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

Independent Auditors' Report on the U.S. Department of the Interior's Financial Statements for Fiscal Years 2023 and 2022

Report No.: 2023-FIN-021 December 2023

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

NOV 15 2023

Memorandum

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 2023 and 2022*
Report No. 2023-FIN-021

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) 2023 and 2022. 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, 2023, and September 30, 2022. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) 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.

- Three material weaknesses and one significant deficiency in internal controls over financial reporting:

    - *Material Weakness*—Controls over Financial Reporting.

    - *Material Weakness*—Accounting Policies and Guidance.

    - *Material Weakness*—Monitoring of Assets.

    - *Significant Deficiency*—Entity-Level Controls.

- 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 make 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, 2023, 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 nine recommendations to address the identified findings. DOI submitted its response to KPMG on November 15, 2023. 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 regarding this report, please contact me, or your staff may contact Kathleen Sedney, Assistant Inspector General for Audits, Inspections, and Evaluations, at 202-208-5745.

Attachment

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of U.S. Department of the Interior (Department), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net costs 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, 2023 and 2022, 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.

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. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 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.

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 U.S. 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.

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

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. 24-01 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. 24-01, 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

U.S. 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 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

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, Other Information, Glossary of Selected Terms, 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.

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, 2023, 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 material weaknesses and one 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 deficiencies described in the accompanying Exhibit I as items A, B, and C to be material weaknesses.

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 D 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, 2023 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. 24-01.

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. The Department's response, titled Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2023, 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 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, 2023

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 monitoring activities as part of the normal course of operations to ensure the controls are continuing to operate effectively to mitigate the identified risks.

As in prior years, during fiscal year 2023, the Department initiated the implementation of corrective action plans to address internal control weaknesses and strengthen their internal control. However, deficiencies remain, including in the areas of financial reporting, accounting policies and practices, monitoring of assets, and entity level controls that highlight the need for improved financial management and reporting controls at the Department. Given the increasing number of material weaknesses over the last three fiscal years, additional attention should be given to planned remediation efforts in fiscal year 2024.

MATERIAL WEAKNESS

A. Controls over Financial Reporting

Condition

The Department's controls over the preparation and compilation of its financial statements and related disclosures were not appropriately designed and implemented or operating effectively to prevent, or detect and correct, errors and/or omissions in certain financial statements and disclosures. The controls failed to detect and correct that the financial statements and disclosures did not conform to the annual updates made to the OMB Circular No. A-136 *Financial Reporting Requirements*. Specifically:

- Controls over the completeness and accuracy of certain data attributes for the Statement of Net Cost mapping, which are input at the bureau level into the financial management system, were not appropriately designed and implemented; and

- Review controls over the preparation and compilation of the Department's financial statements and related disclosures were not operating effectively.

Criteria

- Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book) Principles 12 and 16 – *Implement Control Activities*; and *Perform Monitoring Activities*; respectively.

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

- OMB Circular No. A-136, *Financial Reporting Requirements*

Cause and Effect

The review of the Department's financial statements and related disclosures did not follow the existing policies and procedures, and the reviewers did not properly complete the Financial Reporting and Note Disclosure Preparation Checklist in the execution of their job responsibilities. Specifically:

- The *Funds from Dedicated Collections* disclosure failed to include new disclosure requirements per OMB A-136, and the reviewer did not perform a thorough review of the disclosure to detect the omission of this required breakout of $2.11 billion in non-exchange revenue between non-exchange revenue with the public and intragovernmental non-exchange revenue

- Certain data attributes for Statement of Net Cost mapping were updated by bureaus but these changes were not identified by the reviewer of the SNC and related *Costs and Exchange Revenue by Responsibility Segment* disclosure. These attributes were not validated for completeness and accuracy and costs were misclassified between programs.

- The *Reclassification of Financial Statements Line Items for Financial Report Compilation Process* disclosure contained material errors, and the reviewer did not perform a thorough review of the disclosure to detect errors of $3.76 billion across four reported lines of the disclosure.

As a result of these observations, the Department made the necessary corrections to its year-end financial statements to ensure the disclosures were presented fairly, in all material respects, and in accordance with all applicable OMB requirements.

Without properly designed and implemented financial reporting controls that operate effectively, the Department is exposed to increased risk that misstatements, including omissions, in its financial statements and related note disclosures will not be prevented, or detected and corrected, in a timely manner.

Recommendations:

We recommend that the Department:

1. Strengthen process controls over the preparation, compilation, and review of its financial statement and related disclosures to include a thorough review of the annual OMB Circular No. A-136 *Financial Reporting Requirements* and the templates used in the process of generating the financial statements and the related disclosures.

B. Accounting Policies and Guidance

Due to recent natural disasters impacting the Department's assets, Department bureaus referred to specific Departmental policy and guidance over natural disaster events and reported material Natural Disaster Liability balances in the current fiscal year for damage to agency-owned property.

Condition

The Department had not established adequate controls over all current accounting guidance and policies to ensure they complied with U.S. Generally Accepted Accounting Principles (GAAP) for recorded transactions. Specifically, certain Departmental guidance did not clearly articulate the criteria of a liability under U.S. GAAP, as prescribed by the Federal Accounting Standards Advisory Board (FASAB), leading to a misinterpretation of U.S. GAAP and the recording of non-GAAP transactions.

Criteria

- Statement of Federal Financial Accounting Standards (SFFAS) 5 – *Accounting for Liabilities of the Federal Government*

- Statement of Federal Financial Accounting Concepts (SFFAC) 5 – *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*

- GAO Green Book Principles 4 and 10 – *Demonstrate Commitment to Competence*; and *Design Control Activities*; respectively.

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Cause and Effect

A combination of high accounting staff turnover in recent years and inadequate training resulted in management's incorrect interpretation of accounting standards and the publishing of internal accounting directives and policies that did not conform to U.S. GAAP. As a result, the Department's financial statements initially contained non-GAAP transactions that materially misstated liabilities by $1.575 billion and expenses by $1.074 billion as of and for the period ended June 30, 2023. In addition, inadequate review and update of accounting policies and guidance increase the risk that invalid transactions in the financial statements and related note disclosures will not be prevented, or detected and corrected, in a timely manner.

As a result of these observations, the Department made certain corrections to its year-end financial statements to ensure the statements and related disclosures were presented fairly, in all material respects.

Recommendations:

We recommend that management across the Department:

1. Strengthen the process for reviewing and evaluating existing accounting policies and guidance, specifically the guidance over unique transactions related to natural disaster events, to ensure the established Department policies clearly comply with GAAP.

2. Provide comprehensive training programs for employees for reviewing and evaluating accounting transactions for compliance with GAAP, specifically the relevant FASAB SFFAS.

3. Evaluate the remaining Natural Disaster Liability balance against the relevant SFFAS 5 criteria and determine the accurate amount to report as a liability of the Department.

C. Monitoring of Assets

The Department has had a long-standing internal control weakness over accurately reporting Property, Plant, and Equipment (PP&E) balances and, during fiscal year 2023, an internal control deficiency remained in the monitoring of assets, as outlined below.

Condition

Controls were not properly designed and implemented to ensure that all transactions and events were completely recorded in the Department's financial records. Specifically, the Department failed to accurately monitor and record fixed assets constructed by another Federal agency on behalf of the Department.

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 Principles 5, 10, and 15 – *Enforce Accountability; Design Control Activities; and Communicate Externally*; respectively.

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Cause and Effect

The Department did not appropriately assess the risks associated with project-related property transactions performed by other agencies and, therefore, the Department's standardized procedures and controls for capturing and recording such transaction did not account for the added complexity and potential risks.

Insufficient communication and coordination between the Department and external agencies led to a breakdown in the tracking of assets. As a result, the PP&E balances in the Department's financial statements were most likely understated by $801 million as of September 30, 2023.

If left un-remediated, these conditions present an increased risk that material errors in the reporting of PP&E amounts will not be prevent, 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. Develop and implement policy and standardized procedures in conjunction with the Asset Management Council for tracking fixed asset projects constructed by other Federal agencies.

2. Establish 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 captured and recorded timely and accurately.

3. Put in place 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 other Federal agencies. This will help ensure compliance with established procedures and controls.

SIGNIFICANT DEFICIENCY

D. Entity-Level Controls

Conditions

The GAO Green Book states that an effective internal control system requires each of its five components, including control environment; risk assessment; control activities; information and communications; and monitoring to be effectively designed, implemented, and operating together in an integrated manner.

In the prior year, a deficiency was identified in the Department's entity-wide control environment components of Risk Assessment and Monitoring. During fiscal year 2023, the Department demonstrated progress in addressing and closing the identified prior year deficiencies in its entity-wide control component of Risk Assessment. As we reported in previous fiscal years, we continued to observe entity-wide internal control system conditions, in the component of Monitoring, as follows:

- Management assigned responsibility and delegated authority to remediate prior year internal control deficiencies related to Undelivered Orders; however, the remediation efforts were not completed on a timely basis.

- Management assigned responsibility and delegated authority to remediate prior year internal control deficiencies related to PP&E; however, the remediation efforts were determined not to be the appropriate corrective action.

Criteria

- GAO Green Book Principle 17 - *Evaluate Issues and Remediate Deficiencies*

Cause and Effect

Management within the Office of Financial Management (PFM), who is tasked with the oversight responsibility of the Department's internal control system at the consolidated level, did not ensure remediation efforts were completed on a timely basis at the bureaus to address the identified risk. As activity at the bureaus rolls up into the consolidated activities of the Department, the ineffective remediation of bureau prior year deficiencies caused continued deficiencies to be reflected in the consolidated Department internal control system.

If not corrected, these deficiencies will expose the Department to an increased risk that misstatements in its financial statements and related disclosures would not be prevented, or detected and corrected, in a timely manner and lead to an increased risk of possible violation of laws and regulations.

Recommendations

We recommend that both programmatic and financial management across the Department:

1. Enhance monitoring capabilities related to existing deficiencies to address existing design deficiencies and improve operating effectiveness of the related controls in a timely manner. Specifically, management should consider a baseline (current year) assessment and compare against management's design (future state) of the internal control system to address the objectives and risks of the Department.

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.

If you wish to file a complaint about potential fraud, waste, abuse, or mismanagement in the DOI, please visit the OIG's online hotline at **www.doioig.gov/hotline** or call the OIG hotline's toll-free number: **1-800-424-5081**

Who Can Report?

Anyone with knowledge of potential fraud, waste, abuse, misconduct, or mismanagement involving the 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 the OIG, and the information they share can lead to reviews and investigations that result in accountability and positive change for the 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. Section 7(b) of the Inspector General Act of 1978 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.