

N. Interior Franchise Fund

The independent auditors report on the IFF identified a lack of key controls over the IFF's financial reporting process. Specifically, improvements are needed in controls over the monitoring of service provider relationships, disbursements made to service providers, pricing knowledge, the check receipt and deposit function, and accounts receivable balances. The independent auditors also noted the need for documented policies and procedures for the year-end closing process and for one of the IFF's service providers, a lack of risk assessments, and inadequate software change controls. The IFF has developed a corrective action plan for the identified weaknesses and the DOI.

The independent auditors also reported that the IFF's authorizing legislation is scheduled to expire on October 1, 2001. The ability of the IFF to continue as a going concern is dependent on the renewal of its authorizing legislation. The DOI is investigating alternatives based on Congressional actions to address the Franchise Fund Pilot Program sunset provisions or other specific DOI remedies.

Departmental Response: The Department concurs with this finding. The Department recognizes the need to continue to improve procedures in the IFF pilot program and plans to make further improvements in procedures and systems building on this pilot experience. Further, the Department recognizes that the ability of the IFF to continue as a going concern is dependent on renewal of their authorizing legislation. Management is exploring alternatives based on congressional actions to address the Franchise Fund Pilot Program sunset provision in the Government Management Reform Act of 1994 (GMRA) or other specific Departmental remedies.

Stewardship and Performance Measures

We considered the DOI's internal controls over the Required Supplementary Stewardship Information by obtaining an understanding of the DOI's internal controls, determining whether these internal controls were operating, assessing control risk, and performing tests of controls as required by Bulletin 01-02. Our review was not of sufficient scope to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

With respect to internal controls related to performance measures reported in the Management's Discussion and Analysis section, we obtained an understanding of the existence and completeness assertions, as required by Bulletin 01-02. Our procedures were not designed to provide assurance over internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

Report on Compliance With Laws and Regulations

We conducted our audit in accordance with generally accepted auditing standards, the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 01-02.

Management of the DOI is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the DOI's financial statements are free of material misstatement, we performed tests of the DOI's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the DOI.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph exclusive of the FFMIA disclosed instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 01-02. The areas of noncompliance are described below.

O. Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 requires that all eligible receivables delinquent for more than 180 days be referred to the U.S. Treasury for collection or offset. Eligible receivables are those receivables that are not in bankruptcy, litigation, or foreclosure status and that have not been referred to a private collection agency or the Internal Revenue Service for tax refund offset.

The Bureau of Indian Affairs (BIA) did not timely transfer all eligible accounts receivable that were delinquent for more than 180 days to the Treasury for collection or offset. For example, the BIA reported that it had referred delinquent accounts receivable of \$7.6 million to the Treasury for collection or offset at September 30, 2000. However, we found that the BIA had additional accounts receivable of at least \$6.7 million that were delinquent for more than 180 days and were eligible for referral at September 30, 2000.

Departmental Response: The Department concurs with this finding. The Bureau of Indian Affairs has made significant progress in resolving or transferring debt from delinquent loans to the Department of the Treasury. Further, the Bureau has made the transfer of delinquent debt related to irrigation and power projects to the Department of the Treasury on a timely basis a top priority of the Bureau.

P. Office of Management and Budget Circular A-11

Office of Management and Budget Circular A-11, "Preparation and Submission of Budget Estimates," requires that a financing disbursement for a downward reestimate of credit program subsidy cost be made from a financing account to a general fund receipt account that has been established for each credit program. The BIA did not transfer its fiscal year 1999 downward reestimate of subsidy cost for its guaranteed loan program to the related general fund receipt account that was established for guaranteed loans. In addition, the BIA did not ensure that a general fund receipt account for downward reestimates of subsidy cost for its direct loan program had been established.

Departmental Response: The Department concurs with this finding. The Bureau of Indian Affairs is taking corrective actions to address certain loan accounting issues through organizational, procedural and training initiatives.

Q. Prompt Payment Act

The Prompt Payment Act requires that Federal agencies pay their bills on time, pay interest penalties when payments are made late, and take discounts only when payments are made within the discount period and are advantageous to the Government. For example, quality control reviews prepared by the Chief, Accounting Operations Branch, National Business Center, for fiscal year 2000 stated that the accuracy of the BIA's Prompt Payment Report was not acceptable because of the number of payment processing errors found. Our review of all fiscal year 2000 quality control quarterly reports disclosed that the BIA had made incorrect data entries into the Federal Financial System ranging from 15 to 30 percent for those items tested. In another instance, the U.S. Geological Survey did not timely compensate vendors for purchases totaling an estimated \$24 million and did not pay late payment interest penalties totaling an estimated \$89,000.

Departmental Response: The Department concurs with this finding. The prompt payment of bills has been and continues to be a high priority of the Department. Although, overall, the Department has reached its target of paying 97% of bills on a timely basis, individual bureaus need to continue to improve controls over this process.

The Bureau of Indian Affairs' quarterly review process is an integral part of the Bureau's management of prompt pay performance. These reviews continue to highlight the need to improve the Bureau of Indian Affairs' prompt pay process. To resolve this issue, the Bureau intends to streamline the current process, reduce the complexity of current procedures and improve the training of personnel throughout the Bureau to improve the timely processing of payments. Further, the U.S. Geological Survey is reviewing their prompt payment procedures to ensure full compliance with the Prompt Payment Act.

Federal Financial Management Improvement Act

Under the FFMIA, we are required to report whether the DOI's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the DOI did not substantially comply with the U.S. Government Standard General Ledger at the transaction level. However, the results of our tests disclosed instances described below where the DOI was not in full compliance with the accounting standards and the financial management system requirements.

R. Accounting Standards

- **Stewardship Investment:** Statement of Federal Financial Accounting Standards No. 8, "Supplementary Stewardship Reporting," requires that investments in non-Federal physical property be reported as a part of Required Supplementary Stewardship information. The FWS did not separately report on investments in non-Federal physical property made by grantees under its Federal Aid in Sport Fish and Wildlife Restoration Programs in fiscal year 2000. Subsequently, the DOI reported the entire amount of the grant programs, \$519 million, as a part of its stewardship investment. In contrast, the FWS reported that grantees made stewardship investments totaling \$191.2 million for acquiring and improving lands and non-Federal physical property in fiscal year 1999. Because the DOI reported the entire expenditure for the program, not just the amount expended for investment in non-Federal physical property, the DOI was not in compliance with the reporting requirements of Standard No. 8.

Departmental Response: While the Department concurs that FWS should report its investment in non-Federal physical property, the Department does not agree that this represents a substantial noncompliance with Standard No.8. The FY 2000 Departmental reporting is limited to information maintained by the Department of grant monies provided to non-Federal entities. These amounts may be used for multiple purposes including investments in non-Federal physical property. Before the Department could separately report accurate investments in non-Federal physical property, the Department would need to capture information from grant recipients on specific types of expenditures. Currently, this information is difficult to obtain and cannot be verified.

- **Cost Accounting:** The BIA had not developed managerial cost accounting systems that adequately captured all elements necessary for assigning indirect costs on a reasonable basis. Specifically, the BIA did not allocate indirect costs to its responsibility segments or identify its indirect costs as a separate segment as of September 30, 2000. For fiscal year 2000, the BIA intermingled its indirect costs within the \$345.8 million reported for expenses in the responsibility segment identified as Tribal Quality - Administration and Support Services.

Although the BIA was not in full compliance with cost accounting, overall the DOI is making significant progress in this area. The DOI has developed an implementation strategy to bring it into full compliance.

Departmental Response: The Department concurs with this finding. The Bureau of Indian Affairs is currently evaluating certain cost accumulation and allocations processes. The focus of this evaluation is to ensure that costs accumulated for financial statement reporting of responsibility segment information is consistent with the Government Performance Results Act (GPRA) reporting of GPRA Program Segment information and properly relates to budget reporting for the Bureau.

S. Financial Management System Requirements

The DOI's financial management systems did not substantially comply with Federal financial management system requirements. Although the DOI has made some improvements in its financial management systems, its controls overall have been weak and have resulted in unreliable, untimely, and inconsistent financial information. In addition, bureaus and offices do not have computer security management programs to ensure that their financial data and systems are adequately safeguarded and that financial data have integrity. In that regard, the DOI does have a draft plan for a computer security management program, which includes financial management systems, but the DOI plan has not been implemented.

The DOI has identified inadequate security and general controls over automated systems as a material weakness under the FMFIA and has established a remediation plan and time frames for implementing corrective actions.

Departmental Response: The Department concurs with this finding. The Department recognizes that integrity over financial management systems is critical to maintaining the accuracy of financial data used in the preparation of financial statements. The Department is committed to continuing improvements in the quality of financial data. Further, computer security has been identified as a material weakness of the Department and appropriate steps are being taken to address this issue.

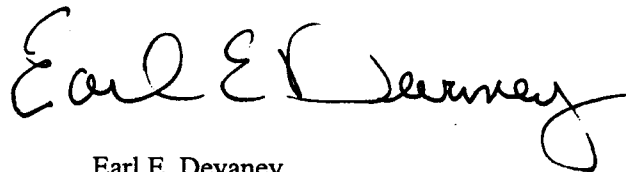
Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not provide such an opinion.

Prior Audit Coverage

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the DOI's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the DOI's financial statements or internal controls. The internal control issues identified as repeat conditions in the Internal Control section were identified in prior Office of Inspector General reports. These issues remain unresolved. We found that there were no General Accounting Office audit reports that contained significant unresolved or unimplemented recommendations related to the DOI's consolidated financial statements or internal controls.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides copies of this audit report to the Congress.

This report is intended for the information of management of the DOI, the OMB, and the Congress. However, this report is a matter of public record, and its distribution is not limited



Earl E. Devaney
Inspector General
February 27, 2001

Objective, Scope, and Methodology

Management of the Department of the Interior (DOI) is responsible for the following:

- Preparing the principal financial statements and the required supplementary information in conformity with generally accepted accounting principles and preparing the other information contained in the Accountability Report for fiscal year 2000.
- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.
- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on the DOI's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements," which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary information in accordance with Federal accounting standards, that assets be safeguarded against loss from unauthorized acquisition, use, or disposal, and that transactions and other data that support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Testing the DOI's compliance with certain provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.
- Assessed the accounting principles used and the significant estimates made by management.
- Evaluated the overall presentation of the principal financial statements.
- Obtained an understanding of the internal control structure related to the safeguarding of assets, compliance with laws and regulations, including the execution of

transactions in accordance with budget authority, financial reporting, and certain performance measure information reported in the Accountability Report.

- Tested relevant internal controls over the safeguarding of assets, compliance with laws and regulations, including the execution of transactions in accordance with budget authority, and financial reporting.
- Tested compliance with certain provisions of laws and regulations.

We did not evaluate all of the internal controls related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

Management Challenges

1. Financial Management. The preparation of reliable financial statements as required by the Chief Financial Officers (CFO) Act continues to be a major challenge facing the Department of the Interior (DOI) and its bureaus. The DOI has made progress in producing reliable financial statements. In that regard, we issued unqualified opinions on the fiscal year 1999 financial statements for the DOI and seven of the nine bureaus. The Minerals Management Service (MMS) was unable to issue financial statements for its appropriated funds because its financial data were not accurate, complete, and timely because of insufficient internal controls. The BOR needed to make significant adjustments to its construction-in-progress account. In addition, the certified public accounting firm that conducted the audit of the financial statements for Indian Trust Funds held by the Office of the Special Trustee for American Indians issued a qualified opinion because the statements were not accurate and there was an irreconcilable difference of about \$35 million between recorded cash balances and the balances reported by the U.S. Treasury.

We also identified several areas where internal controls needed to be strengthened and where the bureaus had not fully complied with certain laws and regulations. For example, the Bureau of Indian Affairs (BIA), the U.S. Geological Survey (USGS), and the Fish and Wildlife Service (FWS) did not have adequate controls to ensure that unliquidated obligations were timely deobligated and adequately supported. Tests during our audit of the 1999 statements disclosed that the unliquidated obligation balance of September 30, 1999 was overstated by \$46.6 million. During the audit, the bureaus made the necessary adjusting entries. Our 1999 audit also disclosed noncompliance by certain organizations with the CFO Act, the Debt Collection Improvement Act of 1996, the Prompt Payment Act, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act.

2. Information Technology. With advances in information technology, such as interconnectivity between physical and cyber-based critical infrastructures and interconnectivity among the Federal Government and private companies and citizens through the Internet, Federal agencies will be required to implement adequate safeguards to secure their systems.

The General Accounting Office (GAO) and the Office of Inspector General (OIG) have performed numerous audits of the controls over the DOI's computer-based systems, including financial and nonfinancial systems, and have identified many weaknesses. For example, the DOI and its bureaus and offices do not have an effectively operating system security management program. Although the DOI Chief Information Officer has drafted a plan for a computer security management program that provides for the DOI's systems to meet minimum standards and to operate effectively, the plan has not been implemented. Further, the DOI's bureaus and offices need to develop and implement individual system security management plans to ensure that their systems security responsibilities are assigned and carried out, security plans for all computer-based systems are updated when appropriate or mandated, risks and vulnerabilities are mitigated and residual risks are accepted by senior management, computer security training is

provided on a continuing basis, systems users' access/passwords and user authorizations are controlled, and operating systems and networks are adequately safeguarded.

3. Health and Safety. The DOI is responsible for protecting the health and safety of the increasing number of recreational visitors to its lands and facilities, as well as its own workforce. In fiscal year 1999, the National Park Service's (NPS) park system had more than 280 million visits, the Bureau of Land Management's (BLM) public lands had about 75 million visits, the FWS's National Wildlife Refuge System had about 36 million visits, and the Bureau of Reclamation's (BOR) water projects created water-based recreation opportunities for about 90 million visitors. Accordingly, ensuring employee and visitor safety is clearly a priority and a challenge.

Key in addressing this challenge is protecting visitors and residents from the dangers of fire and crime, ensuring that concessions are operated in a safe manner, and ensuring that employees have safe working conditions and are adequately trained in safe working practices. Both the BLM and the NPS have reported material weaknesses in employee and public safety. BLM management is concerned that it has not assigned appropriate resources to provide required safety training for state safety managers and needs to intensify its monitoring of its safety program. The NPS reported in November 2000 that its Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire. Both bureaus are taking steps to correct these deficiencies.

A long-standing problem is the DOI's liability for cleaning up sites contaminated by hazardous materials, abandoned mine sites, oil and gas wells, leaking underground storage tanks and pipelines, and illegal dumping. In its Accountability Report for fiscal year 1999, the DOI estimated that its contingent liability could be over \$390 million.

4. Maintenance of Facilities. Adequate maintenance of the DOI's large and aging inventory of buildings, structures, facilities, and equipment continues to be one of the most challenging issues facing the DOI. The DOI is responsible for maintaining a wide variety of assets, including schools, office buildings, bridges, dams, irrigation systems, roads, and historic buildings and structures. The deferred maintenance backlog for these assets is growing, and the DOI reported that as of September 30, 1999, the backlog ranged from \$7.8 billion to \$13.7 billion. Reviews conducted by our office, the GAO, and the bureaus show that the DOI has not been able to effectively carry out its maintenance responsibilities or even develop a reliable estimate of the extent of the backlog.

The lack of an adequate, standardized automated maintenance management system has severely inhibited the DOI's ability to effectively carry out its maintenance management responsibilities. The DOI has recognized this problem and has reported "Inadequate Department-wide Maintenance Management Capability" as a mission-critical material weakness in its Accountability Report for fiscal year 1999. The DOI has developed an adequate plan to correct this condition.

5. Responsibility to Indians and Insular Areas.

Responsibility to Indians

For a number of years, the BIA has experienced administrative and management problems that have constrained its ability to effectively carry out its mission to enhance the quality of life; to promote economic opportunity; and to protect and improve the trust assets of American Indians, Indian tribes, and Alaska Natives. Several of these problems were highlighted in an August 1999 report by the National Academy of Public Administration entitled "A Study in Management and Administration: The Bureau of Indian Affairs." The report identified problems in the areas of the BIA's trust responsibility, Indian self-determination, and self-governance through contracting and compacting, facilities management and roads maintenance, safety management, law enforcement, housing, social services, and education. Many of these problems are long-standing and had been identified in previous OIG and GAO audit reports. The Academy's report recommended wide-ranging changes in organization, policies and procedures, and staffing to correct these problems.

Another area of special concern is Indian education. The BIA administers a school system for the American Indian population consisting of 185 schools, which have almost 50,000 students in 23 states. Of the 185 schools, 64 are operated by the BIA and 121 are operated by tribal organizations under contracts or grants. For fiscal year 2000, the BIA received education program funding of approximately \$686 million. The administration of this complex system is also impacted by the poor physical condition of Indian schools, which has been well documented in past OIG and GAO reports and in the Academy's recent report.

Responsibility to Insular Areas

Our audits have shown that long-standing financial and program management deficiencies continue to exist in the U.S. insular areas. Specifically, the insular area governments experience difficulties in accurately accounting for expenditures, collecting taxes and other revenues, controlling the level of expenditures, and delivering program services. Contributing to the long-standing problems is the fact that although each of the insular areas has an internal audit organization, with few exceptions, those organizations do not have the staff, resources, or independence necessary to provide effective and objective audit coverage of local government operations.

Under the Insular Areas Act of 1982, the OIG has audit authority covering both federal and nonfederal funds in Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The OIG also has audit authority over federal funds in the Federated States of Micronesia, the Republic of Palau, and the Marshall Islands pursuant to the Compact of Free Association Act of 1985. However, neither the OIG nor the DOI has the authority to enforce resolution and implementation of OIG audit recommendations made to insular area government officials. As a result, the OIG recommendations and recommendations contained in single audit reports issued

by independent accounting firms are rendered meaningless, and some insular areas remain in financial crisis.

6. Resource Protection/Restoration. The DOI administers over 437 million acres of Federal land throughout the United States and the insular areas and has myriad responsibilities for protecting and restoring the Nation's natural and cultural resources. For example, the Office of Surface Mining Reclamation and Enforcement is responsible for ensuring that coal mining operations are conducted in an environmentally sound manner and for restoring lands damaged by past coal mining practices; the BLM is responsible for ensuring the appropriate economic and recreational uses of public lands and for protecting the wild horse and burro population; the FWS is responsible for maintaining a healthy habitat for fish and wildlife resources, particularly for endangered and threatened species; the NPS is responsible for protecting the natural and cultural resources in our parks; and the BOR and the USGS are responsible for protecting and improving the quality and quantity of our Nation's water. The DOI faces growing challenges in these areas as the demand for economic and recreational uses of our lands and water resources increases.

7. Revenue Collections. While the DOI collects over \$8 billion in revenues each year, our audits have shown that the bureaus can make improvements to enhance revenue collections in various programs, such as those covering royalties and fees, and in cost recovery of reclamation projects. Since 1998, the OIG and the Department of Justice have recovered underpaid royalties of more than \$330 million under settlements with oil companies resulting from OIG investigations. We have also identified more than \$140 million in lost or potential additional revenues through audits conducted over the past 3 years. This amount includes \$71.7 million resulting from the undercollection of royalties, \$17.5 million that the BOR could have earned if it had identified and sold excess lands, and \$6.6 million that the BLM did not recover for firefighting costs.

8. Government Performance and Results Act (GPRA) of 1993. The DOI and the bureaus face a significant challenge in implementing the GPRA requirements for establishing performance goals and measures that effectively demonstrate the accomplishment of their missions. At the request of the Chairman of the Senate Committee on Governmental Affairs, we conducted a special review of the DOI's implementation of the GPRA. We concluded that while the DOI has made progress in implementing the GPRA, the bureaus could improve their performance plans and reports by refocusing specific goals to better measure performance results, establishing goals for all significant program elements, better describing methods used to establish target levels of accomplishment, and linking performance measures with program results. While we did not verify the accuracy of reported performance data, we are working with the DOI to develop a reliable verification and validation process to apply to performance data throughout the DOI.

9. Procurement, Contracts, and Grants. The DOI spends substantial resources each year in contracting for goods and services and providing federal assistance to states and Indian organizations. In fiscal year 1999, the volume of procurement activity exceeded

\$3 billion, and the DOI provided over \$2 billion to states and Indian tribes in grants and other types of Federal aid assistance. Procurement has historically been an area subject to fraud and waste Governmentwide, and the OIG has received several hotline complaints in this area.

In its fiscal year 1999 Accountability Report, the DOI reported that the BIA's acquisition management organization, policies, procedures, and guidelines are inadequate and has been reporting this material weakness since 1991. The DOI also reported that management oversight and accountability in the FWS's Federal Aid Program have been ineffective because of the lack of adequate management controls, a centralized audit followup program, and guidance governing the administration of the Program.

Another area of concern is the DOI's new integrated credit card program, which accounted for more than \$300 million of the DOI's procurement expenditures in fiscal year 2000. While this program is expected to substantially reduce administrative costs, there is a greater opportunity for unauthorized purchases because of the limited internal controls in the program.