



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

March 15, 2002

Memorandum

To: Assistant Secretary for Indian Affairs

From: Roger La Rouché
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Indian Affairs' Financial Statements for Fiscal Years 2001 and 2000 (2002-I-0020)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Indian Affairs' (BIA) financial statements as of September 30, 2001 and for the year then ended. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of America; Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the General Accounting Office/President's Council on Integrity and Efficiency *Financial Audit Manual*. The Office of Inspector General (OIG) is responsible for the opinion on the balance sheet and related notes for fiscal year 2000.

In connection with the contract, we monitored the progress of the audit at key points and reviewed KPMG's report and related working papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on BIA's financial statements or on conclusions about the effectiveness of internal controls or on conclusions about compliance with laws and regulations. KPMG is responsible for the auditors' report on the fiscal year 2001 financial statements (see Attachment 1) and for the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply in all material respects with *Government Auditing Standards*.

In its audit report dated January 21, 2002, KPMG stated that in its opinion the BIA's financial statements presents fairly, in all material respects, the financial position of the BIA as of September 30, 2001 and its net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended in conformity with accounting principles generally accepted in the United States of America. The OIG in its report (Attachment 2) stated in its opinion, the consolidated balance sheet presents fairly, in all material respects, the

financial position of the BIA as of September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG found seven reportable weaknesses, three of which are considered material weaknesses, related to financial reporting. With regard to compliance with laws and regulations, KPMG found BIA to be noncompliant with portions of the *Federal Financial Management Improvement Act*. Specifically, BIA's financial management systems did not substantially comply with Federal financial management systems requirements, applicable accounting standards and the U.S. Standard General Ledger at the transaction level. In addition, KPMG found that BIA did not comply with the *Debt Collection Improvement Act* of 1996.

BIA concurred with all 8 recommendations and indicated corrective action would be taken. Based on BIA's response we consider all 8 recommendations resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

Section 5(a) of the *Inspector General Act* (5 U.S.C. App. 3) requires the OIG to list this report in its semiannual report to the United States Congress.

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

Attachments (2)

A COPY OF THE
INDEPENDENT AUDITOR'S REPORT
IS ON THE PAGES THAT FOLLOW.



2001 M Street, NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

Assistant Secretary for Indian Affairs and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheet of the Bureau of Indian Affairs (BIA) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources and financing (hereinafter referred to as "financial statements"), for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these financial statements. These financial statements are the responsibility of the management of BIA. In connection with our audit, we also considered BIA's internal control over financial reporting and tested BIA's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that BIA's financial statements as of and for the year ended September 30, 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in identifying the following reportable conditions:

- A. Controls over information technology systems
- B. Controls over financial reporting and oversight
- C. Controls over processing Trust transactions
- D. Controls over property, plant and equipment
- E. Controls over year-end accruals
- F. Controls over unbilled/reimbursable accounts receivable
- G. Controls over Treasury reporting

We consider reportable conditions A, B and C discussed above, to be material weaknesses.

Our tests of compliance with certain provisions of laws and regulations, exclusive of those referred to in the *Federal Financial Management Improvement Act* (FFMIA) of 1996, disclosed instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In addition, our tests of compliance with FFMIA section 803(a) requirements disclosed instances where the BIA consolidated financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The following sections discuss our opinion on the BIA financial statements, our consideration of the internal control over financial reporting, our tests of compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheet of the BIA as of September 30, 2001, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources and combined statement of financing for the year then ended. These financial statements are the responsibility of BIA management.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of BIA as of September 30, 2001, and its net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Management Discussion & Analysis, Required Supplemental Stewardship Information* and *Required Supplemental Information* sections are not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal control over financial reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control 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 control over financial reporting that, in our judgment, could adversely affect BIA's ability to record, process, summarize, and report financial data consistent with the assertions 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 control, misstatements, due to error or fraud may nevertheless occur and not be detected.

We noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable conditions are material weaknesses:

A. Controls over information technology systems

Weaknesses in BIA's computer systems raise concerns about the integrity of information being reported on the financial statements. Although BIA has taken preliminary steps in establishing a formal security program, BIA has not implemented information systems security policies or procedures to effectively control and protect information systems, programs and data supporting BIA operations and assets and has failed to meet minimum information technology (IT) security requirements. Some of the identified weaknesses have been previously reported, and persist despite developed corrective action plans. Weaknesses were identified in the following IT control areas:

1. Entity-wide Security Program - BIA did not have in place an effective security management structure that provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. While BIA recently prepared a security program, it has not been implemented.
2. Segregation of Duties - BIA has not ensured proper segregation of duties through its policies, procedures, and organizational structure such that one individual cannot control key aspects of computer-related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records without detection.
3. Access Controls - BIA has not established access controls that limit or detect inappropriate access to computer resources, thereby increasing the risk of unauthorized modification, loss, or disclosure of electronic data. Various access control weaknesses consisted of: network configuration management weaknesses, password management, other logical access weaknesses, and physical controls over the BIA data center could be improved.
4. Application Software Development and Change Controls – BIA has not established application software development and change controls that prevent unauthorized access to programs or modifications to an existing program from being implemented.
5. System Software Controls – BIA has not established system software controls that limit and monitor access to the programs and sensitive files that control the computer hardware and secure applications supported by the system.
6. Service Continuity – BIA has not established controls to ensure that critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected, should unexpected events occur.

Recommendation

We recommend that BIA implement an Entity-wide Security Program to fully comply with OMB Circular A-130, *Management of Federal Information Resources*. Employee roles and responsibilities should be reviewed and restructured to achieve an higher degree of segregation of duties in computer-related operations. The BIA should improve its security management structure by taking immediate steps to secure the network vulnerabilities and access control deficiencies.

We also recommend that application software development and change controls and system software controls be improved to prevent unauthorized program modification or access to read, modify or delete critical or sensitive information and programs.

Management's Response

BIA concurs with this recommendation.

B. Controls over Financial Reporting and Oversight

The financial accounting and reporting environment at BIA is not operating as effectively and efficiently as necessary to fulfill the numerous duties necessary to support BIA's complex organization. The managerial and administrative deficiencies listed below describe circumstances in which the general control environment needs improvement:

1. Fragmented accounting infrastructure - The existing organization structure creates inefficient, duplicative administrative duties and hinders the ability to administer policy effectively. The accounting policies and procedures for BIA are created by the Office of Management and Administration (OMA). However, the Regional Offices, and other Bureau offices report directly to the Commissioner of Indian Affairs or the Assistant Secretary for Indian Affairs. OMA does not have sufficient authority to establish, implement, administer and manage accounting processes. This situation also results in a lack of communication/enforcement of financial policies and procedures and inadequate financial management oversight within the Bureau.
2. Vacancy in key financial leadership positions - Several key management positions are vacant, resulting in reassignment of critical management functions to existing employees who already have full workloads. This creates an environment where policies, procedures and controls could be circumvented and not timely discovered with ordinary review and supervision.
3. Heavy reliance on contracted accounting personnel - BIA relies heavily on contracted personnel using a service organization to perform critical accounting functions. The current agreement with BIA's contracted service organizations such as the National Business Center (NBC), does not allow for adequate management oversight and review of their work, nor does it allow for the establishment of performance, quality and accuracy related measures by which to monitor and evaluate the performance of the contractor.
4. Inadequate training of personnel - BIA personnel do not receive adequate training and support to perform all assigned duties, including performing account analyses and reconciliations between accounts, subsidiary records, and financial statements routinely throughout the year to identify and correct errors or inaccuracies.
5. Lack of ongoing account analyses and reconciliations – During fiscal year 2001, a number of account analyses, reconciliations, and elimination procedures were performed after the close of the fiscal year, resulting in numerous adjustments to produce accurate financial information.

Recommendation

We recommend that BIA fill the vacant position of Chief Accountant as soon as reasonably possible with a professional who is knowledgeable of federal government accounting and reporting, has experience in establishing and implementing accounting processes, procedures and internal controls and has experience managing accounting staff personnel.

This professional, through OMA leadership, must be given sufficient authority to hire, supervise and manage BIA personnel who have accounting responsibilities in other divisions and regions within BIA. Once hired, the Chief Accountant and OMA leadership should focus on process redesign, efficiency, controls, and appropriate supervision of processes. In addition, training programs should be established for all accounting personnel.

We recommend that management implement a redesigned organizational structure that empowers OMA leadership to establish, administer, manage and enforce compliance with accounting policies and procedures in a consistent manner throughout the entity. This recommendation includes any procedures performed by BIA's contracted personnel. We also recommend that BIA consider consolidating some key accounting functions within the BIA Virginia offices to better control and manage processes that could materially affect the financial statements.

We recommend that the Bureau perform routine reconciliations periodically throughout the fiscal year. In fiscal year 2002, compliance with OMB Bulletin No. 01-09 will require BIA to prepare and submit semi-annual financial statements. This implies that reconciliations will be performed at least semi-annually to produce the required interim financial reports. During fiscal year 2003, OMB 01-09 requires quarterly financial reports, and reconciliations should be performed at least quarterly.

Management's Response

BIA concurs with this recommendation.

C. Controls over processing Trust transactions

The U.S. Congress has designated the Secretary of the Interior (Secretary) as a primary fiduciary with responsibility for monetary resources held in trust on behalf of American Indian Tribes, Individual Indians, and Other Special Trust Funds. The Secretary carries out this fiduciary responsibility through the Office of Trust Funds Management (OTFM) in coordination with BIA.

BIA performs a critical role in the initial input and subsequent changes to trust accounting data, in its various regional and agency offices. In this fiduciary capacity, BIA performs a variety of functions related to trust transactions. We identified weaknesses in the following areas:

1. Segregation of Duties – In agency office locations, BIA has not ensured the proper segregation of duties with regard to processing trust transactions. Specifically, in some locations an individual agency employee has the ability to initiate lease agreements, generate annual billings for property leases, collect payment for leases, send change order instructions to OTFM to establish Individual Indian Money (IIM) accounts, direct name changes of the monetary recipients, enter IIM account management codes, and prepare journal vouchers to direct OTFM of whose account present or future collections should be posted.
2. Related Party Transactions – At many agency offices, there is only a verbal policy in place regarding the processing of transactions for related parties. Agency employees who have the authority to initiate, bill, collect, open IIM accounts, and change account holder distribution instructions also have the same authority for accounts of related parties.
3. Probate Backlog - In one regional office location, probate orders have not been timely recorded into IRMS. The probate backlog at this location is estimated to be over one year old. This results in the potential for inaccurate distributions of lease income to Tribal and IIM account holders.

4. Appraisal compacts – One of the key elements in performing realty trust transactions is the requirement of obtaining appraisals for realty transactions. BIA has a fiduciary duty to land title owners and monetary property recipients (e.g., life estate holders) to establish the fair value of property transactions, including establishing the fair value of property leases, before entering into lease agreements or sales transactions on behalf of the owners.

Currently the Self Governance Act allows the appraisal function to be compacted to Tribes, who represent the majority of the named parties involved in realty transactions. As a result, transactions are consummated based on prices established or influenced by the eventual beneficial owners of the property. Controls are not in place to ensure that the fair value of property transactions are established by parties independent of the transaction.

5. Untimely deposits - At various agency locations, we noted certain instances in which trust money receipts were not timely forwarded to regional offices due to delays by BIA personnel. Some of these delays occurred at agency locations where OTFM personnel reside, yet these personnel were not responsible for the collection process. Other delays occurred at agency locations occupied by BIA personnel only.

While trust funds and assets are not accounted for on BIA's financial statements, these internal control weaknesses may result in a potential liability to the U.S. Government, the Department of Interior and BIA, who are currently the subject of litigation.

Recommendation

We recommend that BIA improve the overall trust transactions processing environment by establishing, implementing, and monitoring policies and procedures addressing segregation of duties issues and processing transactions involving related parties. We recommend that BIA require a person with knowledge of probate to approve change orders prior to being sent to OTFM. This could be accomplished by creating a position at the applicable regional office in the Land Title and Records Office (LTRO) to approve change orders or by creating a centralized approving center that has access to LTRO files. We recommend that resources be directed toward eliminating the existing probate backlog, and toward maintaining timely processing of future probate transactions. In the instances where the appraisal function is lawfully compacted to tribes through the Self Governance Act, we recommend that independent appraisals be performed by BIA for these transactions to ensure the fairness of transaction pricing to both the government and the purchaser. We further encourage the BIA to work with the OTFM or other appropriate officials to agree on and implement procedures to prevent the untimely forwarding of Indian trust receipts to regional offices by BIA personnel.

Management's Response

BIA concurs with this recommendation.

We noted the following reportable conditions, which are not considered to be material weaknesses:

D. Controls over property, plant and equipment

BIA did not develop and implement policies and procedures to ensure that its property, plant and equipment accounts were stated in accordance with Federal Accounting Standards.

Specifically, BIA did not adequately define the point at which assets should be placed in-service; did not maintain adequate supporting documentation; timely and accurately record acquisitions and disposals; did not record depreciation expense based on asset useful lives that are consistent with established policy; did not correct errors timely; and did not identify and record impairments of assets.

Recommendation

We recommend that BIA develop and implement policies and procedures for establishing consistent placed-in-service criteria, requiring adequate supporting documentation be retained including the requirement of completed receiving reports, recording acquisitions, applying useful lives established by BIA policy, correcting errors on a timely basis, and identifying and recording impairments.

Management's Response

BIA concurs with this recommendation.

E. Controls over year-end accruals

BIA did not effectively enforce policies and procedures for estimating year-end accruals for expenditures disbursed in accordance with Public Law 93-638.

Recommendation

We recommend that BIA clearly and effectively communicate policies and procedures for establishing year-end accrual procedures regarding Tribal requests to receive appropriated and available funds obligated through the P638 process.

Management's Response

BIA concurs with this recommendation.

F. Controls over unbilled/reimbursable accounts receivable

BIA did not properly code, review, and monitor expenses incurred which were associated with reimbursable agreements. The recording errors incurred throughout the year resulted in a misstatement of the year-end balance on reimbursable agreements, necessitating a final adjustment to correctly state the year-end balance. BIA does not adequately train and monitor the individuals responsible for recording transactions coded for reimbursement. Although management reviews the expenses, the reviews are not sufficient or detailed enough to detect many of the errors. In addition, unallowable expenses if posted to reimbursable agreements may result in inappropriate recognition of revenue and could be denied reimbursement in accordance with the agreement. Recording of potentially unallowable expenses could also result in inaccurate internal reporting at the project, program, or fund level.

Recommendation

We recommend that BIA provide additional training to individuals responsible for recording transactions associated with reimbursable agreements. Monthly reconciliations of expenses and preparation of reimbursement requests should be prepared simultaneously. If there is an advance for a particular program, employees should place greater emphasis on tracking the balance of the advance and reducing the amount as revenue is earned. Also financial management should establish sufficient processes, controls and oversight to ensure compliance with the individual agreements and identification of potentially unallowable expenses.

Management's Response

BIA concurs with this recommendation.

G. Controls over Treasury reporting

BIA is not in compliance with U.S. Treasury reporting requirements. The SF-224 and other required reporting schedules were not prepared in compliance with the Treasury Financial Service Manual. In addition, we noted untimely reconciliations and account analysis of Treasury reports, inadequate clearing of differences between Treasury and BIA records and a general lack of training and understanding of the requirements of the Treasury Financial Service Manual. This situation may be, in-part, due to a change in personnel who were responsible for these functions during the year.

Recommendation

We recommend that the various forms and reports required by the Treasury be prepared accurately and timely during the year by personnel who have been appropriately trained to perform those functions. We also recommend that BIA consider strengthening its policies and procedures in this area to include specific examples and regular, timely supervision and review of staff work.

Management's Response

BIA concurs with this recommendation.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that that we have reported to the management of BIA in a separate letter dated January 21, 2002.

Internal controls over required supplementary information and performance measures

We noted certain significant deficiencies in internal control over Required Supplementary Information discussed in the following paragraph (I.2) that, in our judgment, could adversely affect BIA's ability to collect, process, record, and summarize Required Supplementary Information.

Compliance with laws and regulations

The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report, exclusive of the FFMIA, disclosed one instance of noncompliance that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

H. Debt Collection Improvement Act of 1996

BIA did not timely transfer all eligible accounts receivable delinquent for more than 180 days to the U.S. Treasury for collection or offset.

The results of our test of compliance with other laws and regulations, exclusive of FFMIA, disclosed no their instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances, described below, where BIA's financial management systems did not substantially comply with the Federal financial management systems requirements, applicable accounting standards, and U.S. Standard General Ledger at the transaction level.

I. FFMIA

FFMIA requires that each Federal agency shall implement financial management systems that comply substantially with (1) Federal financial management systems; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger at the transaction level. Our findings in each area are described below:

1. EDP General Controls - We noted matters which we believe indicate that ineffective general controls exist over the BIA's automated information systems, and are significant departures from certain requirements of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*, and were therefore instances of substantial non-compliance with the Federal financial management systems requirements under the Federal Managers' Financial Integrity Act of 1996.

As discussed in the section of our report entitled *Controls over Information Technology Systems* in our Internal Control over Financial Reporting, BIA needs to improve its EDP security and general control environment. BIA has not finalized and communicated an entity-wide security plan; has not configured the operating systems to provide optimal security and protection and to limit access to sensitive datasets and libraries; has not fully established system software controls that limit and monitor access to the programs and sensitive files; has not fully developed or segregated procedures for controlling changes over application software; and needs to improve maintenance of its off-site storage records. As a result, BIA does not substantially comply with the security and general EDP control requirements of OMB Circular A-130, *Management of Federal Information Resources*.

2. Federal Accounting Standards - We noted matters which we believe constitute noncompliance with presentation and disclosure requirements of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, regarding Heritage Assets and the Management Discussion and Analysis as described below:

a) BIA maintains approximately 4 million objects of Museum Property, which represent heritage assets. BIA also has 468 units in a Historical Property collection, which represent multi-use heritage assets as they are operational and have historical significance. BIA currently has not accounted for, catalogued, and assessed the condition of all physical units of their museum property.

b) BIA reports its stewardship investment in Human Capital (investment in Indian education) based on obligations rather than expended amounts, and does not present four years of historical data based on expenditures.

c) BIA did not disclose the acreage of stewardship land which it administers.

d) BIA's discussion of performance goals lacks sufficient relationship to major goals and objectives in the agency's strategic and performance plans. Also, some of the performance goals results do not clearly describe planned and actual performance. At least one responsibility segment has consistently not reported GPRA results in time for inclusion in the Bureau's accountability report. The overview section also omitted the required reporting elements of forward looking information and analysis of current year financial performance.

e) We also noted matters that we believe constitute noncompliance with Federal Accounting Standards that have been reported as material weaknesses in our report section on Internal Control Over Financial Reporting.

3. Standard General Ledger - BIA is not in complete compliance with U. S. Standard General Ledger financial recording requirements. The majority of BIA's accounts receivable transactions are recorded into subsidiary systems that do not interface with FFS, BIA's general ledger. These transactions are then periodically recorded at a summary level into BIA's general ledger. While some of these subsidiaries systems data are recorded at a summary level monthly, at least one is recorded at a summary level annually.

Recommendations

We recommend that in fiscal year 2002, the OMA devote resources toward efforts to:

- Improve the automated information systems environment.
- Improve financial statement preparation, presentation and disclosures to comply with the CFO Act and OMB Bulletins. Improvement would be facilitated using the GAO/PCIE Financial Audit Manual checklist issued in July 2001.
- Address the control weaknesses in our report section on Internal Control Over Financial Reporting.
- BIA should continue to catalog heritage assets and make condition assessments to ensure reporting is complete and accurate. We recommend that additional funding be obtained and directed toward this effort. Agreements with non-federal repositories regarding taking complete inventories, including condition assessments, of such items should be developed and executed.
- We recommend that BIA investigate alternatives for recording accounts receivable transactions which will enable the Bureau to process transactions more efficiently and maintain compliance with FFMIA.

Responsibilities

Management's Responsibility

The Government Management Reform Act (GMRA) of 1994 requires a Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, BIA prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; required supplementary stewardship information and performance measures; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2001 financial statements of BIA based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered BIA's internal control over financial reporting by obtaining an understanding of BIA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. 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 over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As required by OMB Bulletin No. 01-02, we considered BIA's internal control over Required Supplementary Stewardship Information by obtaining an understanding of BIA's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we will not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we will not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether BIA's fiscal year 2001 financial statements are free of material misstatement, we performed tests of BIA'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 provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to BIA. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the BIA financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

This report is intended for the information and use of Department of the Interior and BIA management, Department of the Interior's Office of the Inspector General, OMB and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 21, 2002

BIA
Summary of the Status of Prior Year Reportable Conditions
September 30, 2001

Prior Year Report Ref	Condition and Comment Excerpt	Status
A	BIA needs improved controls over Construction-in-Progress account. BIA did not develop adequate policies and procedures to ensure the inclusion of all valid construction-in-progress (CIP) general ledger control accounts and subsidiary ledger, the timely transfer of completed projects to the appropriate fixed asset accounts, or the removal of invalid projects and project costs from the account and subsidiary ledger.	Corrected.
B	BIA needs improved controls over Property, Plant and Equipment. BIA did not develop and implement policies and procedures to ensure that its property, plant and equipment accounts were stated in accordance with Federal accounting standards. Specifically, BIA did not adequately inventory its property, plant and equipment; timely and accurately record acquisitions and disposals; maintain adequate supporting documentation; timely transfer completed projects to the appropriate account; timely and accurately record depreciation expense; or timely identify and correct errors in its Fixed Asset Subsystem.	Portion of the prior year comment repeated in FY 2001 as "D" in the report on Internal Control over Financial Reporting above
C	BIA needs improved controls over Budgetary accounts. BIA did not develop and implement policies and procedures to ensure that transactions were timely deobligated (cleared) when completed or inactive, accurately recorded, and adequately supported in accordance with Federal accounting standards. BIA also did not develop and implement policies and procedures to ensure that adjustments made to Hyperion and FACTS II trial balance information were properly recorded and adequately supported.	Corrected.
D	BIA needs improved controls over Financial Information Integrity Reviews. BIA did not develop and implement a financial information integrity review, reconciliation, and correction process that ensured the timely identification and correction of errors and invalid transactions in its general and subsidiary ledgers, listings, and reports at September 30, 2000.	Portion of the prior year comment repeated in FY 2001 as "B" in the report on Internal Control over Financial Reporting above
E	BIA needs improved controls over Financial Systems and Reporting. BIA did not develop and implement policies and procedures that ensured the review, analysis, and reconciliation of information in its financial systems and reports on a timely basis throughout the year. The process used to prepare the financial statements required numerous manual account adjustments. We believe that the extent and magnitude of account adjustments required at year-end demonstrate that the controls in place during the fiscal year were not operating efficiently or effectively.	Portion of the prior year comment repeated in FY 2001 as "B" in the report on Internal Control over Financial Reporting above

F	BIA needs improved controls over Year-End Accruals. BIA did not establish and implement policies and procedures for estimating year-end accruals for expenditures representing goods or services received but not paid as of September 30, 2000.	Corrected. New comment regarding year-end accruals documented as “E” in the report on Internal Control over Financial Reporting above
G	BIA needs improved controls over Automated Information Systems. BIA controls over its Operations Service Center automated information systems did not comply with OMB Bulletin 98-08, and BIA had not fully implemented the recommendations made in our audit reports.	Repeated in FY 2001 as “A” in the report on Internal Control over Financial Reporting above
H	BIA needs improved controls over Accounts Receivable and Related Advance accounts. BIA did not develop and implement adequate procedures to ensure that all recorded receivable balances were adequately supported; all recorded receivable balances and related advance balances were valid, accurate, and properly classified; and all receivable transactions were timely entered into the appropriate general and subsidiary ledgers.	Repeated in FY 2001 as “F” in the report on Internal Control over Financial Reporting above
I	BIA needs improved controls over Deferred Maintenance Management and Reporting. BIA did not establish formal policies and procedures for periodically assessing the condition of its assets and for computing, compiling, and reporting estimates of deferred maintenance. BIA also needed stronger supervisory and monitoring controls over deferred maintenance to ensure that deferred maintenance estimates were accurate, complete, and supported by adequate documentation.	Corrected
J	BIA needs improved controls over Stewardship & Performance Measure Reporting. BIA did not implement stewardship and performance measure management systems, as required by federal accounting standards and the Government Performance and Results Act. BIA omitted the reporting of some assets and reported incomplete data on other assets.	Portion of the prior year comment repeated in FY 2001 as “J” in the report on Internal Control over Financial Reporting above
K	BIA needs improved controls over Compliance with Laws and Regulations. The results of our tests of compliance with the laws and regulations disclosed instances of noncompliance with the following laws and regulations: <ul style="list-style-type: none"> ■ Chief Financial Officers Act of 1990; ■ Debt Collection Improvement Act of 1996; ■ OMB Circular A-11; ■ Prompt Pay Act; ■ The Federal Financial Management Improvement Act; ■ Financial System Requirements; and ■ Managerial Cost Accounting Management and Reporting. 	Corrected Repeated in FY 2001 “H” Corrected Corrected Repeated in FY 2001 “J” Corrected



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditors' Report

To: Assistant Secretary for Indian Affairs

Subject: Bureau of Indian Affairs' Financial Statements for Fiscal Year 2000

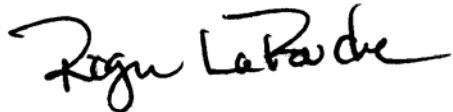
We have audited the Bureau of Indian Affairs' (BIA) consolidated balance sheet and related notes as of September 30, 2000. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. This financial statement is the responsibility of the BIA, and our responsibility is to express an opinion, based on our audit, on this financial statement.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance as to whether the accompanying balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the consolidated balance sheet 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 balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the BIA as of September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14, BIA has restated its FY 2000 consolidated balance sheet. These revisions were made to: (a) improve the accounting for loans and loan guarantees, (b) correct the accounting for Federal-Aid Highways funding, (c) correct unexpended appropriations in the construction account, and (d) record an allowance for a receivable for which collection is doubtful.

In our report dated May 11, 2001, we expressed an opinion that BIA's statement of net cost for the year ended September 30, 2000 presented fairly, in all material respects, its net cost of operations in conformity with accounting principles generally accepted in the United States of America. BIA has restated its statement of net cost for the year ended September 30, 2000 to conform with the presentation of net cost for the year ended September 30, 2001. We did not audit the restated statement of net cost for the year ended September 30, 2000, and accordingly, we do not express an opinion on this statement and related notes.

A handwritten signature in black ink, reading "Roger La Rouche". The signature is written in a cursive, flowing style with a large initial 'R'.

Roger La Rouche
Assistant Inspector General for Audits
May 11, 2001, except for Note 14
as to which the date is January 21, 2002