



United States Department of the Interior

Office of Inspector General

Washington, D.C. 20240

April 23, 2003

Memorandum

To: Assistant Secretary – Policy, Management and Budget

From: Roger La Rouché
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Departmental Offices' Fiscal Year 2002 Financial Statements (No. 2003-I-0046)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Departmental Offices' 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 the Departmental Offices' financial statements (Report No. 2003-I-0041) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred for tracking of implementation, therefore your response should be provided directly to the Office of Financial Management. 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: Audit Liaison Officer, Departmental Offices
Director, Office of Financial Management



2001 M Street, NW
Washington, DC 20036

January 17, 2003

Assistant Secretary for Policy, Management and Budget and Inspector General
United States Department of the Interior:

Ladies and Gentlemen:

We have audited the financial statements of Departmental Offices as of and for the year ended September 30, 2002, and have issued our report thereon, dated January 17, 2003. In planning and performing our audit of the financial statements of Departmental Offices, we considered internal controls over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal controls over financial reporting. We have not considered internal controls over financial reporting since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. 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 as follows:

1. Office of Aircraft Services – Property, Plant, and Equipment

Comment

We noted that the Office of Aircraft Services (OAS), a component of Departmental Offices, did not enter the following transactions into the OAS accounting system on a timely basis:

- Asset of \$617,723 was placed in service on 4/19/02, but not posted until 6/15/02
- Asset of \$25,857 was placed in service on 1/16/02, but not posted until 6/18/02
- Asset of \$25,025 was placed in service on 9/13/01, but not posted until fiscal year 2002

Recommendation

We recommend that Departmental Offices implement procedures to ensure that transactions are recorded in a timely manner. This process should include training of personnel on the timely recording of Property, Plant, and Equipment (PP&E) and regular communication with remote office locations that acquire PP&E.



2. Office of Aircraft Services – Segregation of Duties

Comment

From October 1, 2001 through May 17, 2002, the OAS's Chief Financial Officer and Financial Analyst both had access to enter transactions into the OAS aircraft and finance systems; were authorized to certify payments in the ECS system; and were involved in the reconciliation of the general ledger to Treasury's records.

Recommendation

We recommend that Departmental Offices segregate responsibilities for entering transactions, authorizing payments, and reconciling the general ledger to Treasury's records.

3. Office of Aircraft Services – Standard General Ledger

Comment

Due to system limitations, OAS purges the general ledger and re-enters certain budgetary transactions based on current status (e.g. an order is re-entered with a debit to 4610, 4801, or 4802 depending on whether it is outstanding, accrued, or paid).

Recommendation

We recommend that OAS enhance the accounting system to eliminate the need for duplicate transaction entry and ensure compliance with the U.S. Government Standard General Ledger at the transaction level.

4. Recording of Stewardship Assets

Comment

The Central Utah Project Completion Act and the Utah Reclamation Mitigation and Conservation Commission, which are components of Departmental Offices, do not consistently use general ledger accounts 690E and 690D to segregate investments in non-federal physical property and stewardship assets. These accounts facilitate reporting of Required Supplemental Stewardship Information.

Recommendation

We recommend that Departmental Offices implement a process and posting models to record investments in non-federal physical property and stewardship assets using the appropriate general ledger accounts.

5. Controls over Employee Benefit Records

Comment

During our testing of payroll and related employee benefits data, we were unable to obtain the Life insurance form SF-2817 from the official personnel file (OPF) for a selected employee who elected optional life insurance in addition to the basic coverage.

Recommendation

We recommend that Departmental Offices implement procedures to ensure that all required forms are maintained in the employee's OPF.

6. Debt Collection Act

Comment

During our testing for compliance with the Debt Collection Act, we noted seven instances where Departmental Offices did not apply the proper interest and penalties on non-Federal debts resulting in lost interest and penalties of \$42. In addition, Departmental Offices did not submit the Debt Certification for Referral to Treasury after 180 days outstanding for the same seven items totaling \$403.

Recommendation

We recommend that Departmental Offices develop and implement adequate policies and procedures to ensure that interest and penalties are properly applied and debts are properly referred to Treasury.

7. Prompt Pay Act

Comment

Departmental Offices did not use current Treasury interest rates to calculate interest on late payments in accordance with the Prompt Payment Act for part of fiscal year 2002. We noted ten out of 32 invoices tested were paid using an interest rate higher than the actual rate. This resulted in an over-payment of interest totaling \$148.

Recommendation

We recommend that Departmental Offices establish a process to ensure interest rates are updated in the accounting systems in a timely manner.



Our audit procedures were designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of Departmental Offices gained during our work to provide comments and recommendations that we hope will be useful to you. Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at any time.

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

Very truly yours,

KPMG LLP