



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 2021 and 2020



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

Memorandum

NOV 15 2021

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 2021 and 2020*
Report No. 2021-FIN-036

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) 2021 and 2020. The Chief Financial Officers Act of 1990 (Public L. No. 101-576), as amended, requires the DOI Inspector General, or an independent external auditor as determined by the Inspector General, to audit the DOI's financial statements.

Under a contract issued by the DOI and monitored by the Office of Inspector General, KPMG, an independent public accounting firm, audited the DOI's financial statements for the FYs that ended September 30, 2021, and September 30, 2020. 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 financial statements, KPMG reported:

- The financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles
- Four significant deficiencies in internal controls over financial reporting:
 1. Controls over financial reporting
 2. Controls over construction in progress
 3. Controls over journal entries
 4. Entity-level controls

- No instances in which the 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 the DOI financial statements, conclusions about the effectiveness of internal control over financial reporting, or conclusions about whether the DOI's financial management systems substantially complied with the three FFMIA requirements or whether the DOI complied with laws and other matters. KPMG is responsible for the attached auditors' report dated November 15, 2021, 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 13 recommendations to address the identified deficiencies. The DOI submitted its response to KPMG on November 15, 2021. We will notify Congress of our findings in our next semiannual report, as required by law. We will also post a public version of this report on our website.

We appreciate the courtesies and cooperation extended to KPMG and our staff during this audit. If you have any questions regarding this report, please contact me, or your staff may contact Kathleen Sedney, Assistant Inspector General for Audits, Inspections, and Evaluations, at 202-208-5745.



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of the Interior (the Department), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Interior as of September 30, 2021 and 2020, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, 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*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or



significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Exhibit I as items A, B, C and D, that we consider to be significant deficiencies.

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, 2021 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. 21-04.

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

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described as a separate attachment dated November 15, 2021 titled *Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2021*. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, D.C.
November 15, 2021

Internal control is a dynamic process used by management to achieve its objectives and an effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change 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 its 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 to mitigate the identified risks.

During fiscal year (FY) 2021, the Department initiated the implementation of corrective action plans to address internal control weaknesses and strengthen internal control. Although the Department made some progress in certain financial management and reporting areas, deficiencies remain in certain areas of financial reporting, construction in progress, journal entries, and entity level controls that highlighted the need for improved financial management and reporting review at the Department. Additional remediation efforts are scheduled to continue in FY 2022.

SIGNIFICANT DEFICIENCIES

A. Controls over Financial Reporting

Conditions

The Department's controls over the preparation and compilation of its financial statement disclosures were not designed, implemented or operating effectively to appropriately prevent, or detect and correct errors in certain financial statements disclosures. Specifically, we noted the following:

- Bureau review controls over the completeness and accuracy of specific bureau schedules that are consolidated into total the Department's financial statement disclosures, were not operating effectively; and
- Department review controls over the compilation and preparation 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) Principle 12, 16, 17 – *Implement Control Activities; Perform Monitoring Activities; and Evaluate Issues and Remediate Deficiencies.*
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control.*
- OMB Circular No. A-136, *Financial Reporting Requirements.*

Cause and Effect

Bureaus did not prepare complete and accurate supporting schedules and did not perform a thorough review over such schedules before providing for consolidation into the Department's financial statement disclosures. Furthermore, the Department's overall review of the financial statements and related disclosures was not performed at the appropriate level of precision to prevent, detect and correct errors. As a result of our observations, the Department made the necessary corrections to its' year-end financial statement to ensure the disclosures were presented fairly, in all material respects, and in accordance with all applicable OMB requirements.

Without financial reporting controls designed, implemented and operating effectively, the Department is exposed to an increased risk that misstatements 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 and the bureaus enhance internal control over financial reporting as follows:

1. Strengthen review controls over the preparation of financial statements and the related supporting schedules.
2. Perform proper monitoring procedures to ensure that Department-wide controls over financial reporting are effective.

B. Controls over Construction in Progress

Fixed assets under construction represent Construction in Progress (CIP) and are recorded in a similar named general ledger account. They remain in such an account until the assets are put in service, at which time the costs of the assets are transferred into respective property, plant and equipment (PP&E) accounts and depreciation of the asset is recognized on a predetermined schedule.

Condition

The Department reported \$2.7 billion as CIP, as of September 30, 2021. Controls were not properly designed, implemented or operating effectively to ensure that completed CIP projects were transferred to property, plant, and equipment (PP&E) in a timely manner. Specifically, we noted the Department failed to transfer approximately \$14.1 million of completed projects from CIP into the associated completed PP&E account in a timely manner. Furthermore, controls over reporting CIP related activity within relevant disclosures were not properly designed. Specifically, the Department did not consider the accounting impacts of reclassifying project amounts between CIP and expense accounts which lead to the understatement of capitalized acquisitions reported in the PP&E rollforward within Note 7, *General Property Plant and Equipment, Net*.

Criteria

- GAO Green Book Principles 4 and 10 – *Demonstrate Commitment to Competence and Design Control Activities*.
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Section IV, Assessing Internal Control*.
- Reclamation Manual Directives and Standards FIN 07-24, *Assets Under Construction*.

Cause and Effect

Project managers were not held accountable to accurately report on the “in service” status of construction projects/assets and, as such, were not providing consistent and timely status updates for certain projects.

In addition, the Department’s existing process for recording reclassifications between CIP and expense accounts creates an abundance of activity that needs to be properly analyzed to allow for the appropriate presentation of PP&E capital acquisitions within the disclosures of the Department’s consolidated financial statements. If left un-remediated, these conditions continue to 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 continue to recommend that the Department and bureaus enhance internal control over CIP as follows:

1. Enhance oversight processes to ensure that project managers are adequately documenting and communicating the status of construction projects and are adhering to accounting policies and procedures.

2. Improve training and supervision for all project managers and property accountants on matters affecting the financial statements, including adhering to accounting policies and procedures.
3. Enhance CIP regional and corporate accounting oversight processes to ensure adequate monitoring and documentation of project costs and key data elements to mitigate the risk of untimely transfer of service assets.
4. Enhance existing processes and controls over the quarterly review of CIP activity to ensure reclassification adjustments are processed timely and presented accurately and fairly in the financial statements.

C. Controls over Journal Entries

Conditions

During FY 2021, the Department undertook several corrective actions to resolve conditions surrounding its manual journal entry framework which, in previous fiscal years, delegated bureaus the responsibility to determine which transactions are manual in nature. Although a new journal entry framework was developed and implemented to address prior year control gaps and deficiencies, the updated policy was not effective until halfway through the fiscal year. Therefore, for at least the period of October 1, 2020 through March 31, 2021, prior year conditions were still present including:

- The policy does not describe the Department-wide risks which need to be addressed by each bureau;
- The policy does not describe what specific transactions would require segregation of duties; and
- Each bureau performs the control scoping differently.

Additionally, there was no evidence provided to confirm the newly enacted policies, procedures, and configuration settings were retroactively applied to transactions occurring before April 1, 2021.

Criteria

- GAO Green Book Principles 7, 10,16 and 17 – *Identify, Analyze, and Respond to Risks; Design Control Activities; Perform Monitoring Activities; and Evaluate Issues and Remediate Deficiencies*, respectively.

Cause and Effect

The completion of the Department's root cause analysis along with the development and deployment of updated policies, procedures, and configuration settings took additional time in FY 2021 to design and implement. Insufficiently designed, implemented, and operated journal entry policies and procedures increase the risk that manual entries will not be appropriately prepared, reviewed, approved and/or recorded within the Department's financial management system.

Recommendations

We recommend that management complete internal testing of the new implemented policies to allow management to accurately provide the detailed summary of management assurances required by OMB Circular A-123.

D. Entity-Level Controls

Conditions

The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The GAO *Standards of Internal Control for Federal Government* state 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.

During fiscal year 2021, the Department worked on implementing corrective action plans to address internal control weaknesses and strengthen its entity level controls, however, the Department needs to continue to address deficiencies in its entity-wide control environment components of Risk Assessment and Monitoring. As we reported in previous fiscal years, we continued to observe entity-wide control environment conditions, which contributed to the deficiencies noted above, as follows:

- The Department operated with several outdated policies and procedures related to financial reporting and accounting operations (Risk Assessment).
- The Department failed to monitor key controls to ensure effectiveness throughout the financial reporting process including reviews of journal vouchers and property, plant, and equipment (PP&E) as outlined in our findings B and C above (Monitoring).
- The Department continued to experience repeat control deficiencies, highlighting the need to strengthen controls over the preparation and evaluation of corrective action plans to ensure the successful evaluation and remediation of control deficiencies (Monitoring).
- Controls over the planning and execution of Department-wide monitoring control program and processes needed to be strengthened (Monitoring).

Criteria

- GAO Green Book Principles 7, 16 and 17 – *Identify, Analyze, and Respond to Risks; Perform Monitoring Activities; and Evaluate Issues and Remediate Deficiencies*, respectively.

Recommendations

We continue to recommend that the Department perform an assessment of its entity level controls, and improve controls over risk assessment and monitoring as follows:

1. Provide assurance that newly enacted policies and procedures have been implemented and the related internal controls have been properly designed, implemented and are operating effectively for the entire period under audit.
2. Complete a comprehensive risk assessment for certain financial reporting and accounting processes to address all potential identified risks and develop the appropriate testing plans.
3. Enforce the independence and objectivity concepts when performing internal OMB A-123 test work.
4. Ensure all internal control functions, in support of financial reporting, are adhering to appropriate accounting policies and procedures.
5. Continually monitor and reevaluate whether corrective action plans applied were effective. The Department should consider whether implementing financial auditors' recommendations is enough to close a corrective action plans, or if there is a need to employ additional remedies to fix a control deficiency. As such, the Department should perform an independent root cause analysis during the corrective action plans development process to gain an in-depth understanding of what caused the control deficiency and to ensure corrective actions are complete and will fully remediate the issues. Furthermore, require CAPs to assist in tracking, evaluating, and correcting internal control findings and recommendations from all audits and reviews (i.e., from the OIG, GAO or their own internal control monitoring framework).

6. Perform an evaluation of the Department's entity level controls and determine if each of the GAO Green Book components and principles have been addressed by the entity level controls that have been put in place by the Department.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

November 15, 2021

Memorandum

To: Mr. Mark Lee Greenblatt
Inspector General
U.S. Department of the Interior
Office of Inspector General
1849 C Street, NW
Washington, DC 20240

From: Tonya R. Johnson 
Deputy Chief Financial Officer (Deputy CFO) and
Director, Office of Financial Management (PFM)

Subject: Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2021
(Assignment No. 2021-FIN-036)

We appreciate the opportunity to respond to the Independent Auditors' Report on the U.S. Department of the Interior (the Department) Fiscal Year (FY) 2021 consolidated financial statements. We are pleased to have achieved an unmodified audit opinion for the 25th consecutive year.

For FY 2021, the Department received four significant deficiencies. Management is resolute on taking necessary corrective actions to address each of the issues. As noted in the report, the Department has already made progress with implementing several significant policies relating to entity-level controls and journal entry framework during the year and will continue to strengthen department-wide controls over financial reporting.

In closing, we are committed to making continuous improvements to our financial management activities and internal control environment to carry out the Department's mission. We look forward to working collaboratively with the Office of Inspector General and the Independent Auditor in support of future audits.

