



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

INDEPENDENT AUDITORS' REPORT ON THE U.S. DEPARTMENT OF THE INTERIOR FINANCIAL STATEMENT FOR FISCAL YEARS 2018 AND 2017



**OFFICE OF
INSPECTOR GENERAL**
U.S. DEPARTMENT OF THE INTERIOR

NOV 15 2018

Memorandum

To: Secretary Zinke

From: Mary L. Kendall
Deputy Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior Financial Statements for Fiscal Years 2018 and 2017
Report No. 2018-FIN-037

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior's (DOI) financial statements for fiscal years (FYs) 2018 and 2017. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the DOI Inspector General, or an independent external auditor as determined by the Inspector General, to audit the DOI financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General, KPMG, an independent public accounting firm, audited the DOI financial statements for the FYs ended September 30, 2018, and 2017. The contract required that the audit be performed in accordance with U.S. Generally Accepted Government Auditing Standards, Office of Management and Budget audit guidance, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*.

In its audit of DOI, KPMG reported:

- The financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles
- No material weaknesses in internal control over financial reporting, but did identify one significant deficiency:
 - Lack of Sufficient Controls over General Property, Plant, and Equipment
- No instances in which DOI's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) and
- No reportable noncompliance with provisions of laws tested or other matters.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. Generally Accepted Government Auditing Standards, was not intended to enable us to express, and we do not express, opinions on DOI's financial statements or conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether DOI's financial management systems substantially complied with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the attached auditors' report dated November 15, 2018, and the conclusions expressed therein. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. Generally Accepted Government Auditing Standards.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented. We will include the information in the attached report in our next semiannual report.

We appreciate the courtesies and cooperation extended to KPMG and our staff during this audit. If you have any questions regarding this report, please contact me at 202-208-5745.

Attachment



KPMG LLP
Suite 12000
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Washington, DC 20006

Independent Auditors' Report

Secretary and Deputy Inspector General
U.S. Department of the Interior:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of the Interior (the Department), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Interior as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis*, *Required Supplementary Information*, and *Required Supplementary Stewardship Information* sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the *Introduction*, *Office of Inspector General Transmittal*, *Other Information*, and *We Would Like to Hear From You* sections of the Department's 2018 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal controls, described in the accompanying Exhibit I, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Department's Response to Finding

The Department's response to the finding identified in our audit is described and presented as a separate attachment dated November 15, 2018 titled *Response to Independent Auditors' Report*. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 15, 2018

SIGNIFICANT DEFICIENCY

During fiscal year (FY) 2018, the Department initiated implementation of corrective action plans to address internal control weaknesses and strengthen internal controls. Although the Department made progress in certain financial management and reporting areas, an internal control deficiency remains in certain areas of accounting and reporting of general property, plant, and equipment, as outlined below. The Department indicated that additional remediation is scheduled to continue in FY 2019.

A. Lack of Sufficient Controls over General Property, Plant, and Equipment

Conditions

The Department reported approximately \$21.5 billion in property, plant, and equipment (PP&E) net of accumulated depreciation, as of September 30, 2018, including \$2 billion in construction in progress (CIP). Controls were not operating effectively to ensure that completed CIP projects were monitored and transferred to property, plant, and equipment in a timely manner and to ensure project costs were appropriately classified as CIP. We continued to note instances where:

1. Completed projects were not transferred out of CIP and into the associated property, plant and equipment account in a timely manner.
2. Project costs associated with operations and maintenance were inappropriately capitalized rather than expensed.
3. Projects determined to be impaired were either not identified or were not expensed in a timely manner.
4. A completed CIP project not owned by DOI was inappropriately capitalized to DOI's accounts.

Criteria

- Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book) Principle 4, 6 and 10 – Demonstrate Commitment to Competence, Define Objectives & Risk Tolerances and Design Control Activities, respectively.
- Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Section IV, Assessing Internal Control.
- Financial Accounting Standards Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant, and Equipment.
- FASAB SFFAS No. 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.
- Bureau of Reclamation (BOR) Temporary Reclamation Manual Release 92 (TRMR-92) Assets Under Construction.
- BOR TRMR-90 Completion of Construction Activity.
- Bureau of Indian Affairs (IA) Assets Under Construction Handbook Accounting Management Handbook 27 IAM 15-H.

Cause and Effect

Project managers were not held accountable by regional program and finance offices to accurately report the status of CIP projects. As a result project managers were not providing consistent and timely updates on a project's status or whether project costs were appropriately classified as CIP. If left un-remediated, these conditions present an increased risk that errors in PP&E will not be prevented, or detected and corrected, by the Departments' management in the normal course of performing their assigned functions.

Recommendations

We recommend that the Department and Bureaus enhance internal control over general property, plant, and equipment as follows:

1. Develop and implement processes to ensure that all project managers and property accountants are trained and properly supervised on matters affecting the financial statements, including adhering to accounting policies and procedures, as appropriate, and performing key internal control functions in support of financial reporting. Within this process, ensure project managers and property accountants are held accountable for their adherence to accounting policies and procedures and performance of internal control functions.
2. Enhance regional and corporate accounting oversight processes to mitigate the risk of untimely transfer of CIP.
3. Perform an assessment and update Department-wide property, plant, and equipment policies and procedures, as applicable, over guidelines for capitalization and the timely transfer of CIP costs to ensure consistent monitoring of assets under construction and assignment of responsibilities.

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.



By Internet:	www.doioig.gov	
By Phone:	24-Hour Toll Free:	800-424-5081
	Washington Metro Area:	202-208-5300
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