United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

March 15, 2002

Memorandum

To: Director, Bureau of Land Management

From: Roger La Rouche
Assistant Inspector General for Audits

Roger La Rouche

Subject: Independent Auditors' Report on the Bureau of Land Management's Financial Statements for Fiscal Years 2001 and 2000 (No. 2002-I-0022)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Land Management's (BLM) financial statements for fiscal year 2001. 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 (OMB) 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 the BLM'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 15, 2002, KPMG stated that in its opinion the BLM's financial statements for fiscal year 2001 present fairly, in all material respects, the financial position of the BLM 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. In our report dated January 15, 2002, (Attachment 2) we stated that in our opinion the BLM's fiscal year 2000 consolidated balance sheet presents fairly, in all material respects, the financial position of the BLM as of September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG found three reportable material weaknesses in internal controls and four reportable conditions related to internal control over financial reporting. With regard to compliance with laws and regulations, KPMG found BLM to be noncompliant with a portion of the *Federal Financial Management Improvement Act*. Specifically, BLM's financial management systems did not substantially comply with the security and general EDP controls requirements of OMB Circular A-130, *Management of Federal Information Resources* and with certain Federal accounting standards.

In its responses of February 6 and 28, 2002, and in subsequent discussions, BLM concurred with Recommendations A, B, D, E, G, H, and I. The BLM partially concurred with Recommendations C and F and provided alternative solutions. Based on the response and additional information submitted, all nine recommendations are considered resolved but not implemented. The nine recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for 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 Congress.

The Independent Auditors' Report is intended for the information of the management of BLM, the Office of Management and Budget, and the United States 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.

KPMG

707 Seventeenth Street
Suite 2300
Denver, CO 80202

Independent Auditors' Report

The Director of the Bureau of Land Management
and the Inspector General of the Department of the Interior:

We have audited the accompanying consolidated balance sheet of the Bureau of Land Management (BLM) as of September 30, 2001, and the related consolidated statements of net cost of operations, changes in net position, and financing and the combined statement of budgetary resources for the year then ended (hereinafter referred to as financial statements). The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered the BLM's internal control over financial reporting and tested the BLM'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 the BLM'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 the following matters being identified as reportable conditions:

A. Accounting for Property

B. Accounting for Intra-departmental Transactions

C. Accounting Effects of New Legislation

D. Timely De-obligation of Undelivered Orders

E. Helium Gas Inventory Examinations

F. Segregation of Duties Within the Collections and Billing System (CBS)

G. Information Technology Controls at Interior's National Business Center

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

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA), disclosed no 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.* However, our tests of compliance with FFMIA section 803(a) requirements disclosed instances where the BLM's financial management systems did not substantially comply with the following:

H. Federal Financial Management Systems Requirements at Interior's National Business Center

I. Federal Accounting Standards

The following sections discuss our opinion on the BLM's financial statements, our consideration of the BLM's internal control over financial reporting, our tests of the BLM's 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 BLM as of September 30, 2001, and the related consolidated statements of net cost of operations, changes in net position, and financing and the combined statement of budgetary resources for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BLM 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's discussion and analysis, stewardship assets, and deferred maintenance 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the supplementary statement of budgetary resources by major budget accounts is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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 the BLM's ability to record, process, summarize, and report financial data consistent with the assertions of 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, discussed below, involving the 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. Accounting for Property

The BLM does not have adequate internal control to ensure property balances are materially accurate and adequately supported by documentation. As part of our audit, we found weaknesses in the following areas:

- *Construction in progress*. During fiscal year (FY) 2001, the BLM transferred approximately $21 million out of construction in progress. However, a large amount of the transfer had already been recorded in property in previous years. This resulted in current year property transfers being out of balance and property being overstated by $15 million in the prior fiscal year. The cause of these errors stem from a lack of communication between the accounting staff who transfer amounts among construction in progress and property accounts. Further, the BLM does not have a formal process to reconcile transfers between construction in progress and property accounts.

- *Depreciation expense*. Our audit revealed significant delays in the recording of property in the financial accounting records from the time property was originally placed into service. When delays span fiscal years, depreciation catch-up provisions are recorded in the year property is reflected in the financial accounting records. This resulted in a $1.6 million overstatement of depreciation expense in the current year and understatements of expense in prior fiscal years. The cause of these errors stem from a lack of communication between users of property and those accounting for property.

- *Documentation of property acquisitions and disposals*. The BLM did not have adequate source documents to support the cost of certain items capitalized and disposed of during FY 2001. We believe these conditions exist because of a lack of reconciliations of property additions and deletions to supporting documents.

Recommendation

The BLM should improve its policies and procedures to ensure additions and deletions to property records are recorded timely, consistently among property and construction in progress accounts, and are supported by adequate documentation. Improvements should include enhanced communication between accounting staff and users of property to prevent misstatements of asset and depreciation expense amounts. Further, BLM should implement procedures to reconcile property additions and deletions to supporting cost documents, and the documentation should be maintained to provide a clear audit trail of amounts added and deleted.

BLM Response

BLM concurs with the finding and recommendation. An accountant position is being established in the property area to coordinate all property/accounting issues. Revised procedures have been established to provide appropriate and timely documentation to the accounting staff regarding additions and proposed adjustments to the construction in progress general ledger account and to collect source documentation for each project. In FY 2002, BLM will implement improved asset reconciliation procedures to ensure that all property additions and deletions are recorded in the proper fiscal year to avoid misstatements of asset and depreciation expense amounts. An Instruction Memorandum (IM) will be issued to field offices reiterating the requirement to review the Fixed Assets (FA) Personal Property system to obtain and appropriately post the original acquisition cost recorded in FA on source disposal documents.

B. Accounting for Intra-departmental Transactions

As part of its reporting process, the BLM is required to reconcile intra-bureau transfers and intra-departmental transactions between Department of the Interior bureaus (referred to as "trading partners"). Subsequent to the close of the BLM's accounting records for FY 2001, the BLM's intra-bureau transfers were significantly out of balance, and the Bureau had a large number of asset, liability, revenue and expense transaction variances with other Department of the Interior bureaus. Out of balance transfers and variances with trading partners indicate misstatements in financial reporting. Further, the majority of the reconciliation process for intra-departmental transactions occurs at year-end, requiring a significant amount of accounting staff resources.

Recommendation

The BLM should implement procedures to identify and correct out of balance intra-bureau transfers. Further, the BLM, in conjunction with other Department of the Interior bureaus, should implement formal policies and procedures for the proper reconciliation and correction of variances in trading partner transactions. These procedures should not only be performed at year-end, but also on a periodic basis throughout the year.

BLM Response

The BLM National Business Center (BLM NBC) currently has a process in place to identify and correct out of balance intra-governmental variances on a quarterly basis. However, due to the effort and cooperation needed from other agencies, as well as the financial statements being done only on an annual basis, the majority of the variance reconciliation work is performed at year-end. With OMB requiring financial statements semi-annually in FY 2002 and quarterly beginning in FY 2003, greater emphasis will be placed on the intra-governmental variance reconciliation process to be performed on a quarterly basis.

Even though the intra-governmental variance reconciliation process will be done to a greater extent on a quarterly basis, it will continue to be a labor intensive, time consuming, manual process. This is due, in part, to the limitations of the Federal Financial System (FFS). Because this process is quite labor intensive, some agencies have difficulties devoting the necessary resources to completely reconcile intra-governmental variances in a more desired time frame. This results in the intra-governmental variance reconciliation process not only being an issue at the BLM, but also a material weakness at the Department of the Interior and within the United States Government as a whole.

C. Accounting Effects of New Legislation

Traditionally, the BLM has made timber payments to counties before the end of the fiscal year, and payments were based on timber collections in its undistributed collections liability account. During FY 2001, new legislation was enacted that affected the amount, timing and source of the timber payments. The new legislation called for payments to be made as soon as practicable after the end of the fiscal year, and any shortfalls from traditional payments were to be funded by U.S. Treasury general funds, which are appropriated for in the year of the payment. Based on generally accepted accounting principles, it was determined that timber payments made in the beginning of FY 2002 met the criteria for accrual in FY 2001. However, the BLM did not initially accrue a liability for the Treasury-funded amounts until an audit adjustment of approximately $94 million was proposed. The lack of an initial accrual, combined with the size of the audit adjustment, evidences that the BLM does not have adequate procedures in place to identify all the significant accounting effects of new legislation.

Recommendation

The BLM should implement procedures to thoroughly assess the accounting effects of new legislation. Such reviews should focus on transactions in which future funding sources will be provided for past events and amounts that meet the accrual criteria under generally accepted accounting principles.

BLM Response

BLM partially concurs with the finding and recommendation. BLM concurs that an accrual should have been made for the Treasury-funded amount due on the Secure Rural Schools and Community Self-Determination Act of 2000 (PL 106-393), based on the FY 2001 collections. However, BLM does not fully concur with the recommendation to implement procedures to thoroughly assess the accounting effects of new legislation. BLM currently has procedures and policies in place and established a team in early FY 2001 to review and assess the accounting effects of new legislation. At the close of FY 2001, the final procedures and accounting models for PL 106-393 were still in the process of being implemented. Decisions were still being made by Treasury and OMB regarding the proper methodology to be used for implementing this law and determining how the transfer of funds would be handled on BLM's books and its subsequent reporting on regulatory reports. With all of the unresolved issues that surrounded this new law at year end, the accrual was not done for the portion of the liability that would be funded in FY 2002 by an appropriation from Treasury.

Beginning in FY 2002, assuming that all the information necessary to calculate the payments is received timely, timber payments as required by PL 106-393 will be routinely accrued at year end. If all of the required information is not available in time to book an actual accrual in FFS prior to closing, then an estimated accrual will be made and entered in FFS.

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

D. Timely De-obligation of Undelivered Orders

During FY 2001, the BLM developed new undelivered order reporting mechanisms and issued several new policies concerning the timely de-obligation of undelivered amounts. However, BLM field office personnel have not fully implemented these policies. Our audit found instances of undelivered orders outstanding at year-end that should have been de-obligated. A lack of a thorough and timely review of undelivered orders can result in an overstatement of outstanding obligation balances at year-end.

Recommendation

The BLM should continue to improve its review procedures for undelivered orders to ensure amounts are de-obligated in a timely manner. Improvements should include revised procedures to more closely monitor field personnel actions related to undelivered orders.

BLM Response

BLM agrees with the finding and recommendation. During FY 2001, the BLM developed four new undelivered order (UDO) reports and issued several policies and procedures that resulted in the recovery of over $32 million. The new BLM policy requires a quarterly review and reporting process for unliquidated procurement awards. A UDO Report Coordinator was established to coordinate this effort and ensure compliance by the field offices. An annual review of certain non-procurement transactions including travel, relocation, training, utilities, miscellaneous obligations, and federal obligations was implemented. An IM was issued establishing an annual review of non-procurement UDO's, including property, printing, motor vehicle, and reimbursable work authorizations. The BLM will continue to address the review requirements to the field and BLM NBC personnel through e-mails, memorandums, and conference calls. Presentations will be made on this topic at the Procurement Conference, the Administrative Officer training and the BLM Executive Leadership Team meetings in order to raise awareness to UDO issues among the highest level of BLM Management.

E. Helium Gas Inventory Examinations

The BLM accounts for its helium gas stockpile on a perpetual basis and verifies inventory records through periodic internal engineering studies. For the past eight years, differences between the studies and the perpetual records have existed. The BLM has not adjusted its records for these differences because it believes the studies are not accurate enough to support an adjustment, but acknowledges more refined studies can be performed. While it is possible the differences could stem from the inaccuracies of the studies, the differences may also indicate that inventory adjustments should be made. Generally accepted accounting practices require organizations to conduct periodic physical inventories and adjust recorded amounts to physical inventory results.

Recommendation

The BLM should thoroughly investigate differences between the results of its helium internal engineering studies and its perpetual inventory records. Future helium inventory procedures should include performing a more refined and robust engineering study, and differences should be reflected as adjustments to helium inventory perpetual records. The BLM should consider utilizing an independent third party engineering specialist in conducting future helium studies.

BLM Response

BLM concurs with the finding and recommendation. The BLM will perform a review of historical data to resolve differences between internal studies and perpetual inventory records. The BLM will also conduct pressure transient analysis tests on selected wells in the Cliffside Field for the purpose of more accurately estimating the average reservoir pressure. The BLM will solicit an independent third party engineering specialist to confirm reservoir measurement methodologies.

F. Segregation of Duties Within the Collections and Billing System (CBS)

The BLM has not taken appropriate actions to ensure a proper segregation of duties within the CBS application. Segregation of duties is violated in that a single person is responsible for multiple functions within a process. Specifically, 250 users have the ability to perform mailroom entry, deposit cash and checks and initiate transactions. A proper segregation of duties is necessary to help eliminate opportunities to conceal errors or irregularities.

Recommendation

The BLM should develop policies and procedures governing the identification, assignment, and monitoring of conflicting functions within the CBS application. Where complete segregation is not feasible, policies and procedures should require mitigating controls in the form of supervisory approval and/or periodic review of the specific transactions or groups of transactions. These policies and procedures should be incorporated into a comprehensive application security plan for CBS under *Personnel Security*.

BLM Response

The BLM partially agrees with the finding and recommendation. BLM agrees that there are 250 CBS users with the ability to perform mailroom entry, deposit cash and checks, and initiate new transactions. Considering there are approximately 1,350 CBS users bureau-wide, and there are approximately 200 offices that perform collections, the number of users with the functions listed above may be within a tolerable range. There are several reasons for a person having the ability to perform all functions. Initially, BLM will perform a complete review of all active users and revise the roles of users as appropriate. Thereafter, a review will be part of the semi-annual review of collections. For offices that do not have resource levels that support full segregation of duties, we will issue policies and procedures for mitigating controls in the form of supervisory approval and/or periodic reviews. Compliance with these policies and procedures will be reviewed during the BLM NBC's annual financial procedures reviews.

G. Information Technology Controls at Interior's National Business Center

The Interior National Business Center (Interior NBC) administers several of the BLM's financial management systems, including the Federal Personnel and Payroll System (FPPS), Federal Financial System (FFS), Hyperion, and the Interior Department Electronic Acquisitions System (IDEAS). Although Interior NBC has recently improved the security and controls over these information systems, Interior NBC needs to continue improvements in the areas of entity-wide security planning, configuration of operating systems, system software controls, software development and change controls, and service continuity. Weaknesses in these control areas could effect the BLM's ability to prevent and detect unauthorized changes to its financial information and increases the BLM's need for more efficient manual controls to monitor and reconcile financial information.

Recommendation

We recommend that the BLM annually obtain assurance (similar to a SAS 70 Type II report) from Interior NBC that adequate security and controls are in place over the financial management systems.

BLM Response

The BLM recognizes the importance of the Interior NBC continuing to improve its security procedures and practices. BLM will request copies of their annual SAS 70 report to determine the progress they are making and the potential effect, if any, the report's observations may have on BLM's financial integrity.

A summary of the status of the prior year material weakness is included as exhibit I. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the management of the BLM in a separate letter dated January 15, 2002.

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 FFMIA, disclosed no instances of noncompliance that are required to be reported herein 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 the BLM's financial management systems did not substantially comply with the federal financial management systems requirements and federal accounting standards.

H. Federal Financial Management Systems Requirements at Interior's National Business Center

As discussed in the section of our report entitled "Internal Control over Financial Reporting," Interior NBC, which administers several of the BLM's financial management systems, needs to improve its electronic data processing (EDP) security and general control environment. Interior NBC 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, the BLM does not substantially comply with the security and general EDP control requirements of OMB Circular A-130, *Management of Federal Information Resources*.

Recommendation

We recommend that the BLM annually obtain assurance (similar to a SAS 70 Type II report) from Interior NBC that adequate security and controls are in place over the financial management systems.

BLM Response

The BLM recognizes the importance of the Interior NBC continuing to improve its security procedures and practices. BLM will request copies of their annual SAS 70 report to determine the progress they are making and the potential effect, if any, the report's observations may have on BLM's financial integrity.

I. Federal Accounting Standards

The BLM is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the section of our report entitled "Internal Control over Financial Reporting," we identified material weaknesses that affected the BLM's ability to prepare its financial statements and related disclosures in accordance with federal accounting standards. Specifically, we determined that the BLM needs to improve its accounting for property, intra-departmental transactions, and the effects of new legislation. The foregoing material weaknesses in internal control are also an indication of noncompliance with FFMIA provisions relating to federal accounting standards.

Recommendation

We recommend that the BLM strengthen its procedures and internal control to ensure that its financial statements and related disclosures are prepared in accordance with federal accounting standards.

BLM Response

As discussed in responding to reportable conditions, A, B, and C above, the BLM will work to strengthen its procedures and internal control to insure that its financial statements and related disclosures are prepared in accordance with federal accounting standards.

The results of our tests disclosed no instances in which the BLM did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibility

The Government Management Reform Act of 1994 (GMRA) 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, the BLM 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 control 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 the BLM 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 audit 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 the BLM's internal control over financial reporting by obtaining an understanding of the BLM's internal control, determining whether internal control 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 control 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 control 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 the BLM's internal control over required supplementary stewardship information by obtaining an understanding of the BLM'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 do 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 management's 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 do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the BLM's fiscal year 2001 financial statements are free of material misstatement, we performed tests of the BLM's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain 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 the BLM. 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 FFMIA, we are required to report whether the BLM's 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 the BLM and Department of the Interior's management, Department of the Interior's Office of 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 15, 2002

Exhibit I

BUREAU OF LAND MANAGEMENT

Summary of the Status of Prior Year Material Weakness

September 30, 2001

Ref	Condition	Status
BLM 2000-1	Timely de-obligation of undelivered orders	Repeated in FY 2001 as a reportable condition

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditors' Report

To: Director, Bureau of Land Management

Subject: Bureau of Land Management's Financial Statements for Fiscal Year 2000

We have audited the Bureau of Land Management's (BLM) 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 BLM, 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 Bulletin (OMB) 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 BLM as of September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, the restated fiscal year 2000 balance sheet shows that asset amounts for Inventory, Property and Equipment, and Unmatured Timber Sales Contracts; and liability amounts for Deferred Credits have been restated. In addition, certain amounts in the liability account for Undistributed Collections have been reclassified from a non-Federal to an intra-governmental liability. The individual changes are discussed in Notes 2, 6, 7, 9, 10, and 20.

In our report dated March 8, 2001, we expressed an opinion that BLM'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. As discussed in Note 1.O the BLM 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.

Roger LaRouche

Roger La Rouche
Assistant Inspector General for Audits
March 8, 2001, except for Inventory, Property and Equipment, Unmatured Timber Sales Contracts, Undistributed Collections; and Notes 2, 6, 7, 9, 10, and 20
as to which the date is January 15, 2002