



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

March 8, 2001

Memorandum

To: Director, Bureau of Land Management

Subject: Independent Auditors Report on Bureau of Land Management Financial Statements for Fiscal Year 2000 (No. 01-I-274)

We found that the Bureau of Land Management's (BLM) principal financial statements¹ for fiscal year 2000 were fairly presented in all material respects. Our tests of the BLM's internal controls, however, identified a material weakness. In addition, our tests of the BLM's compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Office of Management and Budget Bulletin 01-02. Our detailed findings are in the Independent Auditors Report, which includes the BLM's Annual Report for fiscal year 2000.

Material Weakness. We found that internal controls over the undelivered orders year-end balance were insufficient and constituted a material weakness. The BLM did not develop and implement effective policies and procedures to ensure that budgetary account transactions for undelivered orders were promptly deobligated (cleared) when completed or no longer valid.

We found that the information presented in the Management Discussion and Analysis section and the supplementary information sections of the BLM's Annual Report for fiscal year 2000 were consistent with the principal financial statements.

We also identified other issues that, in our judgment, were not required to be included in this audit report but that should be communicated to management. In accordance with applicable audit standards, we will include these issues in a management letter that will be issued separately.

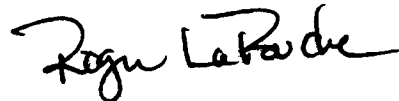
We made two recommendations addressing the material weakness that we identified in our tests of the BLM's internal controls. The BLM concurred with the two recommendations. Based on the BLM's response to our draft finding, we consider both recommendations resolved but not implemented. Accordingly, the two recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

¹The BLM's principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000; the Consolidated Statements of Net Cost of Operations and Changes in Net Position for the fiscal year ended September 30, 2000; and the Combined Statement of Budgetary Resources and Combined Statement of Financing for the fiscal year ended September 30, 2000.

Since the recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 3).

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 audit reports to the Congress.

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.

A handwritten signature in black ink, reading "Roger La Rouché". The signature is fluid and cursive, with the first name "Roger" and last name "La Rouché" clearly distinguishable.

Roger La Rouché
Assistant Inspector General
for Audits

[CONTACT THE BUREAU OF LAND MANAGEMENT FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 2000, WHICH ARE NOT INCLUDED]

Independent Auditors Report

Bureau of Land Management

Financial Statements

Fiscal Year 2000

We have audited the Bureau of Land Management's (BLM) principal financial statements for the fiscal year ended September 30, 2000. The BLM's principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000; the Consolidated Statements of Net Cost of Operations and Changes in Net Position for the fiscal year ended September 30, 2000; and the Combined Statement of Budgetary Resources and the Combined Statement of Financing for the fiscal year ended September 30, 2000. These financial statements are the responsibility of the BLM, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with 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 provides a reasonable basis for our opinion. The objective, scope, and methodology of our work are discussed in Appendix 1.

Opinion on Principal Financial Statements

In our opinion, the principal financial statements audited by us and appearing on pages 30 to 47 present fairly, in all material respects, the financial position of the BLM as of September 30, 2000; its consolidated net cost of operations and changes in net position for the fiscal year ended September 30, 2000; and its combined budgetary resources and combined financing activities for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

As discussed in Note 23, the BLM 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.

Our audit was conducted to form 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 BLM's Annual Report is presented for additional analysis and is not a required part of the principal financial statements but 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 the OMB guidance and consistency with the financial statements. We found that the information presented in the Management Discussion and Analysis section and the supplementary information sections of the BLM's Annual Report for fiscal year 2000 were consistent with the principal financial statements. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and accordingly, we express no opinion on it.

Report on Internal Controls

In planning and performing our audit, we considered the BLM'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 the 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 (FMFIA) of 1982, 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

BLM's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may occur and not be detected.

Material Weakness

Our review identified one condition that we believe to be a material weakness.

**BLM Needs
Improved
Controls Over
Undelivered
Orders Year-
End Balance**

The BLM did not develop and implement effective policies and procedures to ensure that budgetary account transactions for undelivered orders were deobligated (cleared) in a timely manner when completed or inactive. Although the BLM's National Business Center made great strides in correcting the undelivered orders year-end balance by deobligating \$16.7 million during fiscal year 2000, the BLM's reported year-end undelivered orders balance of \$255 million was still overstated.

We projected that the most likely gross overstatement in undelivered orders is \$13.7 million. Our projection, which was based on a statistical sample of 50 undelivered orders (28 items with balances greater than \$25,000 and 22 items with balances less than or equal to \$25,000), resulted in an 18 percent error rate for sample items in the strata of undelivered orders with balances of \$25,000 or less (4 of 22 items).

Recommendations

We recommend that the BLM:

1. Require all personnel who administer original order files to review the validity of obligations and retain working papers and records to document that the reviews were performed.
2. Ensure that personnel are fulfilling their responsibilities to review obligations and to retain the required working papers and records to facilitate future audits.

BLM Response. The BLM concurred with both recommendations to this finding. The BLM said that it plans to issue an Instruction Memorandum which will document its new process to provide each state procurement analyst with a quarterly aging report of obligations, require acquisition personnel to review and

deobligate funds where needed, and provide feedback to the National Business Center (NBC) on actions taken. In addition, the NBC will review the feedback and perform reviews to ensure that timely deobligation actions are taken and that records are retained of the quarterly reviews of the aging reports.

Stewardship and Performance Measures

We also considered the BLM's internal controls over the Required Supplementary Stewardship Information by obtaining an understanding of the BLM's internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by Bulletin 01-02. We did not find any misstatement in the Supplementary Stewardship Information. Assurance on the internal controls over this information, however, was not part of our objective, and accordingly, we do not express an opinion on such controls.

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

Report on Compliance With Laws and Regulations

Management of the BLM is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the BLM's financial statements are free of material misstatement, we performed tests of the BLM'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 did not test compliance with all laws and regulations applicable to the BLM.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraphs, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 01-02.

Under the FFMIA, we are required to report whether the BLM's financial management systems substantially comply with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) 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 BLM's financial management system did not substantially comply with these three requirements.

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

Prior Audit Coverage

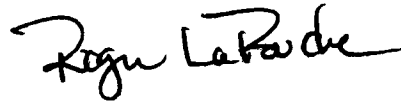
We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the BLM's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the BLM's financial statements or internal controls. We found that there were no Office of Inspector General reports or General Accounting Office reports that contained significant unresolved or unimplemented recommendations related to the BLM's financial statements or internal controls.

We made two recommendations addressing the material weakness that we identified in our tests of the BLM's internal controls. Based on the BLM's January 10, 2001 response (see Appendix 2), we consider both recommendations resolved but not implemented. Accordingly, the two recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Since the recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 3).

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 audit reports to the Congress.

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Roger La Rouché
Assistant Inspector General
for Audits
January 19, 2001

Objective, Scope, and Methodology

Management of the Bureau of Land Management (BLM) 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 Annual 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 BLM's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in Bulletin 01-02, 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 BLM'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 Annual 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.

Details of Material Weakness

Finding Number: BLM 2000-2

Prior Year Finding: Yes

Date: December 27, 2000

Undelivered Orders Yearend Balance

Condition

The yearend balance for undelivered orders was overstated. We found four invalid obligations in our test sample of 22 undelivered orders with balances of \$25,000 or less.

Criteria

Treasury Bulletin 2000-04, "Yearend Closing," requires agencies to review their undelivered orders before yearend closing to ensure that the orders meet the criteria for valid obligations as set forth in the United States Code (31 USC §1501). The Bulletin further states that agencies must retain workpapers and records on verifications to facilitate future audits. In addition, BLM's National Business Center issued Instruction Memorandum No. BC-00-052, "Critical Fiscal Year (FY) 2000 Closing Dates and Procedures," which required BLM field offices to review unliquidated obligation reports and/or tables in FFS to verify the accuracy of unliquidated obligation balances.

Cause

Acquisition personnel at some BLM offices did not fulfill their responsibilities to verify the accuracy of undelivered orders. The National Business Center provided information that its' efforts to identify invalid obligations resulted in recoveries (deobligations of undelivered orders) of \$16.7 million as of September 15, 2000. However, the National Business Center cannot identify all of the invalid obligations because it requires the cooperation of acquisition personnel at the various state offices, field offices, and national centers to verify the original order files to FFS. The best, most current, and accurate evidence of the valid amounts of undelivered orders are the original order files at these offices.

Effect

Our review determined that the projected most likely gross overstatement in undelivered orders is \$13.7 million, which is less than the \$15.7 million design and test materiality level for BLM. Our statistical, random sample of 50 undelivered orders (28 items with balances greater than \$25,000 and 22 items with balances less than or equal to \$25,000) resulted in an 18 percent error rate for sample items in the strata of undelivered orders with balances of \$25,000 or less (4 of 22 items). The projected value of the error range is between \$13.7 million (gross most likely error) and \$25 million (net upper error limit). The sample used a 90 percent confidence level

Recommendations

We recommend that BLM:

1. Require all personnel who administer original order files to review obligations and retain workpapers and records to document that the reviews were performed.
2. Monitor whether personnel are fulfilling their responsibilities to review obligations and to retain the required workpapers and records to facilitate future audits.

Please provide a written response to this finding by January 3, 2001. In your response, please indicate agreement or disagreement with the potential finding and recommendations and any actions taken or planned on this issue.

Anne Richards
Regional Audit Manager
Central Region Audits

1 Attachment

- 1 - Response to Notification of Potential Compliance Finding and Recommendations
BLM 2000-2

AUDITEE RESPONSE

- ☒ Management concurs with the Notification of Finding and Recommendations.
- ☐ Management does not concur with the Notification of Finding and Recommendations.

Please see attached response.

Please indicate your response in the space provided above or as an attachment within 1 week from the date of this notification. Your written response will be considered when preparing the draft consolidated audit report.



Signature of Senior Auditor



Signature of Auditor-in-Charge

12/27/00

Date Provided to Auditee

JAN 10 2001

Date Response Received from Auditee



Signature of Auditee Official

DIRECTOR, NATIONAL BUSINESS CTR

Title of Auditee Official

12/27/00

Date Received by Auditee

Response to Notification of Potential Compliance Finding and Recommendations
Finding Number: BLM 2000-2, Potential Internal Control Finding

In FY 2000, the National Business Center made significant progress with the identification and deobligation of invalid obligations as noted in the "Cause" paragraph of the auditor's report. Additionally, we have developed a process for the identification of all of the Bureau's invalid procurement related obligations and for monitoring efforts to cancel said obligations.

The following is a restatement of the Auditor's two recommendations and our agreement or disagreement with the potential findings and recommendations and actions taken or planned on these issues.

Auditor's Recommendation

Require all personnel who administer original order files to review obligations and retain workpapers and records to document that the reviews were performed.

Response

The National Business Center agrees with the above recommendation.

The NBC Accounting Operations Division is on the agenda of BLM's Procurement Analyst Teleconference set for January 11, 2001. The Division Chief will brief the Bureau's procurement analysts on the requirement to improve the monitoring of invalid obligations, and will also announce the Division's plans to provide each State Procurement Analyst with a quarterly Aging Report. This quarterly report will provide acquisition personnel with information related to expended and unliquidated amounts for their purchase orders, contracts, agreements, and any other procurement instruments. Acquisition personnel will be expected to review the report, save workpapers and documents related to this review, initiate modifications to deobligate funds no longer required, and to provide quarterly feedback and assurance to the NBC that the review was conducted.

Additionally, the Accounting Operations Division will follow-up the teleconference with the development of an Instruction Memorandum (IM) for signature by the AD for Business & Fiscal Resources. The IM will document the new process of NBC distributing the quarterly reports and the responsibility of acquisition personnel to review the report, document the review, initiate modifications where needed, and provide feedback to the NBC.

Auditor's Recommendation

Monitor whether personnel are fulfilling their responsibilities to review obligations and to retain the required workpapers and records to facilitate future audits.

Response

The National Business Center agrees with the above recommendation.

The NBC's Accounting Operations Division will assign a point of contact to distribute quarterly reports to the Bureau's acquisition personnel. This contact person will also be responsible for reviewing the quarterly feedback provided by the Bureau's acquisition personnel, and to initiate research and follow-up as required to ensure timely deobligation actions are taken. NBC's Financial Procedures Reviews will include checks to determine if acquisition personnel are retaining workpapers and records related to review of obligations.