



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 2022 and 2021



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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

NOV 15 2022

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 2022 and 2021*
Report No. 2022-FIN-029

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) 2022 and 2021. 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, 2022, and September 30, 2021. 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 and Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*.

In its audit of the DOI's financial statements, KPMG reported:

- The financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One material weakness and one significant deficiency in internal controls over financial reporting:
 - *Material Weakness* - Controls over construction in progress.¹
 - *Significant Deficiency* - Entity-level controls.

¹ The DOI did not report the material weakness in its FY 2022 Assurance Statement, included in the Management's Discussion and Analysis section of the *FY 2022 Agency Financial Report*. This is allowable per Section II.4.1., of OMB Circular A-136 *Financial Reporting Requirements*, dated June 3, 2022.

- 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, 2022, 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 five recommendations to address the identified findings. The DOI submitted its response to KPMG on November 15, 2022. We will notify Congress of these findings and will summarize this work in our next *Semiannual Report to Congress*, as required by law. We will also post a public version of this audit 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.

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 the U.S. Department of the Interior (Department), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, 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, 2022 and 2021, 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. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 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.



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. 22-01 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. 22-01, 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 *Message from the Office of the Chief Financial Officer, Office of Inspector General's Transmittal, Introduction, Other Information*, 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, 2022, 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 a material weakness and a 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 deficiency described in the accompanying Exhibit I as item A to be a material weakness.

Department management did not report the material weakness, *Controls over Construction in Progress*, in its *FY 2022 Assurance Statement*, included in the Management's Discussion and Analysis section of the accompanying Agency Financial Report.

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 B 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, 2022 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. 22-01.

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 and described as a separate attachment dated November 15, 2022 titled *Management's Response to Independent Auditors' Report for Fiscal Year (FY) 2022*. The Department's response 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. We have reviewed management's response and have determined that the material weakness in internal control over financial reporting is appropriate based on the audit evidence obtained that conflicts with the terms of the Memorandum of Agreement (MOA) between the Department and the Joint Federal Project partner federal agency.

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, 2022

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 effectively to mitigate the identified risks.

During fiscal year (FY) 2022, the Department initiated the implementation of corrective action plans to address internal control weaknesses and strengthen its internal control over financial reporting. Although the Department made some progress in certain financial management and reporting areas, deficiencies remain in the areas of construction in progress 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 2023.

MATERIAL WEAKNESS

A. Controls over Construction in Progress

Fixed assets under construction represent Construction in Progress (CIP) and the related costs are recorded in a similar named general ledger account. Those costs remain in such an account until the assets are put into 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 based on its estimated useful life.

The Department has had a long standing internal control weakness over accurately reporting CIP balances and during fiscal year 2022, an internal control deficiency remained in the accounting and reporting of CIP, as outlined below.

Condition

Controls were not properly designed and implemented to ensure that fixed assets under construction were properly reflected in the accounting records. Specifically:

The Department has entered into a partnership to construct a Joint Federal Project. Under the partnership agreement, a significant portion of the Joint Federal Project was being funded and constructed by a separate Federal agency; however, agreement was not reached on which Federal agency would capitalize the costs associated with the fixed asset under construction. This results in a potential \$814 million understatement in the Department's construction in progress balance.

The Department has not timely transferred fixed assets under construction to PP&E. Specifically, we noted the untimely transfer of \$154 million of completed projects into the respective PP&E accounts and depreciation of the assets were not recognized based on the assets' placed in service date.

Criteria

- Statement of Federal Financial Accounting Standards (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*

- Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book) Principle 4, 5, 10 and 15 – *Demonstrate Commitment to Competence; Enforce Accountability; and Design Control Activities*, respectfully.
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Section IV.

Cause and Effect

Property accountants at the Department did not establish or maintain proper communication channels with a separate Federal agency to ensure the construction in progress balances were completely recorded as an asset of the Federal Government for a Joint Federal Project. Project engineers and program managers at the Department and other Federal agency meet periodically on the status of construction and the two parties executed a transfer of property agreement implying the asset was transferred to the Department.

In addition, property accountants rely on program managers' expertise as the property accountants do not have the qualifications to perform an independent review of an engineer's, program manager's, etc. conclusions and this information is not always received and processed timely.

If left un-remediated, these conditions present an increased risk that material 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 the policies, procedures, and internal controls over CIP as follows:

1. Establish and maintain up front communications when commencing joint construction projects with other Federal and/or State agencies and include property accountants in the recurring communication protocols.
2. Ensure that project managers and property accountants are timely and effectively communicating with each other the status of construction projects and are adhering to accounting policies and procedures for assets placed in service during the quarter to allow for complete and accurate reporting/certification of assets.
3. Continue training of project managers and properly accountants to ensure reliable and accurate reporting by project managers to drive the consistent application of applicable accounting standards, policy, and guidance across the Department's various construction in process assets.

SIGNIFICANT DEFICIENCY

B. Entity-Level Controls

Conditions

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 2022, 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

Exhibit I

we reported in previous fiscal years, we continued to observe entity-wide internal control system conditions, which contributed to the deficiency noted above, as follows:

- The Department was unable to complete a full entity risk profile, only finishing three of the seven requirements by the OMB due date (Risk Assessment).
- 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).

Criteria

- GAO Green Book Principles 16 and 17- *Perform Monitoring Activities; and Evaluate Issues and Remediate Deficiencies*, respectively.
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Section II.c.*

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. Complete a full entity risk profile and provide to OMB by the required due date.
2. Continually monitor and reevaluate whether corrective action plans applied were effective and implemented timely. The Department should consider whether implementing financial auditors' recommendations is enough to close a corrective action plan, 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.



United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, DC 20240

November 15, 2022

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) 2022 (Assignment No. 2022-FIN-029)

We appreciate the opportunity to respond to the Independent Auditors' Report on the U.S. Department of the Interior (the Department) Fiscal Year (FY) 2022 consolidated financial statements. We are pleased to have achieved an unmodified audit opinion for the 26th consecutive year.

Management is resolute on taking necessary corrective actions to address pertinent issues identified during the FY 2022 audit. The DOI acknowledges a principal difference between the Department's FY 2022 FMFIA Assurance Statement, and the independent public auditor's opinion issued on the Department's FY 2022 consolidated financial statements related to a material weakness. Specifically, the Department's position on the accounting treatment applied to an asset under a Joint Federal Project construction-in-progress. The Department's accounting treatment of the subject asset has been based on the terms of the Memorandum of Agreement (MOA) between the Department and the Joint Federal Project partner federal agency. Based on the available information to the Department, a change in accounting treatment is not required at this time for the subject asset. During FY 2023, the Department will remain committed to partnering with key stakeholders to determine the validity of the audit finding issued to the Department of Interior.

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.



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.