



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

**INDEPENDENT AUDITORS' REPORTS
U.S. DEPARTMENT OF THE INTERIOR
SPECIAL-PURPOSE FINANCIAL
STATEMENTS FOR FY2011 AND
FY2010**



OFFICE OF
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Memorandum

NOV 15 2011

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior
Special-Purpose Financial Statements for Fiscal Years 2011 and 2010
Report No. X-IN-MOA-0001-2012

Introduction

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior (DOI) special-purpose financial statements for fiscal years 2011 and 2010. Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements" requires the DOI Office of Inspector General (OIG) or an independent auditor, as determined by the OIG, to audit the DOI special-purpose financial statements.

Under a contract issued by DOI and monitored by the OIG, KPMG, an independent public accounting firm, performed an audit of the DOI fiscal years 2011 and 2010 special-purpose financial statements. The contract required that the audit to be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and OMB Bulletin No. 07-04.

Results of Independent Audit

KPMG issued an unqualified opinion on the special-purpose financial statements and identified no significant deficiencies in internal controls over financial reporting for the special-purpose financial statements.

KPMG is responsible for the attached auditors' report and for the conclusions expressed in the report. We do not express an opinion on DOI special-purpose financial statements, conclusions on the effectiveness of internal controls over the financial reporting process for the special-purpose financial statements, or conclusions on compliance with the Department of the Treasury's Treasury Financial Manual Chapter 4700.

Report Distribution

The legislation creating the OIG requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and unimplemented recommendations. Therefore, we will include a summary of the information contained in the attached audit report in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions regarding the report, please contact me at 202-208-5745.

Attachment



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

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

We have audited the accompanying Closing Package Financial Statement Reports – Balance Sheets of the U.S. Department of the Interior (Interior) as of September 30, 2011 and 2010; the related Closing Package Financial Statement Reports – Statements of Net Cost and Statements of Changes in Net Position, and the accompanying Financial Report (FR) Notes Reports for the years then ended; the accompanying Additional Note No. 31; the accompanying Trading Partner Summary Note Report – Balance Sheets as of September 30, 2011 and 2010; and the related Trading Partner Summary Note Report – Statements of Net Cost and Statements of Changes in Net Position for the years then ended (hereinafter collectively referred to as the special-purpose financial statements), except for the information included in the following sections:

- a. “Threshold” in FR Notes Reports;
- b. “Other Notes info – Section C – Claim Amount (Unable to Determine Loss),” “Other Notes Info – Section D – Claim Amount (Unable to Determine Loss),” “Text Data Line No. 5” in FR Notes Report No. 18;
- c. “Text Data Line No. 2” in FR Notes Report No. 25; and
- d. “Text Data Line No. 3” in FR Notes Report No. 26.

These special-purpose financial statements are the responsibility of Interior’s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interior’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with the requirements of Chapter 4700 of the U.S. Department of the Treasury’s *Treasury Financial Manual* (TFM), as described in Additional Note No. 31, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of Interior’s balance sheets as of September 30, 2011 and 2010, and the



related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as “general-purpose financial statements”) for the years then ended.

In accordance with *TFM Chapter 4700*, Interior prepared FR Notes Report Nos. 1 through 30, except for FR Notes Report Nos. 10A, 16, 20, 21, 23, 24 and 30, which were not applicable to Interior. Interior included Additional Note No. 31, to disclose other data not contained in the special-purpose financial statements, but which is necessary to make the special-purpose financial statements more informative.

In our opinion, the special-purpose 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, 2011 and 2010, and its net costs and changes in net position for the years then ended in conformity with U.S. generally accepted accounting principles and the presentation pursuant to the requirements of *TFM Chapter 4700*, as described in Additional Note No. 31.

Interior also prepared Other Data Report Nos. 2 through 16, except for Other Data Report Nos. 3 through 8 and 11 through 14, which were not applicable to Interior. The information included in the following is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by U.S. generally accepted accounting principles and the *TFM Chapter 4700*:

- a. “Text Data Line No. 2” in FR Notes Report No. 25;
- b. “Text Data Line No. 3” in FR Notes Report No. 26;
- c. “Other Data Info. – Sections A and B” and “Other Text Data – Section A – Line No. 5” in Other Data Report No. 2; and
- d. Other Data Report Nos. 9, 10, and 15.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, except for the information in the sections entitled “Threshold.” However, we did not audit this supplementary information, and accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The information included in the following is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements:

- a. “Threshold” in FR Notes Reports;
- b. “Threshold” in Other Data Reports;
- c. “Other Notes Info – Section C – Claim Amount (Unable to Determine Loss),” “Other Notes Info – Section D – Claim Amount (Unable to Determine Loss),” and “Text Data Line No. 5” in FR Notes Report No. 18;
- d. “Other Text Data – Section A – Line Nos. 1 through 4” in the Other Data Report No. 2;
- e. Other Data Report No 16;
- f. Closing Package Line Reclassification Summary Report – Balance Sheet;
- g. Closing Package Line Reclassification Summary Report – Statement of Net Cost;
- h. Closing Package Line Reclassification Summary Report – Statement of Changes in Net Position; and
- i. Closing Package Line Reclassification Summary Report – Custodial Activity.

This information has not been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, accordingly, we express no opinion on it.



The *TFM Chapter 4700* requires agencies to use the Governmentwide Financial Reporting System to input certain data as described in Additional Note No. 31. Except as discussed in this report, we express no opinion on information maintained in that system.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued a combined auditors' report dated November 15, 2011, which presents our opinion on Interior's general-purpose financial statements, our consideration of Interior's internal control over financial reporting; and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards*. That report is an integral part of the audits of the general-purpose financial statements, performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, and should be read in conjunction with this report in considering the results of our audits of the special-purpose financial statements. Our audit of the general-purpose financial statements of Interior as of and for the year ended September 30, 2011, disclosed the following material weakness, significant deficiencies, and compliance and other matters:

Material Weakness

A. Controls Over Contingencies

Significant Deficiencies

B. Information Technology Controls Over Financial Management Systems

C. Controls Over Undelivered Orders

D. Grant Monitoring Controls

Compliance and Other Matters

E. *Single Audit Act Amendments of 1996*

F. *Federal Financial Management Improvement Act of 1996*

Management is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the fiscal year 2011 special-purpose financial statements, we also considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal control and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interior's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting for the special-purpose financial statements was for the limited purpose described above and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting for the special-purpose financial statements that we consider to be material weaknesses, as defined above.

Management is responsible for complying with laws, regulations (including *TFM Chapter 4700*), contracts and grant agreements applicable to Interior. As part of obtaining reasonable assurance about whether Interior's fiscal year 2011 special-purpose financial statements are free of 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 or on compliance with *TFM Chapter 4700* requirements was not an objective of our fiscal year 2011 audit of the special-purpose financial statements and, accordingly, we do not express such an opinion.

The results of our tests of compliance with *TFM Chapter 4700* disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of Interior's management, Interior's Office of Inspector General, U.S. Department of the Treasury, OMB, and GAO, in connection with the preparation and audit of the *Financial Report of the U.S. Government*, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2011