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

Audit

Independent Auditors' Report on the U.S. Department of the Interior's Financial Statements for Fiscal Years 2024 and 2023

Report No. 2024-FIN-023

January 2025

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

Memorandum

JAN 06 2025

To: Deb Haaland
Secretary of the Interior

From: Mark Lee Greenblatt
Inspector General

Subject: *Independent Auditors' Report on the U.S. Department of the Interior's Financial Statements for Fiscal Years 2024 and 2023*
Report No. 2024-FIN-023

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior's (DOI's) financial statements for fiscal years (FYs) 2024 and 2023. The Chief Financial Officers Act of 1990 (Pub. L. No. 101-576), as amended, requires the DOI Inspector General, or an independent external auditor as determined by the Inspector General, to audit DOI's financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General, KPMG, an independent public accounting firm, audited DOI's financial statements for the fiscal years that ended September 30, 2024, and September 30, 2023. 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's and Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual.*

In its audit of DOI's financial statements, KPMG reported:

- The financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One material weakness and one significant deficiency in internal controls over financial reporting:
  - *Material Weakness* - Inadequate review and implementation of Statement of Federal Financial Accounting Standards No. 54, "Leases."
  - *Significant Deficiency* – Inadequate monitoring of general property, plant, and equipment (PP&E) assets.
- No instances in which DOI's financial management systems did not comply substantially with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).
- No reportable noncompliance with provisions of laws tested or other matters.

In connection with the contract, we reviewed KPMG's reports 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. We also do not express conclusions about whether DOI's financial management systems substantially complied with the three FFMIA requirements or whether DOI complied with laws and other matters. KPMG is responsible for the attached auditors' report dated November 15, 2024, 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.

KPMG offers seven recommendations to address the identified findings. DOI submitted its response to KPMG on November 15, 2024. We will notify Congress about these findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions about this report, please call me or Nicki Miller, Acting Assistant Inspector General for Audits, Inspections, and Evaluations, at 202-208-5745.

Attachment

Cover photo source: vicnick08/stock.adobe.com

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Independent Auditors' Report

Secretary and Inspector General
US Department of the Interior:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of US Department of the Interior (Department), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources and custodial activity for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2024 and 2023, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with US generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2024, the Department adopted Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, and related amendments. Our opinion is not modified with respect to this matter.

Other Matter - 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 consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the FASAB. 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with US generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

US generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the FASAB 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 GAAS, 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.

KPMG

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Table of Contents, Introduction, Message from the Office of the Chief Financial Officer, Inspector General's Transmittal, Section 3: Other Information, Glossary of Acronyms, We Would Like to Hear from You, and Acknowledgments but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on 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, 2024, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying Exhibit I as item A to be a material weakness.

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. We consider the deficiency described in the accompanying Exhibit I as item B to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2024 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 consolidated financial statements. 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. 24-02.

We also performed tests of the Department's 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying Exhibit I. The Department's response, titled Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2024 (Assignment No. 2024-FIN-023), was not subjected to the other 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 Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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, 2024

Internal control is a dynamic process used by management to achieve its objectives and an effective internal control system helps an entity adapt to evolving demands and changing risks. As programs develop and entities strive to improve operational processes and implement new technology, management must identify the potential risks that would prevent them from achieving their objectives and continually evaluate their internal control system so that it is effective and updated when necessary. As such, management is expected to perform ongoing risk assessment and monitoring activities to ensure the controls are established, designed, and operating effectively to mitigate the identified risks.

As in prior years, during fiscal year (FY) 2024, the Department initiated the implementation of corrective action plans to address internal control weaknesses and strengthen their internal control. Although the Department made some progress in certain financial management and reporting areas, deficiencies were identified in the areas of leases and the monitoring of general property, plant, and equipment (PP&E) assets that highlight the need for improved financial management and reporting controls at the Department. Additional remediation efforts are scheduled to continue in FY 2025.

MATERIAL WEAKNESS

A. Inadequate Review and Implementation of SFFAS 54: *Leases*

In FY 2024, the Department adopted Statement of Federal Financial Accounting Standards (SFFAS) 54: Leases, and related amendments, which revised the financial reporting standards for federal lease accounting. SFFAS 54, as amended, requires federal lessees to recognize a lease liability and a lease asset at the commencement of the lease term, unless it meets the scope exclusions or the definition/criteria of a non-intragovernmental short-term lease, contract, or agreement that transfers ownership, or intragovernmental lease. Additionally, Federal lessors are required to recognize a lease receivable and unearned revenue, unless it meets the scope exclusions or the definition/criteria of a non-intragovernmental short-term lease, contract, or agreement that transfers ownership, or intragovernmental lease.

In addition to its considerable portfolio of real property leases, the Department manages over 100,000 public land use contracts or agreements, including agreements for rights of way, energy development, and livestock grazing that required consideration for SFFAS 54 reporting requirements.

Conditions

The Department’s controls were not designed, through documented policies and procedures, and implemented to respond to the risks of proper and timely implementation of and compliance with SFFAS 54, and related amendments. Specifically, we noted the following:

- The Department’s controls over the review of contract and agreement groups potentially meeting the definition of a lease under SFFAS 54 were not sufficient to ensure completeness of the lease population, particularly in instances where the Department may be a lessor.

- The Department lacked controls to validate that the data, attributes, and assumptions (e.g., lease term and lease payments), used in estimating lease related account balances for right of way agreements in which the Department was the lessor, were appropriate and sufficiently supported.

- The Department’s controls to validate disclosures required under SFFAS 54 were completely and accurately prepared were not sufficient.

Criteria

- SFFAS 54 – *Leases*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book): Principle 4 – *Demonstrate Commitment to Competence*; Principle 9 – *Identify, Analyze, and Respond to Change*; Principle 10 – *Design Control Activities*; Principle 11 – *Design Control Activities for the Information System*; Principle 12 – *Implement Control Activities*; and Principle 16 – *Perform Monitoring Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Cause and Effect

The Department's risk assessment process was not sufficient to respond to the significant change that resulted from the newly effective accounting guidance (i.e., SFFAS 54 and related amendments). As a result, the Department did not establish an information technology solution, which was critical for maintaining ongoing compliance with SFFAS 54. In addition, the Department did not have sufficient personnel to execute and monitor the implementation of SFFAS 54 and related amendments.

While the Department was able to support and evidence material compliance with SFFAS 54 and related amendments, the conditions noted above, in conjunction with a lack of sufficient resources, accounting systems, and appropriate monitoring, increased the overall risk of material misstatement of the financial statements, particularly for lease related accounts and disclosures.

Recommendations:

We recommend the Department:

1. Design policies and procedures to perform and document a risk assessment of new or revised accounting standards.
2. Provide ongoing guidance and training to bureaus and offices to ensure compliance with the standards.
3. Perform a thorough risk assessment to identify changes needed to internal processes and controls, including establishment of an information technology solution, to ensure ongoing compliance with SFFAS 54.

SIGNIFICANT DEFICIENCY

B. Inadequate Monitoring of General PP&E Assets

Condition

In the prior year, a deficiency was identified in the Department's monitoring of general PP&E assets constructed by external Federal agencies. During fiscal year 2024, the Department demonstrated progress in addressing the identified prior year deficiency; however, remediation efforts were not completed as long-term remediation efforts are continuing to be refined. Although controls were implemented, they were not operating effectively to ensure all transactions and events were completely recorded in the Department's financial records. Specifically, the Federal Lands Management Agencies within the Department did not receive all necessary information from external Federal agencies to complete their evaluation of transactions and determine the appropriate accounting treatment as of September 30, 2024.

Criteria

- SFFAS 6 – *Accounting for Property, Plant, and Equipment*
- SFFAS 7 – *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- GAO Green Book: Principle 12 – *Implement Control Activities*; Principle 15 – *Communicate Externally*; and Principle 17 – *Evaluate Issues and Remediate Deficiencies*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Cause and Effect

The Department's Federal Lands Management Agencies were able to identify the population subject to evaluation but were only able to complete partial remediation efforts in the current fiscal year. Further, the Department did not have sufficient personnel and/or relevant third-party information to validate the accuracy of the costs associated with completed projects with external Federal agencies.

Insufficient monitoring of all projects constructed by external Federal agencies on behalf of the Department's Federal Lands Management Agencies resulted in an understatement of the General PP&E, Net balances in the Department's financial statements. The understatement is most likely up to $386 million, as of September 30, 2024.

If left un-remediated, these conditions may present an increased risk that errors in the reporting of PP&E amounts will not be prevented, or detected and corrected, by the Department's management in the normal course of performing their assigned functions.

Recommendations:

We recommend that management across the Department:

1. Continue to develop and implement policy and standardized procedures in conjunction with the Asset Management Council for tracking fixed asset projects constructed by or with other Federal agencies.
2. Maintain strong communication channels with external Federal agencies involved in constructing assets on the Department's behalf. This should include establishing formal agreements, regular meetings, and periodic reconciliations to ensure all fixed asset transactions are transferred, captured, and recorded timely and accurately.
3. Establish monitoring controls to regularly review and reconcile fixed asset transactions constructed by other Federal agencies within the financial records. This can involve periodic reviews of project documentation, invoices, and payment records to ensure completeness and accuracy.
4. Conduct training sessions for relevant personnel involved in financial record-keeping to enhance their understanding of the importance of tracking construction projects performed by or with other Federal agencies. This will help ensure compliance with established procedures and controls.

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REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

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WHO CAN REPORT?

Anyone with knowledge of potential fraud, waste, abuse, misconduct, or mismanagement involving DOI should contact the OIG hotline. This includes knowledge of potential misuse involving DOI grants and contracts.

HOW DOES IT HELP?

Every day, DOI employees and non-employees alike contact OIG, and the information they share can lead to reviews and investigations that result in accountability and positive change for DOI, its employees, and the public.

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