



United States Department of the Interior  
Office of Inspector General  
Washington, D.C. 20240

March 19, 2003

Memorandum

To: Director, Bureau of Land Management

From: Roger La Rouché  
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Bureau of Land Management's Fiscal Year 2002 Financial Statements (No. 2003-I-0036)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Land Management's (BLM) financial statements as of September 30, 2002 and for the year then ended. In conjunction with its audit, KPMG noted certain matters involving internal control and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on BLM's financial statements (Report No. 2003-I-0024) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

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

Attachment

cc: Assistant Secretary for Land and Minerals Management  
Chief Financial Officer, Bureau of Land Management  
Director, Office of Financial Management  
Director, National Business Center, Bureau of Land Management  
Audit Liaison Officer, Land and Minerals Management  
Audit Liaison Officer, Bureau of Land Management  
Focus Leader for Management Control and Audit Followup,  
Office of Financial Management



Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

December 16, 2002

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

We have audited the financial statements of the Bureau of Land Management (BLM) for the year ended September 30, 2002, and have issued our report thereon dated December 16, 2002. In that report, our opinion on the financial statements referenced a change in the BLM's method of accounting for allocation transfers as of October 1, 2001. In planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and its operation that we consider to be reportable conditions or material weaknesses under standards established by the American Institute of Certified Public Accountants. These matters have been reported to management in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002. In that report we identified the following matters as reportable conditions:

- A. Accounting for Property
- B. Accruing for Year-end Payables
- C. Security and Internal Control Over Information Technology Systems
- D. Accounting for Intra-departmental Transactions
- E. Internal Control Over Charge Cards
- F. Timely Deobligation of Undelivered Orders

We considered reportable conditions A and B, listed above, to be material weaknesses.

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 by management in the financial statements. Material weaknesses are reportable conditions in which the design



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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. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions or material weaknesses.

During our audit we also noted certain other matters involving internal control that are not considered to be material weaknesses or reportable conditions. We would like to bring these matters to your attention. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized below.

In addition to our 2002 comments and recommendations, we have reported the status of prior year management letter comments. Their current status is addressed in the progress on prior year management letter recommendations section of this letter.

#### **Fund Balance With Treasury Discrepancy**

Generally accepted accounting principles for federal entities require them to explain discrepancies in fund balance with Treasury between the entity's general ledger accounts and amounts reported by the U.S. Treasury Department. Discrepancies due to time lags are to be reconciled and discrepancies due to error are to be corrected when financial reports are prepared.

Our audit found that the Treasury Department is reporting a cash balance of approximately \$7.9 million in the BLM's Special Acquisition For Lands & Minerals account. The BLM has not included these amounts in its general ledger or its financial statements, but does include them in its reporting to the Treasury.

The BLM believes the cash balance stems from transactions in the mid 1980s. At that time, the BLM disbursed more money to federal agencies and states than it collected from land leases. The difference between collections and disbursements was the result of monetary credits issued by the BLM to lessors. The BLM believes its general ledger is correct as of September 30, 2002, and it is not liable to the Treasury Department for the \$7.9 million. The BLM asserts the cash balance is an issue that needs to be corrected by the Treasury Department, but has agreed for tracking purposes to continue to report the amount in reports to the Treasury Department.

If the resolution of the above discrepancy does not favor the BLM, then fund balance with Treasury, as reported in the BLM's financial statements, is overstated by \$7.9 million.

#### ***Recommendation***

The BLM should proactively contact the Treasury Department and collaborate with them in researching and resolving the \$7.9 million cash balance reported in the BLM's Special Acquisition For Lands & Minerals account. Resolution of the cash balance should result in either the discontinuance of the BLM reporting such amount to the Treasury or the BLM including the amount in its general ledger and financial statements.



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### ***BLM Response***

The BLM agrees this discrepancy with the Treasury Department needs to be resolved. Attempts have been made in the past to resolve this issue, but were not successful. Because this balance is very old, little documentation is available and knowledgeable personnel are no longer with the BLM. However, the BLM has already started to pursue this issue again. The BLM's Business Center has contacted the BLM budget office, the Department of the Interior's budget office and the Office of Management and Budget (OMB) and OMB is obtaining a contact to work with at the Treasury Department. The BLM will continue to pursue this issue until it is resolved.

### **Reconciliation and Timely Removal of Amounts From Suspense Accounts**

Suspense accounts are liability accounts that include collections awaiting disposition or reclassification. Our audit found instances of collections that should have been removed from the suspense accounts prior to fiscal year-end 2002. While these amounts were not material to the fiscal year 2002 financial statements, the errors resulted in the untimely transfer of funds to other Department of the Interior agencies, overstatements of liabilities, understatements of revenue, and overstatements of expense. It appears the untimely clearing of suspense amounts may stem from the lack of a complete aging analysis, including amounts coded to the BLM's National Business Center (NBC), and the investigation of older accounts.

### ***Recommendation***

The BLM should develop procedures to thoroughly review and reconcile its suspense accounts on a timely basis throughout the year. The review should include a complete aging analysis of all suspense amounts, with older accounts being investigated for appropriateness.

### ***BLM Response***

The BLM issued Instruction Memorandum (IM) 2001-040, Using the Aging Analysis Report to Clear Suspense Accounts, on June 7, 2001. This IM required field offices to perform annual aging analysis of suspense accounts and submit the results to the BLM's NBC. While the field offices are complying with the IM's requirement, there is a varying degree of follow-up being performed by the NBC due to the limited availability of resources. As a result, the NBC will continue to train the field offices on the importance of removing suspense account transactions timely. The first training session was held on January 28, 2003 during the bureau-wide Collections and Billing System (CBS) Accounts Workshop. Similar sessions are planned throughout the year. Additionally, beginning in FY 2003, the IM's requirements are now being applied to suspense accounts for which the NBC is responsible.

### **Improvements in Deferred Maintenance Reporting**

Generally accepted accounting principles for federal entities require them to report, as supplementary information to its financial statements, the condition of the entity's property, plant, and equipment and the dollar amount of future maintenance needed to return the assets to an acceptable operating condition. This form of reporting is commonly referred to as deferred maintenance.



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We found the BLM does not have adequate procedures in place for reviewing and updating, in a timely manner, amounts of deferred maintenance recorded in its Facility Inventory Maintenance Management System (FIMMS). Our audit noted several instances where the recorded amounts in FIMMS were overstated because deferred maintenance work had been previously completed. The overstatements appear to be the result of inadequate and untimely reviews of the FIMMS data, which has resulted in the BLM reporting inaccurate amounts of future maintenance needs.

### ***Recommendation***

The BLM should implement a process to perform timely and periodic reviews of deferred maintenance amounts recorded in FIMMS to ensure data is updated on a regular basis. To assign accountability, the reviews should be documented and approved by management through a certification procedure.

### ***BLM Response***

The BLM is currently in the process of replacing the existing FIMMS with the new Facility Asset Management System (FAMS) application, also known as MAXIMO. As the BLM transitions from FIMMS to the new FAMS, the Bureau will have the increased capability to track deferred maintenance tasks from inception to completion, to input maintenance accomplishments, and to initiate timely reviews and analysis of facilities data. More importantly, the new FAMS will be much more visible for accountability purposes in terms of reviewing and updating data. Additionally, the recommendation to develop a review process and to include a certification procedure for accountability will be incorporated into the improved process.

FAMS Phase I deployment will begin in April 2003, with the application expected to be partially operational by FY 2004 and fully operational by FY 2005. Until FAMS has completely replaced FIMMS, the BLM will continue its cleanup of FIMMS data, as well as validate data through a national condition assessment effort that will begin in March 2003.

### **Improvements in Supporting Documentation for Financial Reporting**

Generally accepted accounting principles for federal entities require an entity's financial statements be fully supported by underlying records. Further, federal budgetary regulations require documentary evidence for the recording of an obligation of federal funds. When precise amounts are not known at the time an obligation is incurred, the obligation should be recorded on the basis of an entity's best estimate. The basis for the estimate must be shown on the obligating document.

Our audit found instances of a lack of adequate supporting documentation for certain budgetary obligations related to the BLM's Wildland Fire Management Account and for certain year-end journal entries necessary to prepare the financial statements. These types of transactions required additional follow-up discussions with BLM personnel. A lack of adequate supporting documentation increases the risk that entries to the financial records are not recorded accurately and does not provide an adequate audit trail for subsequent analysis of transactions, especially in instances where personnel have left the BLM and there is no one available to verbally explain the transactions.



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### ***Recommendation***

The BLM should ensure all obligations of federal funds are adequately supported. Supporting documentation should include the basis for any estimates made and the individuals involved in determining the estimates. The documentation should then be attached to the obligating document.

The BLM should implement standards to ensure year-end adjusting journal entries to the financial statements are adequately supported by documentation. Such documentation should be able to stand alone to support the adjustment without the need for extensive verbal explanations.

### ***BLM Response***

The BLM agrees that not all year-end miscellaneous obligations have adequate supporting documentation. The BLM will begin the process of implementing policy to require adequate supporting documentation for the miscellaneous obligations entered into the Federal Financial System at year-end. For these transactions, additional training and monitoring will need to take place. Further guidance in the Annual Year-End Memo to all field officials will require this additional documentation for miscellaneous obligations.

The BLM agrees that its supporting documentation for year-end adjusting journal entries could be improved in some instances. However, overall the BLM feels it has adequate supporting documentation, especially given the time constraints during the financial statement preparation process. Due to the complex nature of the BLM's mission and financial transactions, not all year-end adjustments are simple two-line, easily explainable journal entries. Some adjusting journal entries require an extensive explanation. In order for all year-end adjusting journal entry supporting documentation to "be able to stand alone to support the adjustment without the need for extensive verbal explanations," the extensive explanation must be documented. The BLM accountants that prepare the financial statements fully understand the supporting documentation currently kept on file and are able to explain the purpose of each entry. The BLM does not feel that extensive written explanations, beyond the need for BLM employee verbal explanations, for every year-end adjusting journal entry is a valuable use of time.

### **Progress On Prior Year Management Letter Recommendations**

The following is a summary of the implementation status of prior year management letter comments.

<b>Comment</b>	<b>Status</b>
<b>Accreditation of Information Systems</b> – The BLM had not accredited its general support systems and the major applications used to process, store, or transmit classified or sensitive information.	<b>Partially Implemented.</b> Our fiscal year 2002 audit found the BLM's internal network had not been accredited. However, accreditations had occurred for other general support systems and major applications.



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Comment	Status
<b>Network Security</b> – The BLM had not established sufficient controls to protect its network from unauthorized access.	<b>Partially Implemented.</b> Our fiscal year 2002 audit revealed the BLM had made improvements in its overall network security; however, certain technical and procedural access controls over the network had not been fully developed and implemented to minimize the risks of unauthorized internal access. This condition was included as a part of a reportable condition in internal control over information technology systems, which was discussed in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002.
<b>IT Application Access</b> – The BLM had not established sufficient access controls over certain financial applications.	<b>Partially Implemented.</b> Our fiscal year 2002 audit revealed that approximately half of the prior year conditions concerning IT application access had been corrected; however, technical and procedural access controls over certain subsidiary financial applications had not been fully developed and implemented to minimize the risks of unauthorized internal access. This condition was included as a part of a reportable condition in internal control over information technology systems, which was discussed in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002.
<b>IT Sensitivity Classification</b> – The BLM had not appointed the responsibility or dedicated the appropriate resources to properly document the classification of IT systems and data according to sensitivity level.	<b>Partially Implemented.</b> Our fiscal year 2002 audit found the BLM had documented the classification of IT systems and data according to sensitivity level for some of its major applications, but not all.
<b>IT Security Plan</b> – The BLM had not developed and implemented comprehensive IT security plans for all of its major systems.	<b>Partially Implemented.</b> Our fiscal year 2002 audit revealed the BLM had finalized its security plans for some of its applications, but had not done so for its internal network and for certain other major financial applications. This condition was included as a part of a reportable condition in internal control over information technology systems, which was discussed in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002.





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Comment	Status
<b>IT Service Continuity</b> – The BLM had not adequately updated and tested its continuity of operations plan.	<b>Partially Implemented.</b> Our fiscal year 2002 audit determined the BLM had made progress in implementing its IT service continuity plan, such as the establishment of a “hot site” for its network. However, we found further improvement is still necessary given the BLM had not finalized its formal service continuity plans and tested IT continuity controls for certain financial applications. This condition was included as a part of a reportable condition in internal control over information technology systems, which was discussed in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002.
<b>Charge Card Reviews</b> – The BLM had not implemented adequate procedures to ensure charge card transactions are properly reviewed. It was recommended the BLM ensure compliance with its stated charge card policies.	<b>Not Implemented.</b> Our fiscal year 2002 audit continued to find evidence the BLM had not fully complied with its stated charge card policies. These instances were included as part of a reportable condition in internal control over charge cards, which was discussed in our report on the financial statements of the BLM for the year ended September 30, 2002, dated December 16, 2002.
<b>Property Records</b> – The BLM did not always have valid source documents to verify acquisition cost for items capitalized.	<b>Implemented.</b> The BLM issued IM No. 2001-189 in August 2001 that established a new policy for the retention and disposition of capitalized property records. Our fiscal year 2002 audit did not identify any instances of improper documentation to support the acquisition cost for items capitalized.
<b>Undelivered Orders Contract Line Item Accounting</b> – The BLM’s contract payments personnel were liquidating obligation line items in line item order rather than matching payments to their specific line items. Because obligation line items can involve multiple appropriation sub-activities, it was recommended that contracting personnel identify the specific obligation line items that are to be liquidated.	<b>Implemented.</b> The BLM issued IM No. 2001-043 in July 2001 that established a policy for liquidating the proper line items when payment requests involve multiple obligation line items. Our fiscal year 2002 audit did not identify any instances of the improper obligation line items being liquidated.





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Comment	Status
<b>Museum Collections</b> – To strengthen controls over museum property, it was recommended the BLM implement the cataloging and inventory standards of the Departmental Manual (3 DM 411, “Standards for Managing Museum Property”), including maintaining an inventory listing of museum items and performing periodic verifications of the museum property.	<b>Not Implemented.</b> For financial reporting purposes the BLM had materially complied with Statement of Federal Financial Accounting Standards No. 8, <i>Supplementary Stewardship Reporting</i> . However, the BLM had not implemented a process to conduct a complete inventory of museum collections. The majority of museum collections originating from the BLM managed land are housed in non-federal facilities, including universities, museums, and historical societies. The BLM has stewardship responsibility to ensure that museum collections removed from the public lands are held in public trust in perpetuity. The BLM has identified 165 facilities in 33 states and Canada where millions of objects originating from the public lands reside. It is recommended the BLM continue to follow-up with these facilities to obtain an understanding of the general types of BLM collections they may have. Once the BLM has identified the general types and condition of museum collections housed by non-federal facilities, the BLM on a periodic basis should reaffirm its understanding with the non-federal facilities of the status of BLM collections.

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Our audit procedures are designed to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the BLM’s organization gained during our work to make comments and suggestions that we hope will be useful to you.

We will be pleased to discuss with you in more detail any of the matters referred to in this letter.

This letter is intended for the information and use of the BLM and Department of the Interior’s management, Department of the Interior’s Office of the Inspector General, the U.S. Office of Management and Budget, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP