



*Department of the Interior
Office of Inspector General*

Audit Report

*Department of the Interior
Internal Control Program*

Report No. C-IN-MOA-0002-2006

August 2007



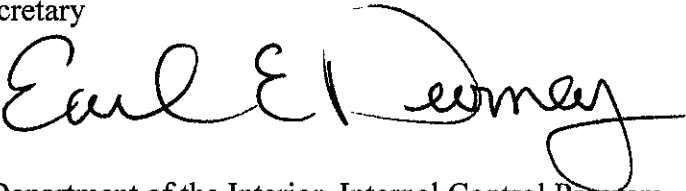
United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

AUG 9 2007

Memorandum

To: James E. Cason
Associate Deputy Secretary

From: Earl E. Devaney 
Inspector General

Subject: Final Audit Report, Department of the Interior, Internal Control Program
(Audit No. C-IN-MOA-0002-2006)

This final report presents the results of our audit to determine whether the Department of the Interior (DOI) established an effective internal control program for the effectiveness and efficiency of its operations. We concluded that DOI had not established an effective internal control program and that the bureaus' annual assurance statements may not have provided adequate support for the Secretary's certification of DOI's annual statement of assurance. We also found that the audit follow-up process did not ensure that Office of Inspector General recommendations were implemented.

Because of these weaknesses in DOI's internal control program and audit follow-up process, we concluded that DOI was not in full compliance with the Federal Managers' Financial Integrity Act and the Office of Management and Budget's Circulars A-123, "Management's Responsibility for Internal Control," and A-50, "Audit Followup."

In its response to the draft report, DOI stated that it concurred with all four of our recommendations and had fully implemented two of them. However, DOI disagreed with our overall conclusions regarding DOI's existing internal control program. DOI insists that its internal control program does ensure the bureaus' annual assurance statements are reliable and provide adequate support for the Secretary's Annual Assurance Statement.

After considering DOI's response to our draft report, we stand by our conclusions on DOI's internal control program. Our results clearly show that the bureaus we reviewed were not effectively implementing their internal control responsibilities and the Office of Financial Management had not taken sufficient steps to hold them accountable. Our audit conclusions are also consistent with results from DOI's FY2006 financial statement audit. KPMG LLP identified DOI's control and assessment process as a "reportable condition."

Please provide us with your written response to this report by **August 31, 2007**. The response should supply the information required in Appendix 4. Please address your response to:

Ms. Anne L. Richards
Assistant Inspector General for Audits
U.S. Department of the Interior
Office of Inspector General
1849 C Street, NW, MS 5341
Washington, D.C. 20240

The legislation, as amended, creating the Office of Inspector General requires that we report to the Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any comments or questions regarding this report, please call me at (202) 208-5745.

Attachment

cc: Assistant Secretary, Indian Affairs
Assistant Secretary, Fish and Wildlife and Parks
Assistant Secretary, Land and Minerals Management
Assistant Secretary, Water and Science
Director, National Park Service
Director, Bureau of Land Management
Commissioner, Bureau of Reclamation
Audit Liaison Officer, Department of the Interior
Audit Liaison Officer, Bureau of Indian Affairs
Audit Liaison Officer, National Park Service
Audit Liaison Officer, Bureau of Land Management
Audit Liaison Officer, Bureau of Reclamation
Focus Leader for Management Control and Audit Follow-up
Associate Director for Finance, Policy and Operation

EXECUTIVE SUMMARY

WHY WE DID THIS AUDIT

We performed this audit to determine whether DOI established an effective internal control program for ensuring the effectiveness and efficiency of its operations in compliance with Office of Management and Budget (OMB) Circular A-123, “Management’s Responsibility for Internal Control.”

OMB revised Circular A-123 in December 2004 to strengthen and improve accountability for federal agencies in light of the new requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002.

Because DOI was in the process of implementing the new requirements, we limited our audit to existing requirements that were carried forward into the revised Circular. We therefore excluded requirements contained in Appendix A of the new Circular that relate to financial reporting.

Our audit focused on the internal control programs at the Bureau of Indian Affairs, the Bureau of Land Management, the Bureau of Reclamation, and the National Park Service.

WHAT WE FOUND

The Department of the Interior (DOI) had not established an effective program to ensure adequate internal controls over the effectiveness and efficiency of its operations. Although the Office of Financial Management (PFM) developed detailed policies and procedures for implementing DOI’s internal control program, it had not provided effective program management and oversight to ensure that bureaus were complying with the guidance. For example, we found that bureaus we reviewed did not adequately:

- plan and prioritize internal control reviews,
- conduct and document reviews to identify deficiencies and develop corrective action plans,
- track implementation of corrective actions identified from management-conducted reviews, and
- prepare accurate listings reviews to support DOI’s annual assurance statement.

These weaknesses in the oversight of the internal control program increase the risk that DOI’s internal controls cannot ensure 1) programs achieve their intended results; 2) funds are used consistent with DOI’s mission; and 3) resources are protected from waste, fraud, and mismanagement. We also concluded that DOI’s internal control program did not ensure that bureaus’ annual assurance statements on internal control were reliable. Therefore, these bureau level assurances may not have provided adequate support for the Secretary’s certification of DOI’s annual statement of assurance.

OMB Circular A-123, “Management’s Responsibility for Internal Control,” identifies the three objectives of internal control to be 1) the effectiveness and efficiency of program operations, 2) reliability of financial reporting, and 3) compliance with laws and regulations. Our conclusions are limited to the internal control program as it relates to the effectiveness and efficiency of operations and compliance with related laws and regulations. Controls over the reliability of financial reporting and compliance with related laws and regulations are tested by KPMG LLP as part of DOI’s annual financial statement audits.

During its FY2006 audit, KPMG LLP reported similar conclusions regarding DOI's internal control program as it relates to financial reporting. KPMG LLP identified DOI's control assessment and assurance statement process as a "reportable condition," or a deficiency that could adversely affect DOI's ability to record, process, summarize, and report financial data. Specifically, KPMG LLP concluded that while DOI established an effective plan to assess, document, test and report on internal controls over financial reporting, certain DOI components did not fully execute the plan. Despite this reportable condition, KPMG LLP was able to conduct sufficient procedures to express an opinion that DOI's FY2006 financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

During our audit, we also found that PFM's audit follow-up process did not ensure that Office of Inspector General (OIG) recommendations were implemented. PFM closed OIG audit recommendations without ensuring that bureaus actually implemented them. During FY2005 and FY2006, we reviewed 69 recommendations reported as implemented and determined that 18 (26 percent) had not actually been implemented.

Because of these deficiencies in DOI's internal control program and audit follow-up process, we concluded that DOI was not in full compliance with the Federal Managers' Financial Integrity Act and OMB Circulars A-123 and A-50, "Audit Followup."

In its response to our draft report, management disagreed with our overall conclusion that DOI had not established an effective internal control program and that assurance statements therefore may not be reliable. However, management agreed that the program could be continually improved and cited recent steps it has taken to provide greater oversight to the bureaus. Management concurred with all four recommendations we made for improving DOI's internal control program. These recommendations include best practices we identified from other federal agencies that DOI should consider adopting to strengthen its internal control program.

After considering management's response, we stand by our conclusions on DOI's internal control program. Our results show that the bureaus we reviewed were not effectively implementing their internal control responsibilities and PFM had not taken sufficient steps to hold them accountable. PFM has recently taken positive steps to improve its oversight over the bureaus; however, PFM is in the initial stages of implementing these additional oversight procedures.

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INTRODUCTION

AUDIT OBJECTIVE

The objective of our audit was to determine whether DOI established an effective internal control program for ensuring the effectiveness and efficiency of its operations. Specifically, did DOI have adequate processes for:

- program management and oversight,
- planning annual internal control reviews,
- conducting and monitoring internal control reviews,
- implementing corrective actions,
- supporting the annual assurance statements, and
- audit follow-up.

BACKGROUND

The Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-123, "Management's Responsibility for Internal Control," require federal agencies to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Annually, agency heads must provide to the President and the Congress a statement of assurance representing his/her informed judgment as to the overall adequacy and effectiveness of internal control within the agency. Specifically, these statements provide assurance that:

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

OMB revised Circular A-123 in December 2004 to include new requirements effective in FY2006. The revision reexamined the internal control requirements for federal agencies in light of the new requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002. That Act was passed as a response to the crisis of confidence in the financial integrity of public companies after several high profile scandals. One of the primary changes in Circular A-123 was an increased focus on internal control over

financial reporting. OMB added Appendix A to Circular A-123 to specifically address controls over financial reporting. Additionally, the revision required agencies to include their statement of assurance in their annual Performance Accountability Report. During our audit, DOI was in the process of implementing the new requirements. We focused our audit on the existing internal control requirements being carried forward into the revised Circular A-123. We focused on requirements supporting the effectiveness and efficiency of operations as well as compliance with related laws and regulations. Controls over the reliability of financial reporting and compliance with related laws and regulations are tested by KPMG LLP as part of DOI's annual financial statement audits.

OMB Circular A-50, "Audit Followup," provides requirements for federal agencies' follow-up on audits performed by Inspectors General, other executive branch audit organizations, the Government Accountability Office (GAO), and non-federal auditors. Circular A-50 requires agency heads to appoint a senior manager to serve as an audit follow-up official who has personal responsibility for ensuring that:

- systems of audit follow-up, resolution, and corrective action are documented and in place;
- timely responses are made to all audit reports;
- disagreements are resolved; and
- corrective actions are actually taken.

The Assistant Secretary for Policy, Management and Budget (PMB) is DOI's designated audit follow-up official and has overall responsibility for implementation and oversight of the internal control and audit follow-up program. PMB's Office of Financial Management (PFM) is responsible for providing program guidance and oversight to the bureaus. As a result of the revision in Circular A-123, PFM revised its guidance in 2005 by developing its new Internal Control and Audit Follow-up Handbook (Handbook). In 2006, the Handbook was implemented although it was still in draft and had not been formally approved. PFM issues annual guidelines to bureaus for the internal control and audit follow-up programs. PFM is also responsible for the resolution of OIG and GAO audit report recommendations and determination that audit recommendations have been implemented.

Senior DOI officials and bureau directors are responsible for establishing and maintaining adequate systems of internal control within their offices and bureaus. This responsibility includes having procedures and systems in place to provide program information, plan and conduct internal control reviews, report program results, and provide annual assurance statements to DOI's Secretary on the effectiveness of the internal control systems.

AUDIT RESULTS

DOI had not established an effective internal control program to ensure adequate internal controls over the effectiveness and efficiency of its operations. Although PFM developed comprehensive policies and procedures for implementing DOI's internal control program, it had not provided the necessary program management and oversight to ensure that bureaus were complying with the guidance. Specifically, we found that the bureaus we reviewed did not adequately:

- plan and prioritize internal control reviews,
- conduct and document reviews to identify deficiencies and develop corrective action plans,
- track implementation of corrective actions identified from management-conducted reviews, and
- prepare accurate listings of reviews to support DOI's annual assurance statement.

Our conclusions are limited to the internal control program as it relates to the effectiveness and efficiency of operations and compliance with related laws and regulations. Controls over the reliability of financial reporting and compliance with related laws and regulations are tested by KPMG LLP as part of DOI's annual financial statement audits. During its FY2006 audit of DOI's financial statements, KPMG LLP reported similar conclusions regarding DOI's internal control program as it relates to financial reporting. KPMG LLP identified DOI's control assessment and assurance statement process as a "reportable condition," or a deficiency that could adversely affect DOI's ability to record, process, summarize, and report financial data. Specifically, KPMG LLP concluded that while DOI established an effective plan to assess, document, test and report on internal controls over financial reporting, certain DOI components did not fully execute the plan. As a result, DOI did not consistently identify, document, and test key financial controls; did not fully document the procedures performed to test the design and operating effectiveness of certain controls; did not consistently document its evaluation of the test results; and did not adequately document the population, sample size or period tested. Despite the reportable condition regarding the control assessment and assurance statement process, KPMG LLP was able to conduct sufficient procedures to express an opinion that DOI's FY2006 financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

We also found that PFM closed OIG audit recommendations without ensuring that bureaus actually implemented them.

PLANNING AND PRIORITIZING INTERNAL CONTROL REVIEWS

We found that the bureaus we reviewed were not following PFM's guidance for planning and prioritizing reviews. None of the four bureaus reviewed had developed program component inventories or conducted risk assessments. Bureaus are required to maintain a program components inventory, which consists of specific program functions or activities that can be prioritized for review. Risk assessments are required for all program components to evaluate the susceptibility to waste, loss, unauthorized use, and/or misappropriation. How an agency assesses, monitors, and manages risk are critical elements of any good internal control program.

Many bureau officials we interviewed were not aware of these requirements. Specifically:

- A Bureau of Indian Affairs (BIA) headquarters official stated that BIA headquarters does not maintain any inventory of program components but that the regional offices may have prepared them. We visited the Southwest Regional Office and found it had neither prepared a program component inventory nor performed any risk assessments.
- A Bureau of Land Management (BLM) official stated that BLM does not maintain a program component inventory. BLM officials acknowledged they were aware that risk assessments were required; however, they had not conducted any assessments other than the OMB-required improper payments risk assessment. BLM officials stated they planned to perform risk assessments in the future.
- Bureau of Reclamation (BOR) officials stated that program personnel identify components but they do not compile them into an inventory. They also stated that no formal risk assessments are conducted.
- National Park Service (NPS) officials stated that they use budget line items as their inventory of components. However, they could provide no evidence the line items were used for planning reviews or conducting risk assessments.

DOI's Handbook requires bureaus to prepare and submit annual internal control review plans that should provide a sufficient basis for the bureaus' annual assurance statements. The plans should include a prioritized schedule of reviews to be performed on specific program components based on their annual risk assessments. PFM approved the bureaus' annual internal control review plans without ensuring the bureaus complied with the requirements to prepare program component inventories and conduct risk assessments.

CONDUCTING AND DOCUMENTING INTERNAL CONTROL REVIEWS

The bureaus we reviewed often did not conduct and document their internal control reviews in compliance with DOI internal control and audit follow-up guidance. DOI's Handbook requires bureaus to summarize internal control review results in a report, retain supporting documentation for independent review, and prepare corrective action plans that identify target dates and responsible officials. The Handbook also requires bureaus to track and document the status of all audit resolution determinations.

During our site visits, we analyzed 63 internal control review files that were identified on the bureaus' annual assurance statements and interviewed bureau officials who performed the reviews. Based on this work, we identified the following deficiencies in the files:

- 11 (17 percent) contained no report of the review's findings.
- 25 (40 percent) contained no documentation supporting the review conducted.
- 28 (44 percent) contained no corrective action plan.
- 44 (70 percent) identified no target dates for action plans.
- 44 (70 percent) identified no responsible official.
- 48 (76 percent) contained no documented status or resolution determination.

We found that bureau officials either did not plan or conduct internal control reviews to comply with the Departmental guidance or were unaware of the documentation requirements in the guidance.

TRACKING IMPLEMENTATION OF CORRECTIVE ACTIONS

Corrective action tracking systems are necessary to ensure that recommended corrective actions are actually taken. PFM tracks corrective actions for OIG and GAO reports but does not track corrective actions for management-conducted reviews. We found that none of the bureaus we reviewed had adequate tracking systems for corrective actions recommended in management-conducted reviews. Without a formal tracking system, there are no controls to ensure that corrective actions are actually implemented.

Two bureaus did track some of their internal control reviews. BLM tracked all recommendations from General Management Evaluations performed by its Division of Evaluations and Management Services and BOR tracked recommendations on reviews appearing on its annual plan. However, neither of these bureaus had comprehensive tracking systems for all reviews supporting their annual statements of assurance.

SUPPORTING DOI'S ANNUAL ASSURANCE STATEMENT

The bureaus' annual assurance statements we reviewed were based on inaccurate or misleading listings of completed internal control reviews. Therefore, these statements may not have been adequate to support the DOI's Annual Assurance Statement. DOI's Handbook requires that bureau statements be supported with lists of internal control reviews they conducted. The lists we reviewed were misleading because they:

- included reviews that were either not performed or not completed;
- included the same review more than once; and
- incorrectly identified status reports, financial statement information, and other activities as internal control reviews.

For example:

- BOR's FY2005 Annual Assurance Statement was supported by a list that identified 223 internal control reviews; however, only 33 of these were identified as complete. The remaining 190 reviews included reviews that were identified as still ongoing or were not clearly classified.
- NPS's FY2005 Annual Assurance Statement was supported by a list that identified 1,155 internal control reviews. The list did not identify review locations, responsible officials, and specific dates when reviews were completed. Some reviews were listed more than once, and 189 reviews were identified as not completed.
- BLM's FY2005 annual review plan identified 70 internal control reviews. We reviewed the FY2005 annual assurance statement and found that only 10 of these reviews were reported as completed. There was no evidence that BLM reassessed its review plans to determine if the 10 completed reviews provided sufficient support for the annual assurance statement.
- At BIA's Southern Pueblos Agency, we analyzed seven internal control reviews listed as support for the Education Line Officer's FY2005 annual assurance statement. We found that portions of one review included on the annual assurance statement were counted separately as two additional reviews and another review listed was not completed.

AUDIT FOLLOW-UP

We found that DOI did not have reasonable assurance that corrective actions were implemented to remedy deficiencies identified in OIG reports. As a result, audit recommendations had been closed without implementation, and the underlying deficiencies addressed in the OIG recommendations may still exist.

We reviewed nine PFM audit follow-up files and determined that PFM did not adequately conduct and document its evaluations of bureau actions taken to implement audit recommendations. Generally, we found that the PFM files were not well organized, PFM analysts did not include documentation of their assessments and conclusions, and it was difficult to locate or identify the documentation used to close specific recommendations. We found that PFM officials and audit follow-up analysts were unaware of or misinterpreted the guidance for classifying audit recommendations as resolved and implemented. Specifically, we found:

- None of the nine files contained documented analyses which summarized or supported the analysts' reviews, conclusions, and opinions that corrective actions were sufficient to consider the recommendations resolved and implemented. In one case, a PFM analyst provided a bureau instruction memorandum to justify the classification of a recommendation as implemented. However, there was no evidence in the file that the analyst had reviewed the memorandum and concluded that the memorandum adequately addressed the recommendation. We concluded that issuance of this memorandum did not implement the recommendation.
- Six of the nine files did not contain adequate documentation from the bureaus or any other source to support closure of the recommendations. For example, one recommendation was classified as resolved and implemented based on a verbal promise from a bureau to provide supporting documentation; however, the documentation was not subsequently provided. Another recommendation was erroneously classified as resolved and implemented. As a result of our review, a PFM official agreed to reclassify the recommendation.
- Five of the nine files did not contain documented decisions and notifications to appropriate DOI and bureau officials that recommendations had been formally classified as resolved and implemented.
- None of the nine files contained evidence that PFM was conducting supervisory reviews to ensure the audit follow-up files contained appropriate documentation to support audit resolution decisions.

Audit follow-up files should be sufficiently organized and documented to allow an independent reviewer to conclude that corrective actions were sufficient to consider the recommendations resolved and implemented.

In FY2005 and FY2006, OIG conducted verification reviews of selected recommendations reported as implemented and found similar problems. For example:

- During FY2005, OIG completed verification reviews of 20 recommendations reported as implemented and found that 4 (20 percent) had not actually been implemented.

- During FY2006, OIG completed verification reviews of 49 recommendations reported as implemented and found that 14 (29 percent) had not actually been implemented.

Circular A-50 provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. In addition, PFM prepared DOI's Handbook which includes policies and procedures for audit follow-up. While we believe DOI's handbook procedures provide valuable guidance, our audit results demonstrate that the guidance was not being followed by PFM or the bureaus. Specifically, the bureaus were not providing adequate documentation on the implementation of OIG recommendations and PFM was closing recommendations without sufficient documentation.

CONSEQUENCES OF WEAKNESSES IN DOI'S INTERNAL CONTROL PROGRAM

Weaknesses in the oversight of the internal control program, as they relate to the effectiveness and efficiency of operations, increase the risk that DOI's internal controls cannot ensure:

- programs achieve their intended results;
- funds used are consistent with DOI's mission; and
- resources are protected from waste, fraud, and mismanagement.

Because of the weaknesses we identified in DOI's internal control program, we concluded that DOI was not in full compliance with the Federal Managers' Financial Integrity Act and Circulars A-123 and A-50. Additionally, we concluded that DOI's internal control program did not ensure that the bureaus' annual assurance statements on internal control were reliable. Therefore, these bureau level assurances may not have provided adequate support for the Secretary's certification of DOI's annual statement of assurance.

BEST PRACTICES

We identified several best practices used by other federal agencies and DOI bureaus for managing their internal control programs. If adopted by DOI, these practices could strengthen DOI's internal control program.

Assurance Statements from Program Managers

The General Services Administration (GSA) requires all program managers at the GS-15 level and above to sign an annual assurance statement on internal controls within their programs. The GS-15 managers have the option to require signed assurance statements

from their subordinate managers at the GS-14 level. Program managers are directly responsible for their programs and have the most direct and detailed knowledge of the design and execution of internal controls.

DOI guidance only requires bureau directors and program assistant secretaries to sign annual assurance statements to certify the adequacy of internal controls. Although not required by Department policy, BIA and NPS require their regional directors to provide assurance statements. Adopting the best practice of certifying annual assurance statements at the program level would help to establish greater accountability for DOI managers and could be used to support assurance statements from more senior executives.

Annual Assurance Questionnaires

In addition to signing assurance statements, GSA program managers are required to respond to an annual assurance questionnaire that provides detailed information on their program's compliance with internal control requirements. The questionnaire is completed electronically using web technology and addresses key standards for internal control. The manager must answer specific questions related to the following internal control aspects:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

In addition to the general questionnaire required of all managers, GSA also provides topic specific questionnaires for managers in certain areas such as technology procurement, building management, and information technology.

Adopting this best practice would allow DOI to better document the controls in place for each program. Questionnaires would help identify areas requiring additional controls and could be used to hold program managers responsible for the existence of internal controls in their program areas.

Greater Visibility for Internal Control Program

Both GSA and the Department of Education have developed executive level guidance on internal control requirements that are provided to senior leaders within their organizations. The guidance creates greater visibility for the internal control program and provides senior management with a synopsis of key requirements for controls within their organizations.

GSA provides a 20-page executive guide on internal controls to its senior leaders. The guide provides highlights of key requirements found in laws and regulations such as the Federal Managers' Financial Integrity Act; the Federal Financial Management Improvement Act; the Federal Information Security Management Act; Circular A-123,

and Circular A-127, “Financial Management Systems.” It also summarizes the internal control process at GSA. The guide provides a comprehensive view of internal control requirements for senior executives in a short, readable format.

The Department of Education has created a “List of Guiding Factors” that highlights major components of internal control as documented in GAO’s “Standards for Internal Control in the Federal Government.” We were informed that each Assistant Secretary within the Department of Education was required to discuss the guiding factors with their management and then sign the list. Requiring that Assistant Secretaries address these issues with their managers helps create an environment that stresses the importance of internal controls within the organization.

Adopting these best practices would provide senior managers with the high level internal control information they need and would help create a greater sense of management accountability.

BLM’s Division of Evaluations and Management Services

BLM created the Division of Evaluations and Management Services, which conducts a limited number of comprehensive internal control reviews for the bureau and provides training to its field offices. Many of the Division’s 17 full-time analysts have specialized experience and advanced degrees in fields such as management, administration, and natural resources. Through their reviews, the Division provides advice to managers on improving business practices and organizational effectiveness. Adopting the best practice of utilizing specialized personnel to conduct internal control reviews and provide training could improve the internal control program at other bureaus.

MANAGEMENT VIEWS

While PFM agreed that the internal control program can be continually improved, it disagreed with our overall conclusions regarding DOI’s existing internal control program. Specifically, PFM stated that it has fully complied with Circular A-123 and insists that DOI’s internal control program does ensure the bureaus’ annual assurance statements are reliable and provide adequate support for the Secretary’s annual assurance statement. Management indicated that it has taken a number of new steps to improve the internal control processes during FY2005 and FY2006. Specifically, PFM:

- Required identification of assessable component inventories and risk assessments for those components.
- Required that a three year internal control review plan be developed tied to risk assessments.
- Prepared a checklist for upcoming site visits to bureaus to exercise oversight.
- Highlighted OIG recommendations during meetings with senior management.

- Initiated a monthly work group of bureau audit liaison officers and internal control coordinators to address the entire spectrum of internal control issues and processes.
- Conducted a review of 400 audit recommendations closed in FY2006 and determined that more than 75 percent of the time adequate documentation was available in PFM files. In most other cases the documentation was available at the bureau. Fewer than 10 recommendations were reopened due to lack of adequate closure documentation.

After considering management's response, we stand by our conclusions on the Department's internal control program. Our audit results clearly show that the bureaus we reviewed were not effectively implementing their internal control program responsibilities and PFM had not taken sufficient steps to hold them accountable. The assurance statements we reviewed were not adequately supported. They included lists of reviews that were not completed and other activities, such as meetings, without explaining how these activities supported the statement of assurance. Additionally, none of the bureaus we reviewed had adequate processes for inventorying components, performing risk assessments, documenting internal control reviews, or tracking implementation of corrective actions on management-conducted reviews. Despite PFM's assertion to the contrary, the results of our audit demonstrated that DOI:

- had not implemented an effective internal control program,
- had not adequately supported annual statements of assurance, and
- was not in full compliance with the Federal Managers' Financial Integrity Act and Circulars A-123 and A-50.

We performed additional procedures to evaluate the new processes that PFM cited in its response to the draft report. We found that while PFM had developed additional guidance and oversight procedures, PFM was still in the initial stages of their implementation. For example, PFM developed a checklist to evaluate bureau internal control programs and it had begun scheduling site visits to bureaus to implement the checklist. However, as of the date of its response, PFM had not yet conducted any site visits and therefore, could not ensure that the bureaus have complied with the additional guidance.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Policy, Management and Budget:

1. Direct PFM to develop and implement additional oversight procedures that ensure the bureaus are adequately implementing their internal control programs. These procedures should ensure that bureaus adequately plan and prioritize internal control reviews, adequately conduct and document those reviews, and provide accurate lists of internal control reviews to support their annual assurance statements.

DOI Response

DOI concurred with the recommendation and stated that PFM has increased the level of oversight and involvement in the end-to-end process for internal controls. For example, PFM has issued additional guidance requiring bureaus to identify component inventories, conduct comprehensive risk assessments, and establish three year internal control review plans based on those assessments. Additionally, PFM has developed review guides and plans to conduct field visits to review the adequacy of bureau efforts.

OIG Analysis of DOI Response

PFM has taken recent steps to implement additional oversight procedures, but has not yet completed sufficient oversight to ensure that bureaus are currently complying with its guidance.

2. Require bureaus to develop and implement tracking systems to monitor:
 - All internal control reviews planned, in progress, or completed and
 - The status of identified deficiencies and corresponding corrective actions.

DOI Response

DOI concurred with the recommendation; however, the response stated that bureaus already have systems to monitor internal control reviews including Corrective Action Tracking System reports. Discrepancies resulting from internal control reviews are to be recorded in a corrective action plan identifying the originating source, responsible manager, system, audit finding, risk level, corrective action, target milestone dates, and overall status. The response stated that PFM will modify the process to collect and store closure documentation within PFM and not rely on bureaus to be the sole source of this data.

OIG Analysis of DOI Response

While bureaus do track corrective actions for audit recommendations, we found that the bureaus we reviewed did not track corrective actions for management-conducted reviews. In implementing this recommendation, PFM will need to ensure that bureaus expand their corrective action tracking to include actions identified in management-conducted reviews.

3. Direct PFM to develop and implement additional oversight procedures for the audit follow-up process. These procedures should require PFM analysts to adequately document the bases for their conclusions that recommendations are resolved and implemented and should require supervisory review of that documentation.

DOI Response

DOI concurred with the recommendation and stated that it made changes to improve the audit follow-up process. Specifically, PFM has stressed the need for adequate documentation and timely closure of audit recommendations. PFM will also maintain documentation to support audit recommendation resolutions rather than rely on the Bureaus to supply these documents.

OIG Analysis of DOI Response

The actions taken by PFM are a step in the right direction. However, additional steps are necessary to strengthen the oversight process. PFM should develop procedures requiring analysts to adequately document the bases for their conclusions that recommendations are resolved and implemented and to require supervisory review of that documentation.

4. Consider implementing the following best practices, where appropriate:
 - Requiring all regional and state directors and program managers to provide annual assurance statements.
 - Requiring all program managers to complete annual assurance questionnaires.
 - Promoting greater visibility for the internal control program by developing executive guides and requiring bureau and office heads to address these issues with their management teams.
 - Developing a staff that specializes in conducting internal control reviews and providing related training.

DOI Response

DOI concurred with the recommendation and is implementing the first two best practices identified in the report. These include requiring regional and state directors to provide annual assurance statements and requiring program managers to complete annual assurance questionnaires.

OIG Analysis of DOI Response

We encourage DOI to consider implementation of the remaining two identified best practices.

SCOPE AND METHODOLOGY

Our audit included a review of DOI's oversight of internal control programs, including the internal control processes at BIA, BLM, BOR, and NPS. We also reviewed DOI's audit follow-up program for OIG audits. DOI was implementing new internal control guidance as a result of revisions to Circular A-123. DOI requested that we delay our audit until after the new requirements were implemented. We decided to continue with the audit, but we defined our audit scope to include only those internal control requirements already in existence and being carried forward into the revised Circular A-123. We focused on requirements supporting the effectiveness and efficiency of operations as well as compliance with related laws and regulations. We excluded controls over the reliability of financial reporting and compliance with related laws and regulations which are tested by KPMG LLP as part of DOI's annual financial statement audits.

To accomplish our objective, we:

- Reviewed the laws and regulations that prescribe the requirements for internal control programs at federal agencies. This included the Federal Managers' Financial Integrity Act, Circulars A-123 and A-50, DOI's Departmental Manual, DOI's Internal Control and Audit Follow-up Handbook, and DOI's annual internal control and audit follow-up guidelines.
- Conducted site visits and interviewed officials from DOI and its bureaus, other federal agencies, and non-governmental entities.
- Reviewed a judgmental sample of 63 internal control reviews that were used to support the bureaus' Annual Assurance Statements to determine compliance with OMB Circular A-123 and DOI's Handbook. The Annual Assurance Statements did not clearly identify all reviews that were used to support the certification. In many cases, internal control reviews could only be identified and reviewed at the field level. Therefore, we conducted site visits at nine field locations where we selected our sample items. Because we did not select a statistical sample, the deficiencies we identified cannot be projected to the entire population of reviews. However, the results of our work support our conclusion that bureaus reviewed often did not conduct these reviews in accordance with PFM requirements.
- Judgmentally selected a sample of 9 closed recommendations from a list of 135 OIG performance audit recommendations that were closed between October 2003 and January 2006. We reviewed these recommendations to determine whether PFM had accurately concluded from bureau information provided that each recommendation had been resolved and implemented. Because we did not select a statistical sample, the deficiencies we identified cannot be projected to the entire

population of reviews. Our conclusions on PFM's audit follow-up process are supported by the results from our sample, our previous verification reviews on 69 recommendations, and interviews with PFM analysts.

We determined that neither OIG nor GAO had performed an audit specific to the management of DOI's internal control program in the last 5 years. The accounting firm KPMG annually reviews and reports on DOI's financial operations. As part of these reviews, KPMG tests DOI's and bureaus' internal controls for purposes of financial reporting.

We conducted our audit from December 2005 through April 2007 in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures considered necessary under the circumstances.

DOI OFFICES, BUREAUS, OTHER FEDERAL AGENCIES AND NON-GOVERNMENTAL ENTITIES CONTACTED

U.S. Department of the Interior

Office of the Secretary

Office of Financial Management	Washington, DC
Office of the Chief Information Officer	Washington, DC
Office of the Assistant Secretary- Indian Affairs (Office of Audit and Evaluation)	Reston, VA

Bureau of Indian Affairs

Southwest Region Office	Albuquerque, NM
Office of Indian Education Programs (Southern Pueblos Agency)	Albuquerque, NM

Bureau of Land Management

Alaska State Office	Anchorage, AK*
Arizona State Office	Phoenix, AZ*
California State Office	Sacramento, CA*
Colorado State Office	Lakewood, CO
Division of Evaluation & Management Services	Washington, DC
Idaho State Office	Boise, ID*
Montana State Office	Billings, MT*
National Business Center (NBC)	Denver, CO
National Interagency Fire Center	Boise, ID*
Nevada State Office	Reno, NV*
New Mexico State Office	Santa Fe, NM*
Oregon/Washington State Office	Portland, OR*
Utah State Office	Salt Lake City, UT*
Wyoming State Office	Cheyenne, WY*

Bureau of Reclamation

Denver Office	Denver, CO
Pacific Northwest Region	Boise, ID*

Fish and Wildlife Services

Policy and Directives Management	Arlington, VA
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Minerals Management Service

Directorate of Policy and Management Improvement	Washington, DC
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National Park Service

Catoctin Mountain Park	Thurmont, MD*
Chesapeake and Ohio Canal	Hagerstown, MD
Comptroller's Office	Washington, DC
George Washington Memorial Parkway	Memorial Parkway, VA*
Manassas Battlefield National Park	Manassas, VA
National Capital Region Offices	Washington, DC
National Mall and Memorial Parks	Washington, DC*
Prince William Forest National Park	Triangle, VA

* Offices contacted without a site visit.

Office of Surface Mining	Washington, DC
U.S. Geological Survey	Reston, VA
General Services Administration	
Chief Financial Officer	Washington, DC
Government Accountability Office	
Director, Consolidated Audits	Washington, DC*
Office of Management and Budget	Washington, DC*
Social Security Administration	
Director, Policy and Standards	Baltimore, MD*
U.S. Department of Education	
Chief Financial Officer	Washington, DC*
KPMG	Denver, CO

* Offices contacted without a site visit

ACRONYMS AND ABBREVIATIONS

BIA	Bureau of Indian Affairs
BLM	Bureau of Land Management
BOR	Bureau of Reclamation
Department	Department of the Interior
DOI	Department of the Interior
GAO	Government Accountability Office
GSA	General Services Administration
Handbook	Internal Control and Audit Follow-up Handbook
NPS	National Park Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PFM	Office of Financial Management
PMB	Office of Policy, Management and Budget
IT	Information Technology

STATUS OF AUDIT RECOMMENDATIONS

Recommendations	Status	Action Required
1	Unresolved Management concurred; additional information needed	PFM should provide additional information on actions taken or planned, including target dates and titles of officials responsible for implementation.
2	Unresolved Management concurred; additional information needed	PFM should provide additional information on actions taken or planned, including target dates and titles of officials responsible for implementation.
3	Unresolved Management concurred; additional information needed	PFM should provide additional information on actions taken or planned, including target dates and titles of officials responsible for implementation.
4	Unresolved Management concurred; additional information needed	PFM should reconsider implementation of the remaining two best practices and provide additional information on actions taken or planned, including target dates and titles of officials responsible for implementation.

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