



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



Audit



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

January 16, 2026

Memorandum

To: Doug Burgum
Secretary of the Interior

From: Caryl N. Brzymiakiewicz, Ph.D.
Deputy Inspector General Performing the Duties of the Inspector General

Subject: *Independent Auditors' Report on the U.S. Department of the Interior's Financial Statements for Fiscal Year 2025*
Report No. 2025-FIN-022

C. Brzymiakiewicz

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior's (DOI's) financial statements for fiscal year (FY) 2025. 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 year that ended September 30, 2025. 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 and Council of the Inspectors General on Integrity and Efficiency *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 two significant deficiencies in internal controls over financial reporting:
 - *Material Weakness* – Inadequate financial reporting review controls.
 - *Significant Deficiency* – Inadequate controls over Statement of Federal Financial Accounting Standards No. 54, Lessor Leases.
 - *Significant Deficiency* – Inadequate monitoring of asbestos cleanup liability.
- 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 January 16, 2026, 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 makes eight recommendations to address the identified findings. DOI submitted its response to KPMG on January 16, 2026. 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, Assistant Inspector General for Audits, Inspections, and Evaluations, at 202-208-5745.

Attachment



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Independent Auditors' Report

Secretary and Deputy Inspector General Performing the Duties of the 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 the US Department of the Interior (Department), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources and custodial activity for the year 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, 2025, and its net cost, changes in net position, budgetary resources, and custodial activity for the year then ended in accordance with US generally accepted accounting principles.

Basis for Opinion

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

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 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.

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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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 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 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 audit 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

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, and Section 4: Appendix 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, 2025, 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 Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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 Schedule of Findings 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 deficiencies described in the accompanying Schedule of Findings as items B and C to be significant deficiencies.

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, 2025 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 Schedule of Findings. The Department's response, titled Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2025 (Assignment No. 2025-FIN-022), 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. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
January 16, 2026

Schedule of Findings

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) 2025, the Department initiated the implementation of corrective action plans to address previously identified internal control weaknesses and strengthen their internal control. Although the Department made some progress in certain financial management and reporting areas, a material weakness was identified in financial reporting review controls, and significant deficiencies were identified in the areas of leases and the asbestos cleanup liability, that highlight the need for improved financial management and reporting controls at the Department. Additional remediation efforts are scheduled in FY 2026.

MATERIAL WEAKNESS

A. Inadequate Financial Reporting Review Controls

During FY 2025, the Department initiated a comprehensive unification of the administrative functions across the Department. This initiative realigned key financial process areas, streamlined reporting structures, and required cross-functional collaboration to support department-wide priorities. The Department continues to advance its realignment to centralize financial management and oversight responsibilities.

Condition

The Department's controls over the review of its financial statements and the related notes were not operating effectively to prevent, or detect and correct, errors in certain financial statement notes. Specifically, the review of the Q3 financial statements and related notes did not detect and correct material errors within the *Note 18. Statement of Budgetary Resources* related to inaccurate presentation of the underlying transactional data.

Criteria

- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book):
 - Principle 4 – *Demonstrate Commitment to Competence*; and
 - Principle 12 – *Implement Control Activities*.
- OMB Circular No. A-136, *Financial Reporting Requirements*

Cause and Effect

Due to changes in personnel and insufficient training time for new control operators, reviewers of the Department's financial statements and related notes lacked the necessary knowledge and experience

Schedule of Findings

to perform an effective review based on the established procedures outlined in the *Financial Statement and Note Disclosure Preparation Checklist*.

The identified control deficiency resulted in the following presentation errors in the Department's financial statement *Note 18. Statement of Budgetary Resources* as of June 30, 2025:

- *Undelivered Orders* table:
 - Total Undelivered Orders, Federal amounts were overstated by \$18.1 billion;
 - Total Undelivered Orders, Non-Federal amounts were understated by \$18.1 billion;
- *Legal Arrangements Affecting Use of Unobligated Balances* table:
 - Expired Authority amounts were overstated by \$61.9 billion

As a result of these observations, the Department made the necessary corrections to its year-end financial statements and notes.

Without effective financial reporting controls, the Department is exposed to increased risk that misstatements, including presentation errors, in its financial statements and related notes may not be prevented, or detected and corrected, in a timely manner.

Recommendations:

We recommend the Department:

1. Implement comprehensive training for new control operators, focusing on accurate completion and review of financial statement templates and related disclosures. Training should emphasize understanding control objectives, consistent application of policies and procedures, and thorough review practices to detect and correct errors.
2. Periodically assess the effectiveness of training and update materials as needed to reflect changes in personnel, processes, or reporting requirements.
3. Assign experienced personnel as the reviewer or a second review by a different employee when new employees are performing the control.

SIGNIFICANT DEFICIENCIES

B. Inadequate Controls over SFFAS 54 Lessor Leases

In FY 2024, the Department adopted FASAB SFFAS 54: Leases, and related amendments, which revised the financial reporting standards for federal lease accounting.

The Department manages a substantial portfolio of diverse public land use arrangements, including agreements for rights of way, energy development, and livestock grazing to be considered for SFFAS 54 lessor reporting requirements.

In the prior year, a deficiency was identified and reported related to the Department's review and implementation of SFFAS 54: Leases.

Schedule of Findings

Conditions

During FY 2025, the Department demonstrated progress in addressing the identified prior year deficiency, however, remediation efforts were not completed. The Department's controls were not designed, through documented policies and procedures, and implemented to respond to the risks of noncompliance with the lessor reporting requirements of SFFAS 54, and related amendments.

Specifically, we noted the Department lacked controls related to:

- The review of new or modified contracts and agreements to determine whether they meet the definition of a lease under SFFAS 54 to ensure completeness of the lease population in instances where the Department may be a lessor.
- The evaluation of non-GAAP policies of not recognizing a lease receivable and unearned revenue for certain agreement types meeting the definition of a lease, to ensure the resulting omission is not material to the financial statements.
- The validation of the population of agreements for completeness and accuracy when estimating the lease related account balances for right of way agreements in which the Department is the lessor.
- The reconciliation of lease receivable account balances to underlying support to ensure the accuracy of amounts reported.

Criteria

- SFFAS 54: *Leases*
- GAO Green Book:
 - Principle 4 – *Demonstrate Commitment to Competence*;
 - Principle 7 – *Identify, Analyze, and Respond to Risks*;
 - Principle 10 – *Design Control Activities*;
 - Principle 11 – *Design Activities for the Information System*;
 - Principle 12 – *Implement Control Activities*;
 - Principle 16 – *Perform Monitoring Activities*; and
 - Principle 17 – *Evaluate Issues and Remediate Deficiencies*.

Cause and Effect

The Department's risk assessment process was not sufficient to respond to risks related to right to use lessor arrangements. In addition, the Department did not have sufficient personnel with the necessary knowledge and experience to design and implement sufficient controls related to leases and perform ongoing monitoring activities.

While the Department was able to support 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, increases the overall risk of misstatement of the

Schedule of Findings

financial statements. We identified a \$162 million understatement in the Department's lease receivable as the result of a reconciling difference between underlying support and the reported account balance.

Recommendations:

We recommend the Department:

1. Continue to design policies to perform and document a risk assessment of new or revised accounting standards.
2. Provide ongoing guidance and training to process owners to ensure compliance with the standards.
3. Enhance risk assessment procedures to identify and implement changes needed to internal processes and controls to ensure ongoing compliance with SFFAS 54.

C. Inadequate Monitoring of Asbestos Cleanup Liability

The Department owns facilities that may contain asbestos and estimates an asbestos cleanup liability using cost factors derived from historical asbestos surveys and cleanup costs. These cost factors are updated annually to incorporate new survey data and adjust for inflation. The estimated asbestos cleanup liability is calculated by applying the cost factors to the square footage of non-exempt facilities and using average survey costs for assets without square footage data.

Condition

The Department's controls over the estimation of its asbestos cleanup liability were not appropriately designed and implemented to prevent, or detect and correct, errors in the calculation of the liability. The absence of a review and verification process for critical data inputs impacted the accuracy of the calculated cost factors used to estimate the associated liability.

Criteria

- SFFAS 6: *Accounting for Property, Plant, and Equipment*
- FASAB Technical Release 10: *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*
- GAO Green Book:
 - Principle 10 – *Design Control Activities*;
 - Principle 12 – *Implement Control Activities*;
 - Principle 13 – *Use Quality Information*; and
 - Principle 16 – *Perform Monitoring Activities*.

Cause and Effect

The Department did not perform a review of the application, data, methods, or assumptions used in developing the estimated asbestos cleanup liability. Additionally, reliance on automated calculations occurred without sufficiently designed oversight or validation procedures and controls.

Schedule of Findings

The absence of effective internal controls exposes the Department to increased risk that misstatements in its asbestos cleanup liability may not be prevented, or detected and corrected, in a timely manner.

Specifically, we noted the cost factors used in the application of the estimation methodology were incorrectly deflated and the asbestos cleanup liability was understated by approximately \$597 million as of June 30, 2025. Corrections made in the current year resulted in a liability of \$1.1 billion as of September 30, 2025.

Recommendations:

We recommend the Department:

1. Implement a periodic retrospective review to verify the data, methods, and assumptions are accurate, complete, and consistent with established estimation methodologies.
2. Establish and document a formal control requiring periodic review and validation of the application of the data used to generate the accounting estimate.



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

REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

The Office of Inspector General (OIG) provides independent oversight and promotes integrity and accountability in the programs and operations of the U.S. Department of the Interior (DOI). One way we achieve this mission is by working with the people who contact us through our hotline.

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.

WHO IS PROTECTED?

Anyone may request confidentiality. The Privacy Act, the Inspector General Act, and other applicable laws protect complainants. Specifically, 5 U.S.C. § 407(b) states that the Inspector General shall not disclose the identity of a DOI employee who reports an allegation or provides information without the employee's consent, unless the Inspector General determines that disclosure is unavoidable during the course of the investigation. By law, Federal employees may not take or threaten to take a personnel action because of whistleblowing or the exercise of a lawful appeal, complaint, or grievance right. Non-DOI employees who report allegations may also specifically request confidentiality.

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