



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

SEP - 4 2001

Memorandum

To: Director, Minerals Management Service

Subject: Independent Auditors Report on Minerals Management Service Financial Statements for Fiscal Year 2000 (No. 01-I-418)

With the exception of the Statement of Custodial Activities, we did not express an opinion on the Minerals Management Service (MMS) principal financial statements¹ for fiscal year 2000 because MMS did not present its financial statements and related disclosures for audit in a timely manner. In our opinion, the Statement of Custodial Activities presents fairly MMS's custodial activities as of September 30, 2000. Our audit of MMS's internal controls identified seven material weaknesses. In addition, our tests of MMS's compliance with applicable laws and regulations disclosed areas of noncompliance. Our detailed findings are in the attached independent auditors report.

Internal Controls. We identified material weaknesses in the following areas:

- **Financial Data.** MMS did not routinely perform account analyses between accounts, subsidiary records and financial statements throughout the year to identify and correct errors. Instead, MMS performed most analyses after the close of the fiscal year, resulting in over 140 adjustments totaling \$969.3 million.
- **Financial Systems and Reporting.** MMS did not develop and implement policies and procedures to reconcile information in its financial systems and reports on a timely basis throughout the year. As a result, MMS could not provide us with accurate data for testing as of September 30, 2000, and we were unable to determine whether the amounts recorded in the financial statements for accounts receivable and payable were reasonable.
- **Fund Balance With Treasury.** MMS did not reconcile its Fund Balance With Treasury Account with U.S. Treasury records on a monthly basis.

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

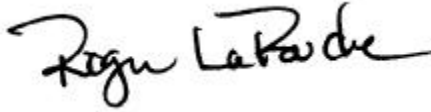
- **Capitalized Property and Equipment.** MMS could not ensure that the general ledger control balance for capitalized property and equipment was accurately stated and supported.
- **Budgetary Account Transactions.** MMS may have overstated its undelivered orders balance by \$3.4 million as a result of not clearing completed transactions.
- **Year-End Accruals.** MMS did not implement effective procedures to ensure that its undelivered orders were timely deobligated (cleared) when completed or inactive and accurately recorded in accordance with federal accounting regulations. We estimate that the overstatement in undelivered orders was approximately \$3.4 million.
- **Collection of Revenues for Reimbursable Expenses.** MMS did not verify that all revenues for reimbursable expenses related to Interior Franchise Fund Cooperative Support Unit's (CASU) activities were collected.

Compliance With Laws and Regulations. Our testing of MMS compliance with laws and regulations identified three areas of noncompliance as follows:

- **Chief Financial Officers Act of 1990.** MMS's internal controls over its accounting and financial management systems were not sufficient to ensure that the financial information in its financial reports and subsidiary ledgers was complete, reliable, timely, and consistent.
- **Prompt Payment Act.** MMS did not comply with the Prompt Payment Act, which requires that federal agencies pay 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.
- **OMB Circular A-130.** MMS is not in full compliance with Office of Management and Budget (OMB) Circular A-130, "Security of Federal Automated Information Resources." Specifically MMS did not have adequate security management over its accounting system (ABACIS). MMS had not assessed risks in nearly 10 years or updated or revised the security plan for almost 9 years. In addition, MMS had never certified or authorized ABACIS to process transactions or produce reports.

We made seven recommendations addressing the material weakness and two recommendations addressing MMS's compliance with laws and regulations. MMS concurred with all nine recommendations. Based on MMS's July 26, 2001 response (see Appendix 3 of the attached Independent Auditors Report), we consider the recommendations resolved but not implemented and have referred them to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Since the recommendations are considered resolved, you do not need to respond further to us (see Appendix 4 of the attached report).

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 Congress. In addition, the Office of Inspector General provides audit reports to Congress. This report is intended for the information of management of the Department of the Interior, OMB, and Congress. This report, however, is a matter of public record, and its distribution is not limited.

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

Attachment:
Independent Auditors Report

***[CONTACT THE MINERALS MANAGEMENT SERVICE FOR INFORMATION
ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 2000, WHICH ARE NOT
INCLUDED.]***

Independent Auditors Report

Minerals Management Service

Financial Statements

Fiscal Year 2000

We were requested to audit the Minerals Management Service's (MMS) principal financial statements for the fiscal year ended September 30, 2000. We could not complete our audit, however, because MMS was unable to timely present its statements and related disclosures for audit.

MMS's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost of Operations and the Consolidated Statement of Changes in Net Position for the year ended September 30, 2000; and the Statement of Budgetary Resources and the Combined Statement of Financing and the Statement of Custodial Activity for the year ended September 30, 2000. These financial statements are the responsibility of MMS, and our responsibility is to express an opinion, based on our audit of these principal statements.

Except as explained in the following paragraph, 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 our audit work provides a reasonable basis for our opinion. The objective, scope, and methodology of our work are discussed in Appendix 1. Previous Office of Inspector General reports with significant unresolved or unimplemented recommendations related to MMS's financial statements or internal controls are summarized in Appendix 2.

Opinion on Principal Financial Statements

Material internal control weaknesses adversely affected MMS's ability to timely prepare auditable financial statements and related disclosures for fiscal year 2000. Because of the matters discussed in the Reports on Internal Controls and on Compliance with Laws and Regulations, the scope of our work was not sufficient

for us to express, and we do not express, an opinion on the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost of Operations and the Consolidated Statement of Changes in Net Position for the year ended September 30, 2000; and the Statement of Budgetary Resources and the Combined Statement of Financing for the year ended September 30, 2000.

In our opinion, the Statement of Custodial Activity presents fairly, in all material respects, the custodial activity of MMS as of September 30, 2000, in conformity with generally accepted accounting principles.

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 MMS's Annual Report is presented for additional analysis and is not a required part of the principal financial statements. 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. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and, accordingly, we do not express an opinion on it.

Report on Internal Controls

Except as explained in the "Opinion on Principal Financial Statements" section of this report, our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with OMB Bulletin 01-02.

In planning and performing our audit, we considered MMS's internal controls over financial reporting by obtaining an understanding of MMS's internal controls, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls to determine our auditing procedures to express an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB 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. The objective of our audit was not to provide assurance on internal controls, and we therefore 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

MMS'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 nevertheless occur and not be detected.

Material Weaknesses

Our review identified seven internal control deficiencies that we believe constituted material weaknesses. The deficiencies are as follows:

A. MMS Needs Improved Controls Over Financial Data Throughout the Year

MMS did not routinely perform account analyses between accounts, subsidiary records, and financial statements throughout the year to identify and correct errors. MMS produced interim financial statements for the period ended June 30, 2000, but did not perform interim analyses. Instead, MMS performed most analyses after the close of the fiscal year, resulting in over 140 adjustments totaling \$969.3 million.

Our review of 52 adjustments found that 37 adjustments were not supported by adequate documentation and that 12¹ were incorrect. As a result, we proposed four additional adjustments for \$174 million, resulting in total adjustments of \$1.14 billion.

Recommendations: We recommend that the Chief Financial Officer establish policies and procedures to periodically review and analyze the financial information recorded in MMS's accounting system (ABACIS) throughout the year to ensure that it is accurate, complete, and timely and that all adjustments are recorded correctly.

B. MMS Needs Improved Controls Over Financial Systems and Reporting

MMS did not develop and implement policies and procedures to reconcile information in its financial systems and reports on a timely basis throughout the year. As a result, MMS could not provide us with accurate data for testing as of September 30, 2000, and we were unable to determine whether the amounts recorded in the financial statements for accounts receivable and payable were reasonable.

MMS's accounting system did not produce subsidiary ledgers to support the control accounts for accounts receivable and payable. Rather, MMS manually recorded the information to produce accounts receivable subsidiary information and did not ensure that general ledger control balances for unbilled accounts

¹ Eleven of the 12 adjustments are also included in the 37 adjustments classified as not supported by adequate documentation.

receivable were accurately stated and supported by detailed subsidiary information. MMS also did not review or reconcile accounts receivable and accounts payable subsidiary information with the general control accounts, which resulted in a difference between the amounts recorded in subsidiary records for accounts receivable and payable and the control accounts.

Recommendation: We recommend that the Chief Financial Officer establish and implement policies and procedures to ensure that accounts receivable and payable subsidiary records are reconciled to their respective control accounts on a monthly basis and that an accounting supervisor review and verify the results of the reconciliations.

**C. MMS Needs
Improved
Controls Over
Fund Balance
With Treasury**

MMS did not comply with requirements of the U.S. Treasury Financial Manual that MMS's Fund Balance With Treasury account be reconciled with U.S. Treasury records on a monthly basis. Our review of the reconciliation of Disbursements and Collections found no evidence of a management review of the reconciliation, as required by the Manual.

Recommendation: We recommend that the Chief Financial Officer ensure that the Fund Balance With Treasury be reconciled monthly as required by the Treasury Financial Manual and that an authorizing official review the reconciliation.

**D. MMS Needs
Improved
Controls Over
Capitalized
Property and
Equipment**

MMS's internal controls were not sufficient to ensure that the general ledger control balance for Property and Equipment was accurately stated and supported. We therefore could not determine whether the amount presented in the financial statements for capitalized property and equipment was reasonable.

MMS's Property Management System, which maintains official property records, was not integrated with ABACIS. In addition, MMS did not periodically reconcile information in the Property Management System with the property and equipment amounts recorded in ABACIS. In fact, MMS did not record any of the capitalized property and equipment purchased in fiscal year 2000 to the general ledger control account, but instead adjusted the property and equipment amount in the control account to agree with the amount recorded in the Property Management System after the close of the fiscal year. MMS also did not capitalize equipment leases as required by the Statement of Federal Financial Accounting Standards No. 6 (SFFAS No. 6), which resulted in an understatement of capitalized property and equipment in the financial statements.

Recommendation: We recommend that the Chief Financial Officer establish and implement policies and procedures to ensure that (1) property and equipment physical inventories are adequate and complete and have adequate supporting documentation; (2) information identifying property and equipment in the Property Management System agrees with identifying information recorded on the property and equipment; (3) all leases meeting the requirements of SFFAS No. 6 are properly recorded in the Property Management System; and

(4) information recorded in the Property Management System is reconciled monthly with information in ABACIS.

E. MMS Needs Improved Controls Over Budgetary Accounts

MMS did not implement effective procedures to ensure that budgetary account transactions were timely deobligated (cleared) when completed or inactive and accurately recorded in accordance with federal accounting regulations.

We tested 153 undelivered orders (UDOs) totaling \$153.4 million and found \$1.7 million in UDOs that either should have been deobligated prior to September 30, 2000 or were overobligated. When projected over the universe, the \$1.7 million would likely result in an overstatement of \$3.4 million.

Recommendation: We recommend that the Chief Financial Officer develop procedures to verify that (1) all closed or inactive contracts or purchase orders are deobligated (cleared) timely, (2) only valid UDOs are recorded at year end, and (3) obligation records are reviewed monthly to ensure that purchase orders or contracts are accurately obligated.

F. MMS Needs Improved Controls Over Year End Accruals

MMS did not establish and implement adequate procedures for estimating year-end accruals for goods and services received but not paid as of September 30, 2000. SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Sections 19, 22, and 23, requires that a liability and/or expense be recognized in the period it occurs.

Our review of 235 expense transactions totaling \$42.6 million as of June 30, 2000, disclosed that 34 items for \$3 million should have been expensed in whole or in part in a prior year. When informed of these deficiencies, MMS made the necessary adjustments.

Recommendation: We recommend that the Chief Financial Officer develop written procedures to ensure that all goods and services (including franchise fund activities) received in one fiscal year, but paid in a different fiscal year, are properly accrued.

G. MMS Needs Improved Controls Over Reimbursable Expenses

MMS did not establish policies and procedures to ensure reimbursement of all expenses related to activities of the Interior Franchise Fund Cooperative Administrative Support Unit (CASU). MMS requested monthly reimbursement from the Franchise Fund, based on CASU worksheets indicating the amounts to be reimbursed. MMS, however, did not reconcile the worksheet amounts with the actual amounts paid for CASU-related expenses, and we could not determine whether the year-end balance for revenues was reasonable.

Recommendation: We recommend that the Chief Financial Officer develop procedures to reconcile CASU transactions paid by MMS with the amount provided by CASU to be collected from the Interior Franchise Fund before MMS requests reimbursement from the Fund.

Report on Compliance With Laws and Regulations

Except as explained in the “Opinion on Principal Financial Statements” section of this report, we conducted our audit in accordance with the “Government Auditing Standards,” issued by the Comptroller General of the United States, and with OMB Bulletin 01-02.

MMS management is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether MMS’s financial statements were free of material misstatement, we tested MMS compliance with certain provisions of laws and regulations, which if not complied with could directly and materially affect the determination of financial statement amounts. We also tested MMS compliance with certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referenced in the Federal Financial Management Improvement Act of 1996 that we report on whether MMS’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.

We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to MMS. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and we therefore do not express such an opinion.

H. MMS Needs Improved Controls Over Compliance With Applicable Laws and Regulations

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance with the following laws and regulations that are required to be reported under “Government Auditing Standards” and OMB Bulletin 01-02.

- **Chief Financial Officers Act of 1990.** In our opinion, MMS’s internal controls over its accounting and financial management systems were not sufficient to ensure that the financial data in its financial reports and subsidiary ledgers was complete, reliable, and timely. As such, MMS was not in compliance with the Act.
- **Prompt Payment Act.** MMS did not comply with the Prompt Payment Act, which requires that federal agencies pay 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. Our review of 235 invoices paid as of June 30, 2000 indicated that 25 invoices totaling \$2.7 million were paid late and that MMS did not pay the vendors interest penalties.

- **Federal Financial Management Improvement Act.** Our tests of compliance with Section 803(a) of the Act did not disclose any instances in which MMS did not substantially comply with the U.S. Standard General Ledger at the transaction level or Federal Accounting Standards, but did reveal instances in which MMS's financial management system did not comply with federal financial management system requirements. We found that MMS did not have adequate security management over its accounting system (ABACIS). Although MMS had annual Information Technology security plans for fiscal years 1998 and 1999, these plans did not contain the information required by OMB Circular A-130, Appendix III. For example, MMS had not assessed risks in nearly 10 years, updated or revised the security plan for almost 9 years, and had never certified or authorized ABACIS to process transactions or produce reports.

Recommendations: We recommend that the Chief Financial Officer ensure that:

1. MMS complies with the Prompt Payment Act, specifically that MMS ensures that (a) the Branch of Financial Management either receives a receiving report in a timely manner or marks the invoice with the date goods or services were received, (b) the invoice is stamped with the date received by MMS, not the date received by the Branch of Financial Management, and (c) invoices are paid within 30 days of receipt of either goods and services or the invoice. If not stamped with a receipt date, the invoice must be paid within 30 days of the invoice date.
2. Risks are assessed and security plans developed for MMS's general support systems and major applications. The assessment of risks should include the value of the system or application, data contained, threats and vulnerabilities, and effectiveness of current safeguards or security control techniques. In addition, management officials should confirm in writing that security plans are implemented.



Roger La Rouche
Assistant Inspector General
for Audits

Objective, Scope, and Methodology

MMS management is responsible for the following:

- Preparing the principal financial statements and required supplementary information in conformity with generally accepted accounting principles and information contained in the Annual Report for fiscal year 2000.
- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, management must 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 MMS's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in OMB Bulletin 01-02, which requires that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and 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 supporting reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with management criteria.
- Testing MMS's 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 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.

Prior Audit Coverage

We reviewed our prior reports and General Accounting Office prior reports related to MMS's financial statements to determine whether the reports contained any unresolved or unimplemented recommendations that were significant to MMS's financial statements or internal controls. While the General Accounting Office had not issued any such reports, we issued one report with significant unimplemented recommendations that we considered to be reportable weaknesses as follows:

Our report "Internal Controls Over the Accounting System, Financial Management Branch, Minerals Management Service" (No. 00-I-333), issued in March 2000, stated that MMS's Financial Management Branch did not have financial data that were accurate, complete, and timely for fiscal year 1998. The report contained three recommendations, two that were considered resolved and implemented and one that was considered resolved but not implemented. MMS stated that this recommendation would be implemented by December 31, 2001. Although MMS indicated in its February 29, 2000 response to the draft report that Recommendation 3 was implemented, we found that MMS had not applied accrual accounting methods.



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Washington, DC 20240

JUL 26 2001

Memorandum

To: Assistant Inspector General for Audits
Through: Piet deWitt *Piet deWitt* JUL 31 2001
Acting Assistant Secretary, Land and Minerals Management
From: Thomas R. Kitsos *Thomas R Kitsos*
Acting Director, Minerals Management Service
Subject: Office of Inspector General Draft Audit Report, "MMS's Financial Statements for FY 2000"

Thank you for the opportunity to respond to the draft audit report on MMS's financial statements for Fiscal Year 2000. We are providing to you our general comments on the audit findings and specific ones on the recommendations. We generally agree with the report's findings and are in the process of implementing the recommendations.

Please contact Bettine Montgomery at (202) 208-3976 if you have any further questions.

Attachment

Minerals Management Service Response to Draft Independent Auditors Report on the Minerals Management Service Financial Statements for Fiscal Year 2000

Audit Agency: Office of the Inspector General (OIG)

We appreciate the opportunity to comment on this draft report. Generally, we concur with the report's findings and recommendations, and we have already taken corrective actions to resolve many of the deficiencies noted in the report. We offer the following comments to document our efforts to date, and also to explain our plans for additional corrective actions.

General Comments

We acknowledge that several internal control weaknesses did exist which affected the OIG's ability to express an opinion of the Consolidated Balance Sheet as of September 30, 2000; the Consolidated Statement of Net Cost of Operations; and the Consolidated Statement of Changes in Net Position for the year ended September 30, 2000. However, it is also important to understand that during 1999, 2000, and 2001, we took a number of steps to improve the quality of our financial information. Among the actions taken, we:

- assembled a multi-Bureau Annual Financial Report Team (AFR Team) to resolve general ledger inconsistencies and to initially reconcile cash balances with Treasury;
- retained KPMG to review the operations and the organization of the Financial Management Branch and recommend corrective actions;
- completed an intensive cash reconciliation effort to finish the work of the multi-bureau team;
- made further improvements in our internal controls;
- documented the responsibilities of all staff;
- added staff at both professional and technician levels;
- reorganized the Branch into three sections with focus on daily operations, general accounting and reports, and financial systems;
- identified and made available to all staff training to improve their knowledge and operating skills;
- developed a set of desktop procedures to guide each staff member in the conduct of their jobs; and
- provided new guidance and direction to Financial Management Branch staff, other administrative staff, and program staff on the steps necessary to properly report on financial matters .

Based on the draft audit report, we recognize that some internal control weaknesses remained in our administrative accounting operations. Still, we believe that significant improvements were made when compared to the prior two years. For example, we were told that our most pressing weakness was our inability to reconcile our cash with Treasury. Therefore, we undertook a major effort to accomplish this reconciliation. As a consequence, we successfully and fully

reconciled our outstanding cash with Treasury resulting in a report of no outstanding differences for September 30, 2000. In agreement with an OIG recommendation, we have expanded our cash reconciliation procedure to include a final step which demonstrates our reconciliation to account 1010, Fund Balance with Treasury. Another example of our improvements is demonstrated by the fact that we did prepare financial statements for FY 2000.

The following section provides an item-by-item response to the findings and recommendations of the OIG auditors.

OIG Findings and Recommendations – MMS Response

OIG Finding: MMS needs improved controls over financial data throughout the year.

OIG Recommendation – “We recommend that the Chief Financial Officer establish policies and procedures to periodically review and analyze the financial information recorded in MMS’s accounting system (ABACIS) throughout the year to ensure that it is accurate, complete, and timely and that all adjustments are recorded correctly.”

MMS Response – The OIG report notes that “MMS performed most analyses after the close of the FY . . .” MMS accepts this statement and notes that while this was correct for the FY 2000 financial statement process, it is no longer correct for FY 2001 activities. MMS has implemented monthly procedures to address this finding. For example, tracking sheets comparing general ledger (GL) balances to the subsidiary ledgers are prepared monthly and GL review sheets compare GL accounts, i.e., proprietary to budgetary, cash to budget, etc. MMS will formalize these procedures in a policy guidance memorandum from the Chief Financial Officer.

OIG Finding: MMS needs improved controls over financial systems and reporting.

OIG Recommendation – “We recommend that the Chief Financial Officer establish and implement policies and procedures to ensure that accounts receivable and payable subsidiary records are reconciled to their respected control accounts on a monthly basis and that an accounting supervisor review and verify the results of the reconciliations.”

MMS Response – MMS has taken steps to respond to this finding. Billed receivables and accounts payable are monitored monthly and do tie between the general ledger and the allotment ledger. Currently, the ABACIS accounting system used by MMS tracks unbilled receivables at a cost account level; unbilled receivables are not recorded at the document level. In the meantime, MMS is conducting a detailed review and reconciliation of all accounts receivable similar to the review that allowed us to successfully reconcile our cash for the FY 2000 process. Once this reconciliation process is completed, MMS will formalize the existing

procedures and any newly developed procedures in a policy guidance memorandum from the Chief Financial Officer.

OIG Finding: MMS needs improved controls over fund balance with Treasury.

OIG Recommendation – “We recommend that the Chief Financial Officer ensure that the Fund Balance with Treasury is reconciled monthly as required by the Treasury Financial Manual and that the reconciliation is reviewed by an authorizing official.”

MMS Response – During FY 2000, MMS staff undertook an intensive effort, involving many staff hours of work, to reconcile all cash balances. By the end of the FY, MMS staff did, in fact, successfully complete this task. To ensure that there would be no backtracking on this success, MMS staff developed, and implemented during the last half of FY 2000, a monthly reconciliation procedure to confirm cash balances with Treasury. As a result, MMS was able to show on September 30, 2000, no Statement of Difference with the Treasury. While successful in this effort, MMS heeds the OIG Finding and has modified its procedure to include a final step to show reconciliation to account 1010, Fund Balance with Treasury. MMS will formalize this procedure in a policy guidance memorandum from the Chief Financial Officer.

OIG Finding: MMS needs improved controls over Capitalized Property and Equipment.

OIG Recommendation – “We recommend that the Chief Financial Officer establish and implement policies and procedures to ensure that (1) property and equipment physical inventories are adequate and complete and have adequate supporting documentation; (2) information identifying property and equipment in the Property Management System agrees with identifying information recorded on the property and equipment; (3) all leases meeting the requirements of SFFAS No. 6 are properly recorded in the Property Management System; and (4) information recorded in the Property Management System is reconciled monthly with information in ABACIS.”

MMS Response -- A complete physical inventory of all capitalized equipment asset items has been completed. In addition to the normal barcode inventory scan, a “Physical Inventory Certification Form” was completed for each capitalized equipment asset item. All information regarding each capitalized equipment asset item contained in the Property Management System (PMS-NT) was generated on the “Physical Inventory Certification Form.” During the inventory process, each capitalized equipment asset item was verified to ensure that the information contained on the “Property Inventory Certification Form” and MMS barcode label was complete and accurate, recording any variances on the Property Inventory Certification Form as applicable. The HQ PSSD/SSB, upon receipt of the Property Inventory Certification Form, made adjustments to the PMS-NT as applicable.

Existing equipment leases have been reviewed to see if they are subject to SFFAS No. 6 and, where appropriate, recorded in the PMS-NT. New leases are subject to this review prior to award and recorded as appropriate.

MMS has implemented a monthly reconciliation process between the PMS-NT and the Financial Management System, ABACIS. The information contained in the PMS-NT is compared to the information contained in the ABACIS and any variances are reconciled and adjustments are made to the PMS-NT and/or ABACIS. Presently, FY 2001 capitalized equipment balances have been reconciled between the two systems. The Financial Management Branch is working with the Property Management staff to effect the reconciliation of the remaining years by no later than September 30. This project entails ensuring that the capitalized values in the subsidiary records match the GL controlling account.

MMS will formalize these procedures in a policy guidance memorandum from the MMS Chief Financial Officer.

OIG Finding: MMS needs improved controls over budgetary accounts.

OIG Recommendation – “We recommend that the Chief Financial Officer develop procedures to verify that (1) all closed or inactive contracts or purchase orders are deobligated (cleared) timely, (2) only valid UDOs are recorded at yearend, and obligation records are reviewed monthly to ensure that purchase orders or contracts are accurately obligated.”

MMS Response – MMS Financial Management Branch staff is working with Procurement and Program staff to improve the process of identifying amounts to be deobligated. In support of this initiative, an undelivered orders report is issued monthly to Procurement and Program staffs for their review. MMS already has a process in place with Program offices to check the accuracy of obligations for orders/contracts. This process has been expanded to include Procurement staff for franchising activities. To assist this process, a monthly report is produced which sorts the data by responsible Contracting Officer. Finally, to emphasize the importance of cleaning up unliquidated obligations, a certification process has been established as part of our year-end closeout procedures. Through this process, the bureau’s program management officials (Associate Directors) are required to attest to the validity of their unliquidated obligations. Additionally, FY 2001 yearend closing instructions require the Associate Directors to validate the unliquidated obligation balances by September 20. MMS will formalize these procedures in a policy guidance memorandum from the Chief Financial Officer.

OIG Finding: MMS needs improved controls over yearend accruals.

OIG Recommendation – “We recommend that the Chief Financial Officer develop written procedures to ensure that all goods and services (including franchise fund activities) received in one fiscal year, but paid in a different fiscal year, are properly accrued.”

MMS Response – MMS Finance staff worked with OIG staff to develop procedures for properly accruing expenses for the FY 2000 statements. Taking this effort further, MMS has been an active participant in the Operations Accounting Group of the Financial Officers Partnership. This Group was asked to recommend accrual policies and procedures for all DOI bureaus. Based on this work, we are issuing with our Yearend Closeout Guidance, three new accrual forms designed to capture:

- Expenses not previously obligated, e.g., utilities, Federal Express payments, FEDSTRIP, and non-routine labor costs;
- Expenses against a previously obligated document, i.e., goods or services received, but not yet invoiced; and
- Expenses from year-end Government Charge Card transactions not included in the final invoice for the FY.

MMS will formalize this procedure in a policy guidance memorandum from the Chief Financial Officer.

OIG Finding: MMS needs improved controls reimbursable expenses.

OIG Recommendation – “We recommend that the Chief Financial Officer develop procedures to reconcile Cooperative Administrative Support Unit (CASU) transactions paid by MMS with the amount provided by CASU to be collected from the Interior Franchise Fund before MMS requests reimbursement from the Fund.”

MMS Response – While MMS has taken steps to improve this process, it is important to note that the CASU becomes a member of the Treasury Department Franchise Fund in July 2001. Along with this change, accounting operations for the CASU will be handled by the Bureau of Public Debt.

OIG Finding: MMS needs improved controls over compliance with applicable laws and regulations.

OIG Recommendation – “We recommend that the Chief Financial Officer ensure that:

1. MMS complies with the Prompt Payment Act, specifically that MMS ensures that (1) the Branch of Financial Management either receives a receiving report in a timely manner or marks the invoice with the date goods or services were received, (2) the invoice is stamped with the date received by MMS, not the date received by the Branch of Financial Management, and (3) invoices are paid within 30 days of receipt of either goods and services or the invoice. If not stamped with a receipt date, the invoice must be paid within 30 days of the invoice date.

2. Risks are assessed and security plans developed for MMS's general support systems and major applications. The assessment of risks should include the value of the system or application, data contained, threats and vulnerabilities, and effectiveness of current safeguards or security control techniques. In addition, management officials should confirm in writing that security plans are implemented."

MMS Response –

1. MMS has moved to ensure that the prompt payment process is handled correctly. Financial Management Branch staff and Procurement staff have identified adjustments in current procedures to meet these needs.

On contract financing payments for cost reimbursement contracts, the agency billing office should record the date on which the invoice is received. In these cases, the starting point for the prompt pay calculation is the date the Contracting Officer indicates that the product or service has been accepted. If the agency billing office fails to record the date the invoice was received, then MMS uses the actual date of the invoice as the starting point for prompt pay calculations. If an invoice is received for a service that is not complete or accepted, then the contractor is notified as to why the payment will not be made.

For purchase orders, MMS uses the date of the invoice or the date of acceptance if it is a later date. If no date of acceptance is available, a constructed acceptance date of seven days from the receiving report date is used. In the absence of a receipt date, the invoice is paid based upon the date of the invoice.

MMS will formalize these procedures in a policy guidance memorandum from the Chief Financial Officer.

2. MMS has also taken steps to address the OIG concern regarding risk assessment and security plans for the ABACIS system. A risk assessment has been completed in accordance with OMB guidance. And, the security plan is being revised and updated. Upon the conclusion of this effort, MMS management will confirm in writing that the security plans are implemented

Conclusions

In conclusion, we acknowledge the OIG findings and have or are taking necessary steps to implement the OIG recommendations. We look forward to continuing improvements in our financial processes and to achieving an unqualified opinion on our next set of financial statements.

Status of Recommendations

Findings/Recommendation Reference	Status	Action Required
A, B, C, D, E, F, G, H.1, H.2.	Resolved; not implemented.	No further response to the Office of Inspector General is required. We will forward the recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Please provide the target dates and titles of the officials responsible for implementation to the Office of Financial Management.