



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

December 30, 2003

Memorandum

To: Director, Bureau of Land Management

From: Roger La Rouche *Roger LaRouche*  
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Bureau of Land  
Management's Fiscal Year 2002 Financial Statements  
(Report No. C-IN-BLM-0021-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Bureau of Land Management's (BLM) financial statements as of September 30, 2003 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. C-IN-BLM-0076-2003) 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.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

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  
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October 31, 2003

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

We have audited the financial statements of the Bureau of Land Management (BLM) as of and for the year ended September 30, 2003, and have issued our report thereon, dated October 31, 2003. 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 under standards established 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 by management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions. These matters have been reported to management in our report on the financial statements of the BLM as of and for the year ended September 30, 2003, dated October 31, 2003. In that report, we identified the following matters as reportable conditions:

- Security and Internal Control Over Information Technology Systems
- Accounting for Intra-departmental Transactions
- Internal Control Over Charge Cards
- Timely Deobligation of Undelivered Orders
- Accounting for Property
- Reporting of Environmental Liabilities

In addition to the above, our limited procedures over deferred maintenance identified a weakness in the reporting of deferred maintenance amounts as required supplementary information to the financial statements. This matter has been reported to management in our report on the financial statements of the BLM as of and for the year ended September 30, 2003, dated October 31, 2003.





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During our audit, we also noted certain other matters involving internal control and other operational matters that are not considered to be 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 2003 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 Comments 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, consistent with the prior year audit, that the Treasury Department is reporting a negative 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 Department.

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, 2003, and it is not liable to the Treasury Department for the \$7.9 million. The BLM asserts the negative 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.

This issue is a repeat comment from the prior year. During the current year, the BLM has contacted the Treasury Department asking them for assistance in clearing the negative \$7.9 million from the Special Acquisition For Lands & Minerals account. In addition, they have been working with the Department of the Interior's Budget Office who has asked both the Treasury Department and the Office of Management and Budget for assistance in resolving the issue. However, no progress has been made towards clearing the negative balance.

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. Consequently, the BLM may need to decrease its fund balance with Treasury to agree with the Treasury Department balance.

### ***Recommendation***

The BLM should continue to proactively contact the Treasury Department and the Office of Management and Budget and collaborate with them in researching and resolving the \$7.9 million negative balance reported by the Treasury Department in the BLM's Special Acquisition For Lands & Minerals account. The BLM should formally provide the Treasury Department with a suggested solution and supporting



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documentation, if any, in order to expedite the resolution of the negative balance. Resolution of the negative balance should result in either the discontinuance of the BLM reporting such amount to the Treasury Department or the BLM including the amount in its general ledger and financial statements.

### **Museum Collections**

Over the past 100 years, the BLM estimates millions of museum objects have been collected from BLM managed land. Objects include items that are from past human life and activities that are significant to American history, architecture, archaeology, engineering, and culture, and that contribute to the understanding of the historical and cultural foundations of the United States. The BLM believes most of these objects (approximately 98 percent of the total museum objects collected from BLM managed land) have been transported to hundreds of nonfederal facilities such as universities, museums, and historical societies. However, the BLM is unsure of the exact number of objects housed in nonfederal facilities because, throughout its history, it has not had a formal tracking process to identify individual objects taken from BLM lands. In addition to nonfederal facilities, the BLM maintains three federal facilities that house approximately 3.7 million museum objects.

To date, through the use of surveys and research, the BLM has identified approximately 165 nonfederal facilities in 33 states and Canada where objects originating from the public lands reside. However, the surveys, because of the immense volume of items taken off of the public land, the time period it has occurred over, and limited cooperation and practices of the nonfederal facilities, may not be complete and cannot identify specific items taken off public land. For example, nonfederal facilities may, or may not, respond to BLM questionnaires, and the lack of a response does not mean the nonfederal facility does not house objects collected from BLM lands. The BLM recently sent questionnaires to its identified nonfederal facilities (approximately 165 facilities). A total of 95 nonfederal facilities responded in some way, and of those only 53 responded to questions regarding museum object inventories. Their responses in general were that object-by-object inventories are not performed given the costs involved, the lack of value added from an inventory, and potential for damaging objects. Further, it is questionable, even if object inventories were performed, whether these facilities could determine the original source of the objects (i.e., the object originated from BLM lands, private lands, or some other source).

It is unclear whether the BLM is meeting the intent of federal accounting standards in its reporting of museum collection information, as found in its annual report. Federal accounting standards define museum collections as heritage asset property. Such property is to be reported as part of required supplementary stewardship information to the annual report. The standards require that heritage assets be quantified in terms of physical units, the number of physical units added and withdrawn from the records during the year, and a description of the condition of the heritage assets. In attempting to meet the requirements of federal accounting standards, the BLM defines a "physical unit" for museum collection purposes as either a BLM facility or a nonfederal facility. It is unclear if a facility housing museum objects is a "physical unit." Further, the BLM assesses the condition of museum objects found in its facilities as good, but acknowledges the amount of museum objects and the condition of those objects located in nonfederal facilities, in the strictest sense, is unknown.

It also unclear whether BLM museum objects located in nonfederal facilities even qualify as property of the BLM for financial reporting purposes. As defined by generally accepted accounting principles, property is typically items that an entity has the rights to and is available for use by the entity. However,



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the BLM does not intend to recover museum objects from the nonfederal facilities, and the BLM does not have physical control or use of these items. Taking this into consideration, it may be reasonable to assume that museum objects located in nonfederal facilities do not meet the definition of BLM property for financial accounting purposes, and thus, those items located in nonfederal facilities should not be included as heritage assets in the BLM's annual report.

The uncertainty surrounding museum collection reporting in the annual report has resulted in numerous employee hours debating the issue and devising plans to address the reporting requirements, while realizing it is virtually impossible to identify the millions of individual museum items taken from public lands over the last 100 years.

The uncertainty has also resulted in reporting differences between the BLM and Department of the Interior (Interior). As mentioned above, the BLM reports museum collections as the number of federal and nonfederal facilities, and does not have information on the number or condition of items housed in nonfederal facilities. However, Interior reports in its annual report that the BLM has approximately 23.8 million museum items, which includes items in nonfederal facilities. Interior claims to have obtained the amounts from the BLM; conversely, the BLM has documented to Interior that it cannot support the 23.8 million museum items.

Further, the uncertainty of how to account for museum objects, unless resolved over the next two years, may ultimately result in a qualified audit opinion at the BLM. Proposed Statement of Federal Financial Accounting Standards, *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information*, will require that heritage assets, including museum collections, be disclosed as basic information to the notes of the financial statements. It requires that heritage assets be quantified in terms of "physical units" and that a concise description of each major category of heritage asset be included in the disclosure. As a component of the notes to the financial statements, museum collection information will endure increased audit scrutiny. This increased scrutiny, combined with uncertainty surrounding the accounting, may result in a qualification in the reporting of museum collections.

### ***Recommendation***

The BLM should consult the Federal Financial Accounting Standards Advisory Board to obtain clarification whether museum items permanently housed in nonfederal facilities are considered heritage assets of the BLM for financial reporting purposes. If such items are heritage assets for financial reporting purposes, then the BLM should obtain clarification of what constitutes a "physical unit" for reporting museum collections. That is, does a "physical unit" constitute an individual nonfederal facility, or individual collection item, or something else?



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### Progress on Prior Year Management Letter Comments

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

Comment	Status
<b>Fund Balance With Treasury Discrepancy</b> – The BLM needed to collaborate with the Treasury Department to resolve an outstanding discrepancy.	<b>Not Corrected.</b> This comment has been repeated in this letter.
<b>Reconciliation and Timely Removal of Amounts From Suspense Accounts</b> – The BLM had not removed in a timely manner certain amounts from its suspense liability accounts.	<b>Corrected.</b> Our fiscal year 2003 audit did not identify amounts in the suspense liability accounts that needed to be removed at year-end.
<b>Improvements in Deferred Maintenance Reporting</b> – The BLM needed to review and update deferred maintenance amounts reported in the annual report.	<b>Not Corrected.</b> This condition, along with other deferred maintenance reporting issues, has been included in our report on the financial statements of the BLM as of and for the year ended September 30, 2003, dated October 31, 2003.
<b>Improvements in Supporting Documentation for Financial Reporting</b> – The BLM needed to improve supporting documentation over certain obligations and year-end adjusting journal entries.	<b>Corrected.</b> Our fiscal year 2003 audit did not identify instances of a lack of supporting documentation for obligations or journal entries.
<b>Museum Collections</b> – For financial reporting purposes, the BLM believes it has 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 as required by the Department of Interior’s cataloging and inventory standards.	<b>Not Corrected.</b> This comment has been repeated in this letter.



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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 management, the Department of the Interior's management, the Department of the Interior's Office of Inspector General, Office of Management and Budget, General Accounting Office, and the U.S. Congress, and is not intended to be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**