

CHAPTER 2. IMPROVING FINANCIAL ACCOUNTABILITY

GOAL: *Prepare timely, unqualified bureau and consolidated financial statements and make financial management information accessible throughout the year.*

The Department is committed to preparing and publishing complete, concise, understandable, and meaningful information about the financial and operating performance of the Department and the individual bureaus, offices, and programs that comprise the Department. The Chief Financial Officers' Act (CFO Act), as amended by the Government Management Reform Act (GMRA), requires agencies to prepare and publish annual agencywide financial statements.

The Department's financial reporting goals are to achieve and maintain unqualified audit opinions for departmental and bureau financial statements, to strengthen financial controls, and to ensure that financial data produced for management decisionmaking is reliable, verifiable, and consistent with the annual audited financial statements.

In FY 1996, the Department prepared its first Accountability Report under a pilot program established by the Office of Management and Budget under the Government Management Reform Act. The Department's Accountability Report provides readers with consolidated financial statement data and information on operating performance and management integrity that demonstrates Interior's stewardship over the assets, missions, and responsibilities entrusted to it. The report integrates the multiple financial management and performance measurement requirements of the CFO Act, the Government Performance and Results Act (GPRA), the GMRA, and the Federal Managers' Financial Integrity Act (FMFIA) into a comprehensive process.

The Department continues to prepare an Accountability Report on an annual basis, revising and expanding the content of the report as necessary to adapt to changing requirements and to meet the needs of interested parties. The Department's financial reporting strategy also includes the preparation of bureau annual reports and financial statements. The Department believes that there are significant and long-term benefits of bureauwide statements, including verification of the financial and cost accounting data used by management; presentation of a clear and concise summary of bureau operations, accomplishments and concerns; and identification and correction of operating weaknesses such as inventory management and collection of accounts receivable by working capital funds.

Improving Financial Management Reporting

The Department's goal is to prepare timely, unqualified bureau and consolidated financial statements and to make financial management information accessible throughout the year.

Key laws such as the Chief Financial Officers Act, the Government Management Reform Act, the Government Performance and Results Act, the Debt Collection Improvement Act, and the Federal Financial Management Improvement Act have established new standards and high expectations for government operations. In response to these new laws and other initiatives, such as the implementation of Federal Accounting Standards Advisory Board (FASAB) pronouncements, the Department continues to reshape the way it conducts business. To comply with the new standards and to meet these high expectations, timely and reliable financial and performance information will permit stakeholders and decisionmakers to track progress and evaluate the results of Interior's programs.

In order to achieve the goal of unqualified (clean) audit opinions and maintain this level of achievement, the Department will continue to improve the quality of the financial data and related information available at year-end for annual financial reporting purposes. The following initiatives will be taken:

- Increase analyses of interim data, including preparation of quarterly financial statements, to assist in the review of financial information and ensure accurate financial data throughout the year; and
- Improve technical tools, including the enhancement of departmentwide financial data consolidation software, to ensure that the same data is used for bureau financial reports, consolidated Department reports, and FACTS I and FACTS II reporting to Treasury.

The benefits of financial statement audits and, in particular, obtaining unqualified opinions are twofold: (1) providing quality data to external parties; and (2) ensuring that the books and records used by management can withstand the rigors of the audit process. Unqualified opinions provide independent assurance to external users that the information provided is reliable. Moreover, the discipline required to produce annual financial statements and audits demand that appropriate management attention and oversight is directed to the maintenance of high quality agency financial management and compliance with applicable laws and regulations.

Financial statement audit results are summarized in *Exhibit 2-1*.

FY 2001 Accomplishments

During FY 2001, the Department continued to improve the reporting of financial information. Significant accomplishments include the following:

- *Preparation of the Department's fifth Accountability Report under an OMB-sponsored pilot program:* The FY 2000 Accountability Report included audited consolidated financial statements for the Department, which for a fourth year in a row, received an unqualified audit opinion. This report included enhanced segment and program information that linked financial and GPRA performance information.

Exhibit 2-1

**Department of the Interior
Financial Statement Audit Results
FY 1992 to FY 2000**

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Departmental Consolidated	N/A	N/A	F/S prepared but not audited	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
Fish and Wildlife Service	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Qualified
U.S. Geological Survey	Disclaimer	Disclaimer	Disclaimer	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Bureau of Indian Affairs	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified
Bureau of Land Management	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Minerals Mgmt Service	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No Statements Prepared	Unqualified *	Unqualified *
Bureau of Mines	Unqualified	Unqualified	Unqualified	Unqualified	Bureau Eliminated	N/A	N/A	N/A	N/A
National Biological Service	N/A	N/A	Unqualified	Unqualified	Merged with USGS	N/A	N/A	N/A	N/A
National Park Service	Disclaimer	Disclaimer	Disclaimer	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Bureau of Reclamation	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No report issued	Unqualified
Office of Surface Mining	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Departmental Offices	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Office of Territories and Int'l Affairs	F/S prepared but not audited	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Combined with Dept Offices	N/A	N/A

* Custodial revenues only.

- Preparation and audit of FY 2000 financial statements for the Department's nine bureaus and operating components:* Of the nine audited Interior bureaus issuing financial statements, seven received unqualified audit opinions, indicating that the financial information presented was fairly stated in all material respects. The financial statements for the Fish and Wildlife Service received a qualified audit opinion and the Office of Inspector General did not issue an opinion on the Minerals Management Service appropriated funds, although they did issue an unqualified audit opinion on the Royalty Activity. For the second year, the Bureau of Indian Affairs received an unqualified opinion on its financial statements. All bureaus and operating components continue to demonstrate significant progress in improving the quality of financial data and financial statement presentation. *Exhibit 2-1* presents a summary of the Department's progress in the preparation and audit of financial statements.
- Participation in the Association of Government Accountants (AGA) Certificate of Excellence Program:* The Department's FY 2000 Accountability Report was submitted for review under the Certificate of Excellence Program for the third year. The comments received from this review continue to be used to improve Interior's Accountability Reports.
- Enhancement of the Consolidated Financial Statement application to permit bureau access to the Hyperion Enterprise application:* This system enhancement allows each bureau finance office to participate directly in the data collection process via the Citrix server capability. This capability is being used in preparing the FY 2001 financial statements within the Department (see Chapter 3 for additional information).

Planned Actions

Ongoing Activities

- Continue to prepare and audit bureau and Department annual financial statements.
- Further streamline the financial data collection process to permit more timely preparation of the annual audited financial statements as well as the preparation of periodic unaudited financial reports for management. This will include continued enhancement of the Consolidated Financial Statement application to further streamline the process. This streamlining will improve the efficiency of the FY 2001 FACTS II submission from the bureaus to the Department of the Treasury and improve the efficiency of the single departmentwide FACTS I submission.

FY 2002 Planned Activities

- Complete the preparation and audit of the FY 2001 consolidated financial statements and bureau financial statements by the statutory deadline of February 27, 2002.
- Continue preparing quarterly financial statements, including the Statement of Budgetary Resources, for bureaus and operating components.
- Establish and implement a central database to merge the financial data contained in the Hyperion applications with non-financial attributes in support of departmentwide FACTS II reporting to the Department of Treasury

FY 2003 and Beyond Planned Activities

- Continue to improve the quality and timeliness of financial reporting.
- Test preparation of monthly financial statements for bureaus and operating components.
- Achieve unqualified audit opinions for all bureau and operating component financial statements and the Department's consolidated financial statements.

Correction of Federal Financial Management Improvement Act Deficiencies

The Federal Financial Management Improvement Act of 1996 (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act, and the Government Management Reform Act. The FFMIA requires that federal agencies conform to the governmentwide Standard General Ledger, comply with all applicable federal accounting standards, and establish financial management systems that support full disclosure of federal financial data, including the full costs of federal programs and activities. The audit is to include a statement regarding compliance with these provisions in the audit report on agency financial statements. If an agency is not in compliance with these requirements, the FFMIA requires that the agency head establish a remediation plan necessary to bring the agency's financial management systems into substantial compliance.

For FY 2000, the Office of the Inspector General (OIG) reported in its opinion on the Department's consolidated financial statements that the Department was not in compliance with financial accounting standards because: (a) the Fish and Wildlife Service did not properly report investments in non-federal physical property made by grantees under the Federal Aid in Sport Fish and Wildlife Restoration Programs in fiscal year 2000 as "Supplementary Stewardship Reporting" under Statement of Federal Financial Accounting Standards No. 8; (b) the Bureau of Indian Affairs had not developed managerial cost accounting systems that adequately captured all elements necessary to assigning indirect costs on a reasonable basis; and (c) the Department was not in compliance with financial management systems requirements because controls overall have been weak and have resulted in unreliable, untimely, and inconsistent financial information and bureaus and offices do not have computer security management programs to ensure that their financial data and systems are adequately safeguarded and that financial data have integrity.

- *Fish and Wildlife Service Reporting of Investments in Non-Federal Physical Property:* While the Department concurs that the FWS should report its investment in non-federal physical property, the Department does not agree that this represents a substantial noncompliance with Standard No. 8. However, in FY 2001, FWS will ensure that these disclosures are contained in their Financial Report.
- *Cost Accounting:* The Bureau of Indian Affairs (BIA) had not developed managerial cost accounting systems that adequately captured all elements necessary for assigning indirect costs on a reasonable basis. Specifically, the BIA did not allocate indirect costs to its responsibility segments or identify its indirect costs as a separate segment as of September 30, 2000. The BIA has evaluated certain cost accumulation and allocations processes. The focus of this evaluation was to ensure that costs accumulated for financial statement reporting for responsibility segment information is consistent with the Government Performance and Results Act reporting of GPRA Program Segment information and properly relates to budget reporting. This revised cost accumulation process will be used to prepare the FY 2001 financial statements.
- *Financial Management System Requirements:* The Office of Inspector General reported that the Department's financial management systems did not substantially comply with federal financial management systems requirements. In addition, bureaus and offices do not have computer security management programs to ensure that their financial data and systems are adequately safeguarded and that financial data have integrity. In that regard, the Department does have a plan for a computer security management program, which includes financial management systems, but the plan has not yet been implemented. Interior has identified this issue as a material weakness of the Department and the Department has prepared a departmentwide computer security policy document that has been thoroughly reviewed within the Chief Information Officer community. The final policy will be issued in mid September 2001 and training in its use is now underway.