



United States Department of the Interior

Office of Inspector General

Washington, D.C. 20240

May 21, 2003

Memorandum

To: Assistant Secretary for Indian Affairs

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Bureau of Indian Affairs' Fiscal Year 2002 Financial Statements (No. 2003-I-0053)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Indian Affairs' (BIA) financial statements as of September 30, 2002 and for the year then ended. In conjunction with its audit, KPMG noted certain matters involving internal control and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on BIA's financial statements (Report No. 2003-I-0052) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

Section 5(a) of the Inspector General Act (5 U.S.C. App. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress.

Attachment

cc: Assistant Secretary for Policy, Management and Budget
Chief Financial Officer, Bureau of Indian Affairs
Director, Office of Financial Management
Chief, Division of Financial Management, Bureau of Indian Affairs
Audit Liaison Officer, Bureau of Indian Affairs
Focus Leader for Management Control and Audit Followup,
Office of Financial Management



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MANAGEMENT LETTER

Assistant Secretary for Indian Affairs and Inspector General
U.S. Department of the Interior:

We have audited the consolidated balance sheet of the Bureau of Indian Affairs (BIA) as of September 30, 2002, and the related consolidated statements of net costs, changes in net position, and financing, and the combined statement of budgetary resources for the year ended September 30, 2002 and have issued our report thereon dated January 21, 2003. In planning and performing our audit, we considered internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion. An audit does not include examining the effectiveness of internal controls over financial reporting and does not provide assurance on internal controls over financial reporting. We have not considered internal control over financial reporting since the date of our report.

The reportable conditions noted during our audit are included in the report discussed above. During our audit we noted certain other matters involving internal controls over financial reporting and other operational matters that are presented for your consideration in the attached exhibit. These comments and recommendations, all of which have been discussed with the appropriate members of the BIA's management, are intended to improve internal controls over financial reporting or result in other operating efficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements described above and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the BIA's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended for the information and use of the BIA's management, the Department of Interior, the Office of Inspector General, the Office of Management and Budget, the U.S. Congress, and the General Accounting Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

April 1, 2003



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

1. P638 Processing

Signatures were not obtained from tribes requesting funds under a Public Law 93-638 (P638) contract.

Discussion

We noted that the BIA did not comply with existing policy to obtain a signed request from authorized Tribal members when requesting funds under a contract subject to the Public Law 93-638 (P638), but instead obtained verbal (not written) tribal authorization associated with 11 P638 Request for Payment forms in a sample of 75 forms.

Recommendation

We recommend that the BIA enforce existing policy and require tribal signatures prior to processing P638 Request for Payment forms.

2. Investments

The amount of daily receipts to be invested was calculated using inconsistent methodologies.

Discussion

During the testing of overnight investments, we noted the following conditions that affected the ability of the BIA to support the amount invested:

1. Weak segregation of duties exists between the preparer of the calculation of the amount invested and the authorizer of the amount invested.
2. There is an inconsistent application of calculation procedures applied to the balance invested overnight by the National Business Center.
3. The BIA neither approves nor reviews the work of NBC on a routine basis, and, therefore was not aware of the differences resulting from inconsistent application.
4. The BIA has no formal policies and procedures for the amount to be invested overnight.
5. The BIA does not archive (electronically or physically) the BIA 280 (summary of the bureau by fund) which is the primary document used to compute the overnight investment. In seven out of forty-five samples requested, the BIA 280 could not be provided.

Recommendation

We recommend that the BIA develop policies and procedures to determine the amount of overnight investment. These policies and procedures should be properly researched to ensure that the investment derives the maximum benefit for the BIA. To ensure consistency of application, all current and potential preparers should be trained in the proper method and be appropriately supervised. We recommend that the supervisor solely authorize the amount invested overnight by the separate preparer to strengthen safeguarding controls of the funds (which may be periodic, once clear policy and segregation controls are in place). We recommend that all documents that form a part of the audit trail be maintained for a reasonable duration.

3. A-133 Monitoring

Many tribes are delinquent in filing A-133s and are not aggressively instructed (or required) to file timely reports.

Discussion

The BIA did not adequately ensure that: 1) tribes are meeting the annual filing requirement of audited financial reports in accordance with OMB Circular A-133, 2) tribes are complying with regulations regarding investment practices of federal funds, and 3) tribes are complying with regulations regarding compliance with the Indian Child Protection and Family Violence Prevention Act.

During compliance testing of A-133 grantor monitoring requirements, we noted instances of non-compliance. Audit reports for FY 2000 or earlier have not been submitted to the Federal Clearinghouse or received by the BIA, and no certification was received that the amount expended was under \$300,000. Several tribes have not submitted audited financial statements in accordance with the Circular since fiscal year 1996. When reports are not received and monitored by the BIA in a timely manner, the possibility exists that the BIA is providing Federal funds to tribes who may be misusing funds. The BIA's responsibility is to monitor the tribes to ensure that they are adhering to all contracts and the BIA regulations.

Recommendation

We recommend that the BIA management improve its A-133 monitoring efforts to ensure tribes are in compliance with up-to-date filing requirements. We also recommend that the BIA work with the Department to utilize the Federal Clearinghouse website on an on-going basis to determine when an audit report has been submitted and to obtain the report on a timely basis.

4. HR Processing

Terminated employees were not removed from FPPS in a timely manner.

Discussion

While performing tests of operating effectiveness over internal control, we noted an instance where an employee who was terminated effective September 2001, remained in FPPS during fiscal 2002.

Recommendation

We recommend that the BIA implement or maintain control procedures to ensure that its payroll administrators are removing terminated employees from the FPPS system in a timely manner.

5. Liability Posting

Legal and environmental liabilities were only adjusted annually; not quarterly.

Discussion

Neither the legal or environmental liabilities were adjusted throughout fiscal year 2002; rather, they are maintained at the same balance as reported on the previous year's balance sheet. Both liabilities were updated to the current balances during the post-closing period. Since legal and environmental liabilities may be material to the BIA's financial statements, updates (at least quarterly) are necessary to prepare accurate interim financial statements.

Recommendation

We recommend that the BIA implement policies and procedures to obtain up-to-date information regarding legal and environmental liabilities throughout the fiscal year and update the accruals, as necessary, quarterly.

6. Statement of Financing

The process used to generate the Statement of Financing should be improved.

Discussion

The BIA expended a significant amount of manual effort well after the year-end to create a Statement of Financing, and ultimately relied on the use of Department and contractor personnel to assist with the preparation of the statement.

Recommendations

We recommend that the BIA implement a policy and establish procedures that result in preparation of a Statement of Financing in accordance with OMB reporting requirements quarterly.

7. Statement of Net Cost

Intra-Bureau eliminations are presented on the Statement of Net Cost.

Discussion

For fiscal years 2001 and 2002, the BIA presented intra-bureau elimination amounts on the face of the Statement of Net Cost for interim and draft year-end statements. Adjustments we made late in the audit process to reclassify eliminations to the proper statement line items. Although immaterial to the statement taken as a whole, this practice is not in technical compliance with the standards, and prevents the BIA from showing total costs and revenues per responsibility segment.

Recommendation

We recommend that the BIA present the Statement of Net Cost in accordance with OMB reporting requirements.

8. Performance Measures and Results

Performance measures and results included in the fiscal year 2002 annual report do not provide complete coverage of the BIA's activities and results, and were not measured in a timely manner, in some cases.

Discussion

We noted that a significant number of performance measures and results tracked by the BIA for fiscal year 2002 were excluded from presentation in the fiscal year 2002 annual report after analysis performed by the BIA Office of the CFO.

Recommendation

We recommend that the BIA give consideration to best practices in reporting performance measures to best reflect the goals and results of the BIA's operational accomplishments, and more thoroughly address the wide range of activities performed each year.