



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

September 6, 2001

Memorandum

To: Director, U.S. Geological Survey

Subject: Independent Auditors Report on U.S. Geological Survey Financial Statements for Fiscal Year 2000 (No. 01-I-409)

As discussed in the attached independent auditors report, we found that the U.S. Geological Survey's (USGS) principal financial statements¹ for fiscal year 2000 were fairly presented in all material respects. Our tests of the USGS's internal controls, however, identified material weaknesses and reportable conditions. In addition, our test of USGS's compliance with laws and regulations identified an area of noncompliance. Our detailed findings are in the attached independent auditors report.

Internal Controls

Material Weaknesses. We found material internal control weaknesses in the areas of undelivered orders and accounting adjustments.

- **Undelivered Orders.** The USGS overstated its year-end undelivered orders account balance and understated its year-end accounts payable and expense account balances. This condition required the USGS to adjust its undelivered orders account by about \$29 million and its accounts payable account by \$24 million.
- **Accounting Adjustments.** The USGS had to make \$2.6 billion of adjustments to its budgetary and proprietary accounts in order to present financial statements that were reliable and accurate.

¹The USGS's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of 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.

Reportable Conditions. We identified reportable conditions in the following areas: capitalized equipment records and advance payments recorded in the USGS's project cost accounting system.

- **Capitalized Equipment Records.** The USGS did not ensure that its capitalized equipment records were accurate or complete. For example, we identified equipment for which the serial number was not recorded and the property location was incorrect. Also, 51 of the 61 Custodial Property Officers (CPO) did not respond to our request for evidence of their required official designations as CPOs because they were either unaware of the requirement or did not maintain evidence of their designations.
- **Advance Payments Recorded in Project Cost Accounting System.** The USGS Project Cost Accounting System (PCAS) did not accurately account for advance payments made to the USGS under certain contractual agreements, thereby requiring an adjustment of about \$4 million to correct the misstatement caused by the inaccurate accounting.

Compliance With Laws and Regulations

Our testing of the USGS's compliance with laws and regulations identified one instance of noncompliance.

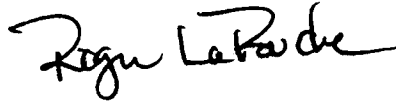
- **Noncompliance With the Prompt Payment Act.** The USGS did not timely compensate vendors for purchases totaling an estimated \$24 million and did not compensate vendors for late payment interest penalties totaling an estimated \$89,000. This noncompliance occurred because the USGS did not follow procedures developed in fiscal year 1999 to improve the timeliness of payments and update its procedures to reflect changes in the Code of Federal Regulations governing prompt payment for fiscal year 2000.

We made four recommendations to address the weaknesses and reportable conditions identified during our tests of the USGS's internal controls and one recommendation addressing the USGS's compliance with laws and regulations. The USGS concurred with the five recommendations. Based on the USGS's response to our draft report (see Appendix 2), we considered four recommendations resolved but not implemented and one recommendation implemented. Accordingly, the unimplemented 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.

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 Rouche". The signature is fluid and cursive, with the first name "Roger" and last name "La Rouche" clearly distinguishable.

Roger La Rouche
Assistant Inspector General
for Audits

Attachment

*[CONTACT THE U.S GEOLOGICAL SURVEY FOR INFORMATION ON ITS FINANCIAL STATEMENTS
FOR FISCAL YEAR 2000, WHICH ARE NOT INCLUDED]*

Independent Auditors Report

U.S. Geological Survey

Financial Statements

Fiscal Year 2000

We have audited the U.S. Geological Survey's (USGS) principal financial statements for the fiscal year ended September 30, 2000. The USGS principal financial statements consist of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Costs and Consolidated Statement of 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 USGS, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

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 provides a reasonable basis for our opinion. Prior audit coverage and scope of audit are discussed in Appendix 1.

Opinion on Principal Financial Statements

In our opinion, the principal financial statements appearing on pages IV-1 to IV-6 present fairly, in all material respects, the financial position of the USGS as of September 30, 2000 and its consolidated net cost, changes in net position, budgetary resources, and financing activities for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

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 USGS'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 OMB guidance and consistency with the financial statements. This information, however, has not been subjected to the auditing procedures applied to our audit of the principal financial statements, and accordingly, we do not express an 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 USGS'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 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 provide 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 ability of the USGS 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 nevertheless occur and not be detected. However, we noted certain matters involving the internal controls and their operation that we considered to be material weaknesses or reportable conditions.

Material Weaknesses

Our review identified two conditions that we believe to be material weaknesses, as discussed in the paragraphs that follow.

**A. USGS Needs
Improved Controls Over
Undelivered Orders**

USGS overstated its year-end undelivered orders account balance and understated its year-end accounts payable and expense account balances. Of the year-end balance of \$128 million reported for the undelivered orders account, we tested \$53.2 million (151 undelivered orders) and found 56 errors totaling \$5.8 million. Of the 56 errors identified in the undelivered orders testing, we found 12 items (\$549,000) that were not valid obligations and 44 items (\$5.3 million) that had not been recognized as received.

As a result of our tests, the USGS performed additional analyses and adjusted its undelivered orders account by about \$29 million and its accounts payable account by about \$24 million. The overstatement of undelivered orders occurred because the USGS had not adequately trained its program staff in the accounting procedures necessary to identify invalid obligations and account for delivered goods and services.

Recommendation

We recommend that the Director of the USGS ensure that bureau management continues to emphasize the importance to validating obligations and the delivery of goods and services to USGS staff with responsibility for ensuring that year-end undelivered orders and accounts payable accounts are properly stated.

Bureau Response: The USGS agreed with our recommendation and stated that it had issued seven separate instructions on managing unliquidated obligations and accruals last fiscal year. The USGS user community had considerable input to these instructions to ensure that they would be understood at all levels of the bureau. However, the USGS agreed that this condition still exists and will investigate other ways to address managing unliquidated obligations, including conducting interactive training and making site visits.

B. USGS Needs Improved Controls Over Accounting Adjustments

The USGS was required to make \$2.6 billion of adjustments to reflect its financial data accurately. The adjustments were required to be made to budgetary and proprietary accounts before the financial statements were reliable and accurate.

Our audit revealed that the USGS did not independently review all adjustments made to accounting data in its Federal Financial System (FFS) and maintain evidence that adjustments made to its Hyperion system were independently reviewed. One individual prepared and entered about 70 percent of the year-end adjustments to the FFS without independent review, and of the 33 adjustments we reviewed made by this individual totaling \$1.2 billion, we found discrepancies in 5, or 15 percent, of the total number. Adjustments to Hyperion included over \$1.4 billion in adjustments made to reconcile budgetary information in this system to the budgetary information contained in the USGS's budgetary reporting system. As a result, mistakes in the preparation and entry of adjustments to financial system data could materially impact the fair presentation of the financial statements and could result in management decisions being made on the basis of inaccurate system information. Because the USGS made the necessary adjustments, the financial statements were fairly presented.

Recommendation

We recommend that the USGS Office of Financial Management ensure that all accounting adjustments are reconciled, adequately supported, and independently reviewed throughout the fiscal year.

Bureau Response: The USGS agreed with our recommendation and stated that it will develop formal procedures for reconciling, documenting, and reviewing adjustments made for the Federal Agencies' Centralized Trial Balance System II and Hyperion. The USGS also stated that it had contracted for assistance in identifying and correcting structural problems that were the cause of the adjustments.

Reportable Conditions

We identified two reportable conditions, as described in the paragraphs that follow.

C. USGS Needs Improved Controls Over Its Capitalized Equipment Records

The USGS did not ensure that its capitalized equipment records were accurate or complete. Property that is difficult to identify and locate is more susceptible to theft and abuse, property that is incorrectly listed and valued could result in a misstatement of property values, and property controlled by Custodial Property Officers (CPO) unaware of their specific responsibilities may be more susceptible to theft or abuse.

In reviewing the supporting information for 64 sample equipment items, we found 21 inconsistencies for 19 items. Specifically, 8 items did not have serial numbers recorded; 8 items had the physical location recorded incorrectly; 4 items had the name of the CPO recorded incorrectly; and 1 item was recorded as existing, even though it had been reported as excess and destroyed. In addition, 51 of the 61 CPOs did not respond to our request for evidence of their required official designation as CPOs because they were either unaware of the requirement or did not maintain evidence of their designation.

Recommendations

We recommend that property management officials:

1. Ensure that procedures for maintaining accurate and complete property records in the property system are clear and that employees are reminded of their property responsibilities.
2. Ensure that all CPOs are officially designated in writing and are aware of their responsibilities.

Bureau Response: The USGS agreed with our recommendations and stated that it had received a "very positive response" regarding the property management procedures available on the USGS Program Support pages on the Intranet and believe the information

to be "very clear as written." The USGS said that it will continue to issue reminders to employees concerning their property responsibilities and will ensure that CPOs' property records are complete. The USGS also stated that it will send an e-mail message to all Accountable Property Officers (APO) and CPOs reiterating that they have been designated as APOs or CPOs and reminding them of their responsibilities.

**D. USGS Needs
Improved Controls Over
Advance Payments
Recorded in its Project
Cost Accounting System**

The USGS Project Cost Accounting System (PCAS), which tracks the costs of USGS projects, did not accurately account for advance payments received by the USGS under certain contractual agreements, thereby requiring an adjustment of about \$4 million to correct the misstatement. This occurred because the USGS did not update agreement expiration dates in the FFS, resulting in expenses not being applied against the proper advance.

The USGS developed written procedures in fiscal year 2000 to correct the PCAS deficiency in tracking advance payments but had not yet finalized the procedures. In addition, some of the corrections were not made in time to be reflected in the year-end trial balance.

Recommendation

We recommend that the USGS finalize and implement its draft procedures to correct the PCAS deficiency in tracking advance payments.

Bureau Response: The USGS agreed with our recommendation and stated that it had developed a manual "workaround" of the deficiency late in fiscal year 2000. The USGS further said that it had finalized and implemented these procedures and is investigating automating the process.

Stewardship and Performance Measures

We also considered USGS internal controls over the Required Supplementary Stewardship Information by obtaining an understanding of USGS 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 provide an opinion on such controls.

Report on Compliance With Laws and Regulations

Management of the USGS is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the USGS financial statements were free of material misstatement, we performed tests of USGS 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 USGS.

Under FFMIA, we are required to report whether USGS 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 our reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements. The results of our tests disclosed no instances in which the USGS financial management system did not substantially comply with these three requirements.

The results of our tests of compliance with certain laws and regulations, exclusive of FFMIA, disclosed instances of noncompliance with the Prompt Payment Act that are required to be reported under the "Government Auditing Standards" and Bulletin 01-02. 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.

E. USGS Needs Improved Controls Over Compliance With the Prompt Payment Act

The USGS did not timely compensate vendors for purchases totaling an estimated \$24 million and did not compensate vendors for late payment interest penalties totaling an estimated \$89,000. This noncompliance occurred because the USGS did not follow fiscal year 1999 procedures to correct deficiencies in the timeliness of payments and update its procedures to reflect changes in Code of Federal Regulations requirements governing prompt payment for fiscal year 2000.

Recommendation

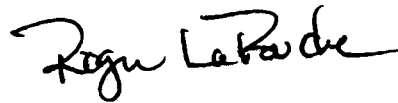
We recommend that the USGS update its prompt payment procedures to reflect fiscal year 2000 requirements and take steps to verify that its procedures are followed.

Bureau Response: The USGS agreed with our recommendation and stated that it will update its policies and procedures for recording payment information and revise the post-payment voucher audit process to verify that these policies and procedures are being followed.

Based on the USGS's response (see Appendix 2), we consider Recommendations A.1, B.1, C.1, and E.1 resolved but not implemented and Recommendation D.1 implemented. Accordingly, the unimplemented 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 us to list this report in our semiannual report to Congress. In addition, we provide audit reports to Congress.

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

Roger La Rouche
Assistant Inspector General
for Audits

Prior Audit Coverage and Scope of Audit

Prior Audit Coverage

Our review of prior Office of Inspector General and General Accounting Office audit reports related to the U.S. Geological Survey (USGS) financial statements did not disclose any significant unresolved or unimplemented recommendations that affected the USGS's principal financial statements.

Scope of Audit

Management of the USGS is responsible for the following:

- Preparing the principal financial statements and the required supplementary information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for 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 USGS's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives in Bulletin 01-02, which require that (1) transactions be properly recorded, processed, and summarized to permit preparation of the principal financial statements and the required supplementary information in accordance with Federal accounting standards; (2) assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and (3) transactions and other data supporting reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Testing USGS compliance with selected 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 safeguarding 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 selected 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 the 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.



United States Department of the Interior

U.S. GEOLOGICAL SURVEY
Office of the Director
Reston, Virginia 20192

MEMORANDUM

APR 30 2001

To: Regional Audit Manager, Eastern Region Audits

From: Kathryn Clement *Kathryn Clement*
Deputy Director, U.S. Geological Survey

Subject: Comments on the Draft Report on U.S. Geological Survey Financial Statements for
Fiscal Year 2000

Thank you for the opportunity to comment on your draft report. Our comments are keyed to the recommendations in the report.

A. Undelivered Orders. The U.S. Geological Survey (USGS) issued seven separate instructions on managing unliquidated obligations and accruals last fiscal year (FY). The USGS user community had considerable input to these instructions to ensure that they would be understood at all levels of the bureau. Despite this, the condition you cite still exists. The USGS will investigate other ways to address managing unliquidated obligations, including interactive training and site visits.

We will, of course, diligently strive to correct our undelivered order balances, but the recommendation as written creates an immeasurable standard that cannot be met and, therefore, necessitates perpetual tracking. We suggest revising the recommendation to read as follows:

“We recommend that the Director of the USGS ensure that bureau management continues to emphasize the importance of validating obligations and the delivery of goods and services to USGS staff with responsibility for ensuring that yearend undelivered orders and accounts payable accounts are properly stated.”

B. Accounting Adjustments. The USGS will develop formal procedures for reconciling, documenting, and reviewing adjustments made for the Federal Agencies' Centralized Trial-Balance System II and Hyperion. In addition, the USGS contracted for assistance in identifying and correcting structural problems that are the cause of these adjustments.

C. Personal Property. We have received a very positive response regarding the property management procedures available on the USGS Program Support pages on the Intranet and believe the information to be very clear as written. However, we will continue to issue reminders to employees concerning their property responsibilities and will ensure that we contact Custodial Property Officers (CPO's) whose property records are incomplete.

As to the second recommendation, we will send an e-mail message out to all Accountable Property Officers (APO's) and CPO's reiterating that they have been designated as APO's or CPO's and reminding them of their responsibilities.

D. Project Cost Accounting System (PCAS). As noted in your finding, a PCAS deficiency is the root cause of the problem. The USGS developed a manual "workaround" of the deficiency late in FY 2000 and provided you with these procedures. These procedures have been finalized and implemented, and we are investigating automating this process.

E. Interest Penalties. We will update our policies and procedures for recording payment information and revise our post-payment voucher audit process to verify that these policies and procedures are being followed. This recommendation, like recommendation A, is very subjective and not measurable. Accordingly, we suggest the second phrase of the recommendation be changed to "... take steps to verify that its procedures are followed."

Please contact Jack Blickley at (703) 648-7609 or jblickley@usgs.gov if you have any questions concerning this response.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1, B.1, C.1, and E.1	Resolved; not Implemented.	No further response to the Office of Inspector General is required. The recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
D.1	Implemented.	No further action is required.