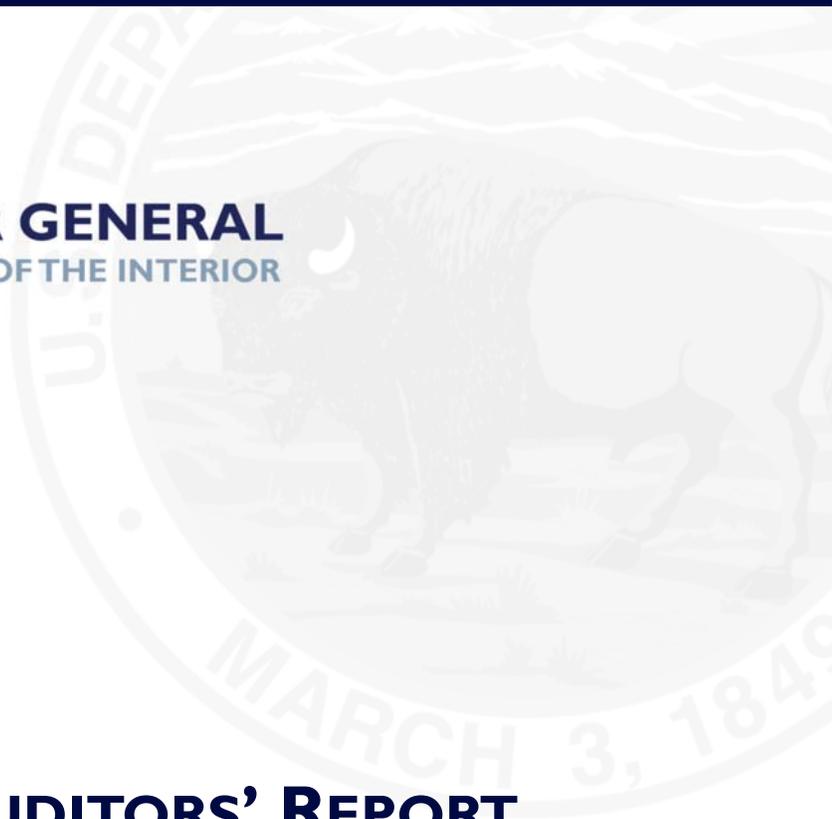




OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR



# **INDEPENDENT AUDITORS' REPORT ON THE U.S. DEPARTMENT OF THE INTERIOR'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2019 AND 2018**



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

NOV 15 2019

Memorandum

To: Secretary Bernhardt

From: Mark L. Greenblatt  
Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior's Financial Statements for Fiscal Years 2019 and 2018  
Report No. 2019-FIN-032

This memorandum transmits the KPMG LLP auditors' report of the U.S. Department of the Interior's (DOI) financial statements for fiscal years (FYs) 2019 and 2018. The Chief Financial Officers Act of 1990 (Public Law 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 ended September 30, 2019, and 2018. 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/Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*.

In its audit, KPMG reported the following:

- The financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles
- One material weakness and three significant deficiencies in internal controls over financial reporting:
  - *Material Weakness*
    1. Controls over financial reporting
  - *Significant Deficiencies*
    1. Controls over construction in progress
    2. General information technology controls
    3. Entity-level controls

- No instances in which the DOI's financial management systems did not substantially comply 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 report and related documentation and inquired of its representatives. Our review, unlike 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's financial statements, conclusions about the effectiveness of internal control over financial reporting, or conclusions on 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, 2019, 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.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented. We will include the information in the attached report in our next semiannual report.

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 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 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, 2019 and 2018, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources and statements of 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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, 2019 and 2018, 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 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, Required Supplementary Information, and Required Supplementary Stewardship 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* sections 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, 2019, we considered the Department's internal control over financial reporting (internal control) to determine the 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 have not been identified. However, as described in the accompanying Exhibit I, we did identify 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 deficiencies described in the accompanying Exhibit I as item A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit I as items B, C, and D 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, 2019 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 determination of financial statement amounts. 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. 19-03.

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 and presented as a separate attachment dated November 15, 2019 titled *Response to Independent Auditors' Report*. 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, 2019

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 2019, we noted several deficiencies in the areas of financial reporting, construction in progress, general information technology controls, and entity level controls that highlighted the need for improved financial management and reporting review at the Department.

## **MATERIAL WEAKNESS**

### **A. Controls over Financial Reporting**

#### *Conditions*

The Department did not consistently or effectively perform review controls over the preparation of Bureaus' financial information and the Department's financial statements and related note disclosures. As a result, we identified the following errors during our review of the Bureaus' financial information and the Department's third quarter and fiscal year-end financial statements disclosures:

**Misclassification of costs in the Statement of Net Cost.** Changes to the mapping of program costs to the appropriate major program financial statement line items, which are based on a bureau's major activities and programs, were not communicated to the Department by a bureau resulting in a misclassification of costs within the major programs presented on the Statement of Net Cost and the related notes of \$23.8 million;

**Misclassification of Status of Funds in the Fund Balance with Treasury Note Disclosure.** The invested amount of \$203 million was incorrectly classified as Unobligated, Unavailable and should have been classified as Unobligated, Available within the note;

**Environmental Liabilities Note Disclosure.** Unsupported changes to the Environmental and Disposal Liabilities database resulted in an overstatement to the reasonably possible range of Environmental and Disposal Liabilities of \$300 million and of \$1.3 billion, to the lower and upper ranges respectively as of September 30, 2019;

**Misclassification of Liabilities Not Covered by Budgetary Resources Note Disclosures.** Liability accounts of \$495 million were incorrectly classified as Liabilities Covered by Budgetary Resources and should have been classified as Liabilities Not Requiring Budgetary Resources within the note; and

**Stewardship Property Plant and Equipment Note Disclosure.** Changes to the reported stewardship property, plant and equipment balances, through reported additions and withdrawals, were unsupported and untimely within the various tables of the note disclosure.

As a result of our observations in the areas noted above, the Department made multiple corrections to its third quarter and fiscal year-end financial statements and related note disclosures for a combined amount of approximately \$2 billion. Collectively, we considered these deficiencies to be a material weakness in internal control.

### Criteria

- Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book) Principle 4, 10, 11, 12, 14, 16, 17 – *Demonstrate Commitment to Competence, Design Control Activities, Design Activities for the Information Systems, Implement Control Activities, Communicate Internally, Perform Monitoring Controls, Evaluate Issues and Remediate Deficiencies*
- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*
- Statement of Federal Financial Accounting Standards 4: *Managerial Cost Accounting Standards and Concepts*
- Department of the Interior Financial Management Memorandum (FMM) 2019-012, *FY 2019 Requirements for the Consolidated Audit*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Section IV, Assessing Internal Control.*
- Federal Financial Accounting and Auditing Technical Release Number 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*

### Cause and Effect

Existing controls for review and monitoring of the financial statement preparation process were not operating effectively to timely prevent or detect and correct a material misstatement of the Department's financial statements. Contributing to this deficiency were the following main causes:

- The Department lacked a sufficient number of personnel resources to assist in the preparation and review of the consolidated financial statements and related note disclosures.
- Lack of accountability of some bureau personnel preparing and reviewing financial information submitted to the Department during the preparation of the financial statements and related note disclosures.
- The Department did not provide appropriate training for new personnel who performed the associated control activities.
- The Department did not provide sufficient guidance and effective communication channels, between the Department and the bureaus, to ensure appropriate policies and procedures were being implemented and changes to reporting details were being reported.

Without the proper monitoring controls operating effectively, the Department is exposed to an increased risk that significant misstatements in its financial statements and related note disclosures would be neither prevented nor detected and corrected, in a timely manner.

### Recommendations

We recommend that the Department and bureaus enhance internal control over financial reporting as follows:

- 1 Increase the number of personnel resources assisting in the preparation and review of the consolidated financial statements and related disclosures.
- 2 Provide training to personnel who are preparing and reviewing financial reporting information submitted to the Department to ensure figures are complete, accurate and in compliance with accounting standards.

- 3 Reinforce the importance of monitoring controls and enforce accountability at the bureau level to ensure that controls over financial reporting are effective. In addition, enhance variance analysis of financial statements and required disclosures, to an appropriate level of precision, to timely identify matters that may, in the aggregate, be material to the consolidated financial statements.
- 4 Enhance process documentation of procedures performed over financial reporting data in conjunction with designing and implementing controls over changes to database listings, crosswalk templates and system configurations and enhancing communication channels between the bureaus and the Department.

## **SIGNIFICANT DEFICIENCIES**

### **B. Controls over Construction in Progress**

During fiscal year 2019, the Department initiated implementation of corrective action plans to address long-standing internal control weaknesses and strengthen internal controls over Construction in Progress (CIP). Although the Department made progress, an internal control deficiency remains in certain areas of accounting and reporting of CIP, as outlined below. The Department indicated that additional remediation is scheduled to continue in fiscal year 2020.

#### *Condition*

The Department reported \$2.2 billion as CIP, as of September 30, 2019. Controls were not operating effectively to ensure that completed CIP projects were monitored and transferred to property, plant, and equipment (PP&E) in a timely manner. Specifically we noted approximately \$62.9 million of completed projects were not transferred from CIP into the associated completed PP&E account in a timely manner.

#### *Criteria*

- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 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.*
- Bureau of Reclamation (BOR) Temporary Reclamation Manual Release 92 (TRMR-92), *Assets Under Construction.*

#### *Cause and Effect*

Project Managers did not perform a sufficient and timely review over common costs (e.g. costs applicable to multiple project features) incurred for CIP projects. Upon review in fiscal year 2019, the project managers and regional accountants determined a portion of common costs should have been allocated to project features that were completed and transferred to PP&E in prior fiscal years, and thus, represented an untimely transfer. As a result, prior year CIP balances were overstated, completed PP&E balances were understated, and there was a misclassification within the PP&E note disclosure. Additionally, accumulated depreciation and the related depreciation expense was understated in the current and prior year. If left un-remediated, these conditions present an increased risk that errors in PP&E will not be prevented, or detected and corrected, by the Departments' management in the normal course of performing their assigned functions.

*Recommendations:*

We continue to recommend that the Department and bureaus enhance internal control over general property, plant, and equipment as follows:

- 1 Reinforce current policies and procedure to ensure that all project managers and property accountants are trained and properly supervised on matters affecting the presentation on the financial statements, including adhering to accounting policies and procedures, as appropriate, and performing key internal control functions in support of financial reporting.
- 2 Enhance the quarterly CIP analysis control to include evaluating common CIP costs to ensure costs are appropriately recorded as CIP or, if applicable to completed plant, are transferred out of CIP.
- 3 Enhance regional and corporate accounting oversight processes to mitigate the risk of untimely transfer of CIP.
- 4 Perform an assessment and update Department-wide PP&E policies and procedures, as applicable, over the timely transfer of CIP costs to ensure consistent monitoring of assets under construction and assignment of responsibilities.

**C. General Information Technology Controls***Conditions*

During fiscal year 2019, we noted several deficiencies related to Information Technology (IT) controls that are summarized as follows:

**1 Monitoring of Third Party Providers**

The Department contracted with a third-party IT contractor (service organization) to perform certain operational processes such as the hosting of the financial management system (application) as well as provide certain control activities related to configuration management of its operating system.

The Department has designed and implemented a process to evaluate System and Organization Controls (SOC) reports of relevant service organizations to ensure the Department understands the controls each service organization designed, implemented, and operates for the assigned operational process and how the service organization's internal control system impacts the Department's internal control system.

In the absence of a timely-issued SOC report, the Department did not design and implement alternative monitoring procedures and controls over service organizations to enable the Department to obtain reasonable assurance that the Department's internal control system operated effectively throughout the entire audit period.

**2 Access Controls - Operating System**

Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. Such controls include logical and physical security controls. The Department had not adequately documented and consistently implemented certain control activities, in the operating system layer, related to system account access and segregation of duties.

*Criteria*

- GAO Standards for Internal Control in the Federal Government (Green Book) Principles 3, 6, 9, 11 and 16 – Establish Structure, Responsibility, and Authority; Define Objectives and Risk Tolerances;

Identify, Analyze and Respond to Change; Design Activities for the Information System; and Perform Monitoring Activities, respectively.

- Department of the Interior *Security Control Standard, Audit and Accountability*, version 4.1 (September 2016)
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides specific requirements for assessing and reporting on controls in the federal government
- Department of the Interior Office of the Chief Information Officer (OCIO) Security Control Standard – System and Service Acquisition, section SA-9 External Information System Services

#### *Cause and Effect*

The Department did not perform a thorough risk assessment to capture significant changes to the control environment at the service organization and to evaluate the potential impact of not having formally-defined and implemented processes for the operating system controls. Inadequate monitoring of internal controls in place at service organizations and inadequately documented internal control activities, increases the risk that IT controls critical to financial reporting may be deficient, and such deficiencies may not be fully understood or responded to, leading to an increased risk to financial data integrity.

#### *Recommendations*

We recommend that the Department increase their emphasis on formally developing and maintaining effective IT controls to reduce the risks posed to the completeness, accuracy, availability, reliability, and integrity of the Department's financial information. Specifically, the Department should:

- 1 Establish communications with relevant service organizations to understand the SOC Reports including planned scope, release date, reporting period and any other topics relevant to support reliance on these reports for monitoring purposes and understand how the service organization's internal control system impacts the Department's internal control system. If a service organization will not issue a report that provides adequate coverage, the Department should develop and perform alternative monitoring procedures over the internal controls relevant to the service organization to ensure they are designed, implemented and operating effectively throughout the financial statement reporting period.
- 2 Formally document and implement IT controls, including updating policies and procedures which cover each IT layer, that ensure compliance with the Department's IT Security Control Standards.

#### **D. Entity-Level Controls**

Management is continually seeking ways to improve accountability in achieving an entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. 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 Department needs to address weaknesses in its entity-wide control environment as we have observed four entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes, which contributed to the deficiencies noted above, are described as follows:

- Personnel - Personnel help management design, implement, and operate an internal control system and are responsible for reporting issues noted in the entity's operations, reporting, or compliance objective. Specifically, insufficient succession and contingency planning to address the need to replace competent personnel and respond to sudden personnel changes compromised the internal

control system. For example, due to the lack of resources to perform the relevant control activities, including management reviews, errors were noted within the preparation of the financial statements and related disclosures.

- Training - Enable individuals to develop competencies appropriate for key roles, reinforce standards of conduct, and tailor training based on the needs of the role. Specifically, the Department and bureaus lacked appropriate and sufficient training to ensure that personnel understand standard operating procedures and the underlying accounting literature for accounts such as Construction in Process common costs and the classification of Environmental and Disposal Liabilities.
- Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Specifically, inadequate risk assessment throughout the Department, including bureaus, prevented the proper identification and analysis of risks facing the Department and from designing appropriate risk responses. For example, the Department did not identify the risk that the SOC report did not cover the appropriate period to obtain reasonable assurance that the relevant controls activities, delegated to this service provider, operated effectively throughout the entire audit period.
- Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Specifically, insufficient monitoring prevented the Department from monitoring the internal control system as a part of the normal course of operations, including regular management and supervisory activities, comparisons, reconciliations and other routine actions. For example, we noted the unsupported changes to the Environmental and Disposal Liabilities estimate ranges and incomplete mapping of cost to the Statement of Net Cost missions were not identified at the bureau level and were not reviewed or analyzed, by the Department, before being provided as audit evidence.

#### *Criteria*

- GAO Standards for Internal Control in the Federal Government (Green Book) Principles 4, 7 and 16 – Demonstrate Commitment to Competence; Identify, Analyze and Respond to Risk; and Perform Monitoring Activities, respectively.

#### *Recommendations*

We recommend management implement the following recommendations to improve the effectiveness of entity-level controls:

- 1 Personnel – Perform an assessment of employee resources in the Office of Financial Management and the bureaus to ensure an appropriate complement of resources are in place to manage accounting and reporting matters as they arise and through the normal course of business. Additionally, the Department should perform a full analysis of the Financial Reporting process, including the communication reporting lines between bureaus and the Department, to identify inefficiencies that could be eliminated and to find areas which would be conducive for automation.
- 2 Training – Regional and operations personnel should be trained and properly supervised on financial management matters that affect the financial statements, including adhering to accounting policies and procedures, as appropriate and performing key internal control functions in support of financial reporting.
- 3 Risk Assessment – Improve the risk assessment process at the financial statement assertion level and at the process level to ensure the Department is appropriately capturing significant changes in the control environment and subsequently responding to those risks at both the Bureau and Department level.

- 4 Monitoring – Implement key monitoring controls to ensure control effectiveness throughout the financial reporting process and develop robust policies and procedures to increase oversight, review, and accountability of accounting events at the bureau level to ensure the successful implementation of an effective internal control environment.



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240

Memorandum

NOV 15 2019

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

From: Susan Combs, Assistant Secretary for Policy, Management and  
Budget (PMB) *Susan Combs*

Subject: Management's Response to Independent Auditors' Report for Fiscal Year (FY)  
2019 (Assignment No. 2019-FIN-032)

The Department of the Interior (DOI) reviewed the Auditors' Report prepared by KPMG LLP. We are pleased that the results of the audit are an unmodified opinion on DOI's Consolidated Financial Statements. The DOI appreciates the recommendations from the auditors, and we look forward to working with you to continue improving financial management in our Agency. Our response to the one material weakness and three significant deficiencies follows.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

### A. Controls over Financial Reporting

**Management concurs.** In the FY 2020, we will do an assessment in the Office of Financial Management (PFM) to determine the number of personnel resources deemed necessary for the preparation and review of the consolidated financial statements and related disclosures. In addition, we will focus efforts on assessing and implementing any necessary enhancements over DOI's review and monitoring of the financial statement preparation process, including creating and updating relevant policies and standard operating procedures and providing training to bureau personnel responsible for the preparation and review of financial reporting information.

### B. Controls over Construction in Progress

**Management concurs.** In FY2019, DOI strengthened policies and procedures to aggregate and analyze property, plant, and equipment activities on a Department-wide basis. In FY 2020, we will enhance existing policies, procedures, and controls over construction in progress.

### C. General Information Technology Controls

**Management concurs.** In FY 2020, we will develop alternative monitoring procedures to ensure that service organizations and effective internal controls are implemented and operating

throughout the financial statement reporting period. We will work to formally document and implement IT controls, including updated policies and procedures that comply with the department's IT Security Control Standards.

#### **D. Entity-Level Controls**

**Management concurs.** The four entity level controls responses are below, in FY 2020:

- We will assess PFM to determine the number of personnel necessary to ensure an appropriate compliment of resources needed to manage accounting, reporting, and oversight matters. We will also analyze the financial reporting process across the department to identify inefficiencies and find areas for automation.
- Financial Management training for both regional and headquarters will commence in the second quarter of FY 2020 with ongoing training occurring throughout the fiscal year.
- The PFM will work within its role to ensure that a risk management approach addressing the financial statement assertions is developed and implemented department-wide.
- We will assess the financial reporting and policy processes across the department to develop key monitoring controls. This will increase oversight and accountability.

In closing, I would like to thank your office for contributing to a strong internal control environment within DOI. We are committed to the continuous improvement of our financial management activities, and your efforts are directly in support of that commitment.

# Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.



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