



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

January 31, 2006

Memorandum

To: Kathleen Clarke
Director, Bureau of Land Management

From: Anne L. Richards 
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Land Management's Financial Statements for Fiscal Years 2005 and 2004 (Report No. X-IN-BLM-0012-2005)

Attached is the subject KPMG LLP-prepared auditors' report (Attachment 1), which contains an unqualified opinion on the Bureau of Land Management's (BLM) financial statements. However, KPMG identified four reportable conditions in BLM's internal controls over financial reporting, none of which were considered material weaknesses. KPMG also found significant deficiencies in BLM's reporting on performance measures, the condition of stewardship land and museum collections, and deferred maintenance for stewardship land. In addition, KPMG found instances in which BLM's financial management systems did not fully comply with federal accounting standards and with the Federal Financial Management Improvement Act of 1996 (FFMIA). The report contains 13 recommendations that, if implemented, should resolve the findings.

In its December 22, 2005 response (Attachment 2) to the draft auditors' report, BLM agreed with four findings, partially agreed with two findings, and disagreed with three findings.

BLM also stated in its response that it agreed with five recommendations, none of which have been fully implemented. We will refer the five unimplemented recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

In addition, BLM partially agreed with two and disagreed with six recommendations (see Attachment 3, "Status of Audit Report Recommendations"). These eight recommendations will be referred for resolution and tracking of implementation.

The Department of the Interior contracted with KPMG, an independent, certified public accounting firm, to audit BLM's financial statements for fiscal years 2005 and 2004. The contract required that KPMG conduct its audit in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States, the Office of Management and Budget's "Audit Requirements for Federal Financial Statements," and the

Government Accountability Office's/President's Council on Integrity and Efficiency's
"Financial Audit Manual."

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express an opinion on BLM's financial statements or KPMG's conclusions on the effectiveness of internal controls, on whether BLM's financial management systems substantially complied with FFMLA, or on compliance with laws and regulations.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

We appreciate the cooperation and assistance of BLM personnel during the audit. If you have any questions, please contact me at 202-208-5512.

Attachments (3)

cc: Assistant Secretary, Land and Minerals Management
Chief Financial Officer, Bureau of Land Management
Director, Office of Financial Management
Audit Liaison Officer, Office of Financial Management
Audit Liaison Officer, Land and Minerals Management
Audit Liaison Officer, Bureau of Land Management
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Independent Auditors' Report

The Director of the Bureau of Land Management and
 the Inspector General of the U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the Bureau of Land Management (BLM) as of September 30, 2005 and 2004, and the related consolidated statements of net cost of operations, consolidated statements of changes in net position, combined statements of budgetary resources, consolidated statements of financing, and the consolidated statements of custodial activity for the years then ended (hereinafter referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered BLM's internal control over financial reporting and tested BLM's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that BLM's financial statements as of and for the years ended September 30, 2005 and 2004 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 18 to the financial statements, BLM adopted the provisions of Interpretation of Federal Financial Accounting Standards No. 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFAS No. 4*, for the year ended September 30, 2005.

Our consideration of internal control over financial reporting identified the following reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

- A. Security and Internal Control over Information Technology Systems
- B. Adequate Segregation of Duties over Purchases
- C. Accounting for Mineral Leases
- D. Recording Year-end Liabilities

Our limited procedures over Management's Discussion and Analysis, Required Supplementary Stewardship Information, and deferred maintenance reported as Required Supplementary Information identified the following significant deficiencies.

- E. Reporting of Performance Measure Information in Management's Discussion and Analysis
- F. Reporting the Condition of Stewardship Land
- G. Reporting the Condition of Museum Collections
- H. Reporting of Deferred Maintenance Amounts for Stewardship Land

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996*

(FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances where BLM did not substantially comply with the following provisions of FFMIA.

I. Federal Accounting Standards

The following sections discuss our opinion on the financial statements, our consideration of BLM's internal control over financial reporting, our tests of BLM's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Bureau of Land Management as of September 30, 2005 and 2004, and the related consolidated statements of net cost of operations, consolidated statements of changes in net position, combined statements of budgetary resources, consolidated statements of financing, and the consolidated statements of custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BLM as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, BLM adopted the provisions of Interpretation of Federal Financial Accounting Standards No. 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, for the year ended September 30, 2005.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information (Stewardship Assets), and Required Supplementary Information (Supplementary Statements of Budgetary Resources by Major Budget Accounts and Deferred Maintenance) sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We did not audit this information, and accordingly, we express no opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. As a result of such limited procedures, we believe that the following is not in conformity with accounting principles generally accepted in the United States of America: (1) the reporting of relevant and timely performance measure information in Management's Discussion and Analysis, (2) the reporting of Required Supplementary Stewardship Information on the condition of stewardship land and museum collections, and (3) the reporting of Required Supplementary Information on the amount of deferred maintenance for stewardship land. Our limited procedures found BLM does not have adequate policies and procedures to report this information consistent with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect BLM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weakness.

(A) Security and Internal Control Over Information Technology Systems

Security and general controls over BLM's information technology systems have not been fully implemented. This is a repeat finding from the prior year, and even though BLM has made progress in implementing security controls in the past couple of years over its information systems, improvement is needed in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. The access control conditions identified below could affect BLM's ability to prevent or detect unauthorized changes to subsidiary financial information, control electronic access to sensitive information, and protect its information resources.

Access controls should provide reasonable assurance that computer resources are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that: (1) only authorized users have access to data and resources; (2) users have the minimum access necessary to perform their job functions; (3) access to very sensitive resources is limited to very few individuals; and (4) network security configurations are optimized to provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. Certain procedural and technical access controls over BLM's financial applications have not been implemented or are not operating effectively to minimize the risks of unauthorized access to its systems and its data. Specifically, our audit found:

- Employee termination procedures are not sufficient to effectively remove in a timely manner terminated user accounts from BLM information systems.
- BLM has not validated the appropriateness and need for a significant number of contractor user IDs on its network active directory, and it is unclear how many of these users still require access.
- A significant number of generic user IDs on BLM's network active directory. These accounts have not been validated as to why generic access is needed, as opposed to unique user access.
- Lack of approvals over BLM user access to the Federal Personnel and Payroll System (FPPS).

- Lack of documentation supporting periodic reviews of user access appropriateness for BLM's Collection and Billing System (CBS) and the Interior Department Electronic Acquisition System (IDEAS).
- Lack of a process or procedure for ensuring select production databases are configured with a common baseline security configuration. For example, select databases contain default username and password combinations.

Recommendation

BLM should continue the development and implementation of procedures to improve the internal security and general controls over its information technology systems. Improved procedures should address the areas discussed above, as well as other areas that might impact the electronic data processing control environment, to ensure adequate security and protection of BLM's financial management systems.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

(B) Adequate Segregation of Duties Over Purchases

The principles of segregation of duties stipulate that no individual should have complete control over incompatible transaction processing functions, which include the initiation, approval, and execution of a transaction. Allowing a single individual to control all phases of a transaction creates a situation that permits errors or irregularities to go undetected.

Our audit found there are individuals in several BLM offices that have the individual ability to execute all the essential duties of the purchasing function. For example, individuals have the ability to create and approve a purchase requisition and purchase order, and then also have the ability to approve the invoice for payment.

Recommendation

BLM should implement procedures to ensure critical duties of the purchasing function are adequately segregated at all offices. If segregation of duties cannot be established, then additional periodic management reviews of the purchasing functions should be performed to ensure transactions are accounted for properly and do not contain instances of theft or fraud.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our recommendation. Management indicated additional reviews over the purchasing function are needed at its National Training Center. BLM disagreed that changes are needed in other offices, given that hard-copy documentation usually exists indicating additional reviews of purchase transactions were performed.

Auditors' Response to Management's Response

There are BLM employees, mostly in large offices, with the ability to perform all functions of a purchasing transaction. It is important these abilities be limited to help prevent the possibility of

theft or misappropriation of assets. The critical point is not whether there is hard-copy documentation evidencing other reviews, but the ability for one individual to create and approve a purchase for payment. Further, the ability to enter and approve both purchase requisitions and purchase orders is against BLM policy, as outlined in BLM Instruction Memorandum No 99-135.

(C) Accounting for Mineral Leases

BLM processes collections from mineral leasing activity on its public lands, which includes leases for oil, gas, and coal. BLM collects the first year rent and bonus bid deposits related to this activity. These amounts are initially recorded as a liability awaiting adjudication. The adjudication process encompasses BLM's issuance or dismissal of a lease and is the determining factor in recognizing custodial revenue in BLM's statement of custodial activity. If adjudication results in a lease, the collections are transferred to the Minerals Management Service (MMS), which disburses the funds along with subsequent rents and royalties to states and other federal agencies. If a lease is not accepted, the collections are refunded. During fiscal year 2005, the BLM transferred approximately \$610 million to MMS.

BLM needs to improve policies and procedures over the accounting for mineral lease activity and the transfer of monies to MMS. Specifically, we noted the following:

- BLM does not have a formal detailed accounting policy for recognizing custodial revenue. Lack of a detailed policy increases the risk that amounts will be misclassified and reported in the incorrect year.
- BLM does not adhere to its policy to prepare and date the transmittal form on the same date the lease agreement is executed. The transmittal form contains detailed accounting information and is used to transfer monies to MMS. MMS uses information on the form to make disbursements. BLM's accounting division uses the form to determine the period in which lease revenues should be recognized, which is to correspond with the execution of a lease agreement. Our audit determined the timing between the dating of the transmittal form and the lease agreement, or vice versa, varied from 0 to 50 days. Lack of adherence to BLM's transmittal form dating policy increases the risk that amounts will be recorded in the incorrect year.
- BLM does not have sufficient policies and procedures over the review of lease information sent to MMS. In most BLM offices, the same individual prepares, reviews, and approves the lease agreement and the transmittal form. Failure to segregate these incompatible duties increases the risk that amounts will be misclassified and incorrectly reported, as evidenced by errors our audit discovered in the coding of transmittal forms. We identified two military leases that were coded incorrectly during the year. This resulted in errors in the MMS distribution process with a state being owed approximately \$6 million.
- BLM does not consistently transfer monies to MMS in a timely manner. BLM policy is to transfer monies to MMS within 14 days of the signing of a lease agreement. We selected a sample of 69 leases and determined that, on average, it took 28 days to complete the transfer once a lease had been signed, and, in some cases, took up to 180 days.

Recommendation

BLM should improve its policies and procedures over the accounting for mineral lease activity and the transfer of monies to MMS.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

(D) Recording Year-end Liabilities

BLM does not have adequate procedures to identify and record all liabilities at year-end. Our audit discovered approximately \$21 million in unrecorded liabilities at the end of fiscal year 2005. Specifically, we identified the following misstatements.

- Federal accounting standards require that revenue from exchange transactions be recognized when goods or services are provided at a price, and if advance payments are made, such amounts should be recorded as a deferred revenue liability until the point in time the exchange occurs. As of year-end, BLM had collected \$6.6 million from land sales for which it had not exchanged legal title to the land. BLM erroneously recognized these advance payments as earned revenue, as opposed to a deferred revenue liability.
- Undistributed collection liabilities are amounts collected by BLM from activity on its federal lands that are due to other governmental entities, primarily the U.S. Treasury. As of year-end, BLM had collected approximately \$14.7 million for which it had erroneously not recorded an undistributed collection liability.

While the above adjustments are not considered material to BLM's fiscal year 2005 financial statements, a lack of adequate procedures and related controls in future years over the recording of year-end liabilities may result in more significant misstatements.

Recommendation

BLM should improve its procedures over the identification and recording of year-end liabilities. In addition, appropriate controls should be implemented to ensure the reviews of year-end liabilities are conducted.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

Internal Control Over Performance Measure Information Reported in Management's Discussion and Analysis

With respect to the design of internal controls relating to the existence and completeness of assertions over performance measures determined by management to be key and reported in Management's Discussion and Analysis, we noted certain significant deficiencies in internal control over reported performance

measures discussed in the following paragraphs that, in our judgment, could adversely affect BLM's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria.

(E) Reporting of Performance Measure Information in Management's Discussion and Analysis

The Government Performance and Results Act (GPRA) requires agencies to formulate strategic plans, identify major strategic goals, and report performance measures and results related to these goals. Further, OMB Circular A-136 requires agencies to report in the Management's Discussion and Analysis section of the annual report objective and relevant performance measures that disclose the extent to which programs are achieving their intended objectives.

BLM can improve the type of performance measures it reports in Management's Discussion and Analysis. Specifically, BLM is currently not reporting performance measures related to its wildland fire management, land sales, and helium programs. These are large programs, referred to throughout BLM's annual report, that account for a significant portion of BLM's financial activity. For example:

- BLM provides fire protection on approximately 390 million acres of public and state land and was appropriated \$800 million in fiscal year 2005 for wildland fire management.
- During 2005, BLM collected \$1.2 billion from land sales. At year-end, BLM had \$1.7 billion in investments related to these land sales, which will be used to acquire sensitive lands or to make improvements to existing government assets.
- During 2005, BLM collected \$89 million in helium revenue. At year-end, BLM had 26 billion standard cubic feet of helium, which is carried at \$304 million in the financial statements. The helium amounts will be used to repay approximately \$1.1 billion in BLM debt.

A lack of performance information, for the above significant programs, results in users of the financial statements not having a basis to determine the extent such programs are achieving their intended objectives.

In addition to the above, for certain performance measures in Management's Discussion and Analysis, BLM has reported results based on prior-year data. Many of these measures are included in the Department of the Interior's Management's Discussion and Analysis. The Department cannot report accurate information when BLM has not established effective procedures for gathering information in a timely manner.

Recommendations

1. BLM should include in its Management's Discussion and Analysis section performance measures related to its significant programs, which include the wildland fire management, land sales, and helium programs.
2. BLM should revise its performance data collection processes to allow for up-to-date accomplishments to be reported for all performance targets.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

Internal Control Over Required Supplementary Stewardship Information

We noted certain significant deficiencies in internal control over Required Supplementary Stewardship Information discussed in the following paragraphs that, in our judgment, could adversely affect BLM's ability to collect, process, record, and summarize required supplementary stewardship information on the condition of stewardship land and museum collections.

(F) Reporting the Condition of Stewardship Land

Accounting standards for federal entities establish minimum reporting requirements for stewardship land. These standards require BLM to report, as required supplementary information in its stewardship section of its annual report, the condition of stewardship land.

In addition, the Accounting and Auditing Policy Committee of the Federal Accounting Standards Advisory Board (FASAB) commissioned the Stewardship Guidance Work Group to prepare the *Reporting and Assurance Guide for Stewardship Land (SL) and Heritage Assets (HA)*. The report, which is still in draft form, concluded one of the most meaningful criteria for measuring the condition of stewardship land originates from the fact the federal government has been entrusted with, and made accountable for, stewardship lands that are held for the long-term benefit of the Nation. Hence, the most important information about the condition of stewardship land is whether or not it has been safeguarded and protected against waste, loss, and misuse; managed consistent with its intended use in accordance with federal laws and regulations; and not materially degraded while under government care. The report further concluded, for sources of condition information, an entity may assess condition as part of its normal management role and existing systems. This may include condition information assessment surveys, annual or perpetual inventories, technical studies, budget requests, etc.

Based on the above, we concluded BLM is not using the appropriate basis in its annual report for assessing and reporting the condition of its stewardship land. In its fiscal year 2005 annual report, BLM reported the condition of its stewardship land as acceptable, and that assessment was based on resource production and revenues generated from the public lands. That assessment did not consider the aggregate results of condition information that BLM gathers as part of its ongoing operational processes. For example, as part of its land management operations BLM performs various condition assessments, which include: (1) Ecological Site Inventories, which provide a reference for determining the land's capability to produce forage and habitat, for assessing land health, and for monitoring the characteristics of the resource. (2) Land Health Assessments, which ascertain whether land health standards have been achieved and which describe a level of ecologic functionality for water quality, wildlife habitat, soil stability, and nutrient and energy cycling. (3) Fire Regime Condition Class, which is a standardized tool for determining the degree of departure from reference condition vegetation, fuels, and disturbance regimes. In many cases, the completion of the above studies is ongoing, and the preliminary results indicate, in certain situations, that the condition of the land is not acceptable and is in need of intervention.

We believe BLM's disclosures on the condition of stewardship lands are substantially not complete. Asserting that the condition of land is evidenced merely by resource production and revenue generated from the land reports little or no substantive information on the true condition of the land. Further, BLM has not met its reporting responsibilities to the general public by not reporting, in its annual report, the results of condition assessments conducted as part of its general operations.

Recommendations

To provide more useful and meaningful information to the readers of BLM's annual report, BLM should consider the intent of the federal accounting standards in reporting the condition of its stewardship land and adhere to the principles incorporated in FASAB's commissioned Stewardship Guidance Work Group draft report, *Reporting and Assurance Guide for Stewardship Land (SL) and Heritage Assets (HA)*. Accordingly, we recommend:

1. BLM measure and report the condition of its land by taking into consideration the use of the land and the condition of the water and vegetation upon that land.
2. Develop a written policy on the types of land that do not need assessment based on limited human intervention and susceptibility to deterioration.
3. Complete, and periodically update, condition assessments that are performed as part of BLM's normal management role and existing systems (e.g. ecological site inventory assessments, land health assessments, and fire regime condition assessments).
4. Report the condition of the land based on the summarized results of existing systems. The condition, and support for the condition, should conceivably come from the current assessments that BLM performs as part of its normal management role and existing systems. These condition assessments and the related controls over the assessment process should be appropriately documented.

Through the use of these forms of information gathering techniques, BLM with limited effort and cost could report on the condition of the land as a whole, and provide more meaningful information to readers of stewardship land information.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation. Management indicated the accounting standards define land as essentially rock and sediment, and as such, the definition excludes the resources upon the land.

Auditors' Response to Management's Response

Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*, paragraph 81, requires federal agencies to report in its stewardship section of its annual report the condition of stewardship land. We disagree the accounting standards, in assessing the condition of stewardship land, have excluded natural resources, such as the condition of vegetation and water upon the land. We believe BLM, with limited effort and cost, could report the condition of stewardship land using assessments it performs as part of its normal management operations. Such assessments have not indicated that BLM land, in all cases, is in acceptable condition.

Disclosing the results of land condition assessments would provide more meaningful information to the readers of BLM's annual report and would meet the intent of the federal accounting standards in reporting the condition of stewardship land.

(G) Reporting the Condition of Museum Collections

Accounting standards for federal entities establish minimum reporting requirements for museum collections taken off the public lands. These standards require BLM to report, as required supplementary information in its stewardship section of its annual report, the number of museum collections in terms of physical units and the condition of such collections. To meet the reporting requirements BLM defines a museum collection unit as an individual museum facility, and reports that it has identified, through questionnaires and its internal archaeological and paleontological permit process, 155 nonfederal museum facilities that contain museum items originating from BLM public lands.

BLM needs to improve its assessment and reporting of the condition of museum collections. Specifically, we found:

- BLM has not assessed, in accordance with the Department of the Interior's standards, the condition of 98 of its 155 identified facilities.
- BLM is not disclosing the condition of museum collections in accordance with federal accounting standards. BLM considers museum collections to be in stable condition if the facility is in stable condition. However, for financial reporting purposes, the assessment of museum collections should ultimately address the underlying condition of the individual items as opposed to the facility housing those items.

Recommendation

BLM should continue to complete its review of the nonfederal facilities in accordance with the Department of the Interior's guidance and consider such information in determining the condition of museum collections. However, for financial reporting purposes, the assessment of museum collections should ultimately address the underlying condition of the individual items as opposed to the facility housing those items. If BLM does not know the condition of the individual items, then such a statement should be made in the annual report along with the reasons why such condition is unknown.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation. Management indicated that BLM believes museum objects in nonfederal facilities, which are the majority of BLM's museum collections, do not meet the definition of BLM property, and BLM is in the process of obtaining guidance from FASAB on this issue. BLM stated it reported condition information on museum collections in accordance with the Department of the Interior's policy.

Auditors' Response to Management's Response

BLM has assessed the condition of museum collections at the facility level for 57 of 155 facilities. However, it has not completed assessments on the majority of the identified facilities. Further, we believe reporting the condition of the facility does not address the true condition of the individual

museum collections. The combination of these two conditions results in incomplete museum collection disclosures. We encourage BLM to continue to seek guidance from FASAB for reporting museum collections.

Internal Control Over Required Supplementary Information

We noted certain significant deficiencies in internal control over the reporting of deferred maintenance amounts discussed in the following paragraphs that, in our judgment, could adversely affect BLM's ability to collect, process, record, and summarize in a timely manner deferred maintenance amounts reported as Required Supplementary Information to the financial statements.

(H) Reporting of Deferred Maintenance Amounts for Stewardship Land

Accounting standards for federal entities establish minimum reporting requirements for stewardship land. These standards require BLM to report, as Required Supplementary Information to the financial statements, the amount of deferred maintenance for stewardship land. Federal accounting guidance defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, was put off or delayed for a future period. Maintenance is the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services.

Our audit found that BLM has not reported in its annual report deferred maintenance costs related to stewardship land. Throughout BLM's annual report and annual budget requests, there are references to known instances of BLM stewardship land in need of intervention, and future outlays of monies and efforts are necessary to bring the land into an acceptable condition. If land treatments require the expenditure of monies, or employee efforts, and are not performed within the current fiscal year, then maintenance has been deferred, and an appropriate dollar amount should be estimated and reported for financial reporting purposes.

Recommendation

BLM should develop a process, consistent with accounting principles generally accepted in the United States of America, for estimating deferred maintenance costs on stewardship land. Such costs should encompass land that is in need of intervention and future outlays of efforts and monies that are necessary to bring the land into an acceptable condition.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation. Management indicated that BLM's stewardship land does not have deferred maintenance as defined by the accounting standards.

Auditors' Response to Management's Response

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 83, requires federal agencies to report in its deferred maintenance section of its annual report the amount of deferred maintenance for stewardship land. BLM has reported known instances of land that is in need of intervention and has requested future outlays to correct these conditions in various budget requests. Therefore, we recommend BLM develop a method to report deferred maintenance amounts on stewardship land as required by the accounting standards.

A summary of the status of prior year reportable conditions and significant deficiencies is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of BLM in a separate letter dated November 4, 2005.

Compliance and Other Matters

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances described below where BLM's financial management systems did not substantially comply with the federal accounting standards. The results of our tests of FFMIA disclosed no instances in which BLM's financial management systems did not substantially comply with federal financial management system requirements and the United States Standard General Ledger at the transaction level.

(I) Federal Accounting Standards

As discussed in the sections of our report entitled Internal Control over Performance Measure Information Reported in Management's Discussion and Analysis, Internal Control Over Required Supplementary Stewardship Information, and Internal Control Over Required Supplementary Information, BLM needs to improve its policies and procedures for reporting relevant and timely performance measure information, the condition of stewardship land, the condition of museum collections, and the amount of deferred maintenance for stewardship land.

OMB Circular A-136, Section 2.2C Part 2: Performance Section, OMB Circular A-136 requires agencies to report in the Management's Discussion and Analysis section of the annual report objective and relevant performance measures that disclose the extent to which programs are achieving their intended objectives. Our audit determined BLM is not reporting relevant and timely performance measure information in Management's Discussion and Analysis.

SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 81, establishes minimum reporting requirements for stewardship land. These requirements require BLM to report in its stewardship section of its annual report the condition of stewardship land. Our audit determined BLM's disclosures on the condition of stewardship lands are substantially not complete, and BLM is not meeting its reporting responsibilities to the general public by not reporting, in its annual report, the results of condition assessments conducted as part of its general operations.

SFFAS No. 8, *Supplementary Stewardship Reporting*, paragraph 50, establishes minimum reporting requirements for museum collections. These requirements require BLM to report in its stewardship section of its annual report the condition of museum collections. Our audit determined BLM's disclosures on the condition of such collections are substantially not complete, given BLM has not assessed a large number of the nonfederal facilities containing BLM museum collections, and such assessments don't address the underlying condition of the individual museum items.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 83, establishes minimum reporting requirements for deferred maintenance. These requirements require BLM to report in its

deferred maintenance section of its annual report deferred maintenance for each major class of asset, which includes stewardship land. BLM has not reported in its annual report any deferred maintenance costs related to stewardship land.

Recommendation

We recommend BLM strengthen its policies and procedures to ensure performance measure information, reported in Management's Discussion Analysis; the condition of stewardship land and museum collections, reported as Required Supplementary Stewardship Information; and the amount of deferred maintenance for stewardship land, reported as Required Supplementary Information, are prepared in accordance with federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendation to improve the reporting of performance measure information in the Management's Discussion and Analysis section of the annual report. As discussed in the sections of our report entitled Internal Control over Required Supplementary Stewardship Information and Internal Control over Required Supplementary Information, management did not agree with our recommendations to improve disclosures on the condition of stewardship land and the condition of museum collections and to identify and report the amount of deferred maintenance for stewardship land.

Auditors' Response to Management's Response

As discussed in the sections of our report entitled Internal Control over Required Supplementary Stewardship Information and Internal Control over Required Supplementary Information, federal accounting standards require BLM to report in its annual report the condition of stewardship land, the condition of museum collections, and the amount of deferred maintenance for stewardship land. We believe BLM needs to improve its reporting in these areas to meet the requirements of the federal accounting standards.

Responsibilities

Management's Responsibilities

The *Government Management Reform Act of 1994 (GMRA)*, *Accountability of Tax Dollars Act*, and *Government Corporation Control Act* require agencies each to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist the Department of the Interior in meeting these requirements, BLM prepares financial statements in accordance with Part A of OMB Circular A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Stewardship Information, and Required Supplementary Information;
- Establishing and maintaining internal controls over financial reporting; and

- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of BLM based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BLM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2005 audit, we considered BLM's internal control over financial reporting by obtaining an understanding of BLM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on BLM's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered BLM's internal control over Required Supplementary Stewardship Information by obtaining an understanding of BLM's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of significant

internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether BLM's fiscal year 2005 financial statements are free of material misstatement, we performed tests of BLM's 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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to BLM. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether BLM's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended solely for the information and use of BLM's management, the U.S. Department of the Interior Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2005, except for Note 22,
which is as of November 16, 2005

BLM
 Summary of the Status of Prior Year
 Reportable Conditions and Significant Deficiencies
 September 30, 2005

Ref	Condition	Status
A	Accounting for Mineral Leases	Condition has been downgraded from a material weakness in the prior year to a reportable condition in fiscal year 2005. See fiscal year 2005 reportable condition C.
B	Security and Internal Control Over Information Technology Systems	Condition has not been corrected and is repeated in fiscal year 2005. See fiscal year 2005 reportable condition A.
C	Internal Control Over Charge Cards	Condition has been corrected.
D	Internal Control Over Payments in Lieu of Taxes (PILT)	Condition no longer applies to BLM. PILT program has been transferred to another DOI agency.
E	Reporting the Condition of Stewardship Land	Deficiency has not been corrected and is repeated in fiscal year 2005. See fiscal year 2005 significant deficiency F.
F	Reporting the Number of Museum Items Held in Nonfederal Facilities	Deficiency has been corrected. SFFAS No. 29, <i>Heritage Assets and Stewardship Land</i> , provided clarification on reporting museum collections. SFFAS No. 29 allowed agencies to report the number of museum collections at the facility level as opposed to the individual object level.
G	Reporting of Deferred Maintenance Amounts for Stewardship Land	Deficiency has not been corrected and is repeated in fiscal year 2005. See fiscal year 2005 significant deficiency H.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240
<http://www.blm.gov>



DEC 22 2005

In Reply Refer to:
1306 (BC-610)

MEMORANDUM

To: Assistant Inspector General for Audits
Attention: Anne L. Richards

From: *bc* Kathleen Clarke *Lawrence E. Berner*
Director, Bureau of Land Management

Subject: Draft Independent Auditors' Report on the Bureau of Land Management's
(BLM) Financial Statements for Fiscal Years 2005 and 2004
(Assignment No. X-IN-BLM-0012-2005)

Thank you for the opportunity to review and comment on the above-referenced draft report. We appreciate the efforts that the Office of Inspector General and KPMG have provided on our behalf. The BLM's written comments and responses are detailed in the attachment.

If you have any questions regarding this response, please contact Jeannette Davis-Callahan, BLM National Business Center, at (303) 236-7396.

1 Attachment

1 -- Response to Auditor's Report above (8 pp)

Draft Independent Auditors' Report on the Bureau of Land Management's
Financial Statements for Fiscal Years 2005 and 2004
(Assignment No. X-IN-BLM-0012-2005)

Recommendation A: Security and Internal Control over Information Technology Systems

The BLM should continue the development and implementation of procedures to improve the internal security and general controls over its information technology systems. Improved procedures should address the areas discussed in the Independent Auditor's Report, as well as other areas that might impact the electronic data processing control environment, to ensure adequate security and protection of BLM's financial management systems.

Response:

The BLM concurs with the recommendations. The following actions will be taken to address the specific items noted.

Employee Termination Procedures

The BLM will develop formal policy and guidance for its information technology systems for separation of employees. Current policies will be evaluated for secondary controls. NHRMC will query the FPPS database on a bi-weekly basis to ensure terminated employees are out of the critical systems. Further control processes for performing timely periodic reviews will be established by all responsible divisions within the BLM.

Contractor User IDs on the BLM's Active Directory

The BLM will conduct an inventory of all user accounts; all unused accounts will be removed from the BLM's systems. Additionally, all used accounts will be checked for legitimacy. The BLM will develop a standardized contractor separation procedure and work with the contractor project managers and their representatives to ensure that the BLM is notified in a timely manner when contract personnel leave the BLM.

Significant Number of Generic User IDs

The BLM will conduct an inventory of all generic user accounts. All generic accounts that are not assigned to a specific person and justified in writing will be removed from the BLM's systems. Procedures will be developed to establish a standardized methodology and justification for establishing non-user accounts.

Lack of Approvals over BLM User Access to Federal Personnel Payroll System (FPPS)

The BLM will reissue an Instruction Memorandum instructing State/Center/Office Personnel Officers to review current users accessing FPPS for clearly defined need to access the system. The Human Resource Officers will provide copies of all access forms to the National Human Resources Management Center (NHRMC). Those individuals without an access form will be deleted from the system. NHRMC and Human Resource Officers will review system access on a quarterly basis.

Lack of Documentation Supporting Periodic Reviews of User Access in the Collections and Billings System (CBS) and Interior Department Electronic Acquisition System (IDEAS)

The CBS and IDEAS Management Teams will develop formal policy and procedures to establish timely periodic reviews of user access listings and to assign appropriate personnel to perform the review.

Lack of a Process for Ensuring Production Databases Are Configured with a Common Baseline Security Configuration

The finding is valid for three non-financial systems. The BLM will investigate the use of automated security tools to provide periodic audits of the Oracle database passwords. The only Oracle-based financial system identified is IDEAS, which had no default username and password combination during FY 2005.

Recommendation B: Adequate Segregation of Duties

The BLM should implement procedures to ensure critical duties of the purchasing function are adequately segregated at all offices. If segregation of duties can not be established, then additional periodic management reviews of the purchasing functions should be performed to ensure transactions are accounted for properly and do not contain instances of theft or fraud.

Response:

The BLM partially concurs with the recommendation. The BLM agrees additional approvals are needed and recommends that approvals be performed by an individual other than the person making the award for the National Training Center (NTC). This will require additional access to IDEAS by a Contracting Officer (Purchasing Agent) for approval authority of Purchase Requests.

KPMG identified 45 issues related to segregation of duties for 13 IDEAS users. Of the 45 instances, there were only 2 cases that did not have a hard-copy Purchase Request (PR) signed by a supervisor in the official file folder. The BLM disagrees that a review should be performed solely within the electronic application. The official file folder is the hard-copy award folder. Therefore, the risk is minimal because the official file copy contains a PR with a supervisor's signature.

Recommendation C: Accounting for Mineral Leases

The BLM should improve its policies and procedures over the accounting for mineral lease activity and the transfer of monies to MMS.

Response:

The BLM concurs with the recommendation. The BLM will improve its policies and procedures over accounting for mineral lease activity and the transfer of monies to MMS.

Recommendation D: Recording Year-end Liabilities

BLM should improve its procedures over the identification and recording of year-end liabilities related to undistributed collections. Specifically, BLM needs to improve its

year-end analysis of undistributed collection amounts to identify unusual account relationships that exist between collection and transfer accounts. In addition, appropriate controls should be implemented to ensure the review is conducted.

Response:

The BLM concurs with the recommendation.

The BLM performs monthly and quarterly general ledger account analytic reviews. During FY 2006, an edit check will be incorporated into this process to ensure proper general ledger account postings within the unavailable special receipt funds.

Recommendation E: Reporting of Performance Measure Information in Management's Discussion and Analysis

The BLM should include in its Management's Discussion and Analysis section performance measures related to its significant programs, which include the wildland fire management, land sales, and helium programs.

The BLM should revise its performance data collection processes to allow for up-to-date accomplishments to be reported for all performance targets.

Response:

The BLM concurs with the recommendations.

The BLM agrees to report performance measures for wildland fire management, land sales, and helium sales.

In 2005 and earlier years, the Office of Fire and Aviation reported the GPRA measures on a Department-wide basis, so the BLM did not include BLM-specific information for these measures in the Performance and Accountability Report (PAR). However, the BLM has collected and reviewed this information on a Bureau-wide basis and agrees to include BLM-specific results for these measures in FY 2006.

The BLM acknowledges that there were no efficiency measures for the land sales program in 2005. However, the BLM has developed one efficiency measure as a result of the PART process that examined the Southern Nevada Public Land Management Act program. This measure assesses the timeliness of the BLM's ability to offer land parcels for sale within 12 months of being nominated, thus measuring the BLM's responsiveness to the local government and the community. The BLM is in the process of implementing the measure and collecting performance information.

The BLM has identified the need to develop appropriate performance measures for the helium program; we are developing these measures for finalization during FY 2006.

The BLM will develop a process to collect performance results in a timely manner for inclusion in its annual report

Recommendation F: Reporting the Condition of Stewardship Land

To provide more useful and meaningful information to the readers of BLM's annual report, BLM should consider the intent of the federal accounting standards in reporting the condition of its stewardship land and adhere to the principles incorporated in FASAB's commissioned Stewardship Guidance Work Group draft report, *Reporting and Assurance Guide for Stewardship Land (SL) and Heritage Assets (HA)*.

Response:

The BLM does not concur with the recommendation.

Based on FASAB's authoritative pronouncements in Standards 8 and 29, the BLM believes that its reporting was done in accordance and fully in compliance with the current standards. On the other hand, the finding relies almost entirely not on officially issued standards but rather on a draft report, *Reporting and Assurance Guide for Stewardship Land (SL) and Heritage Assets (HA)*. While the draft report was prepared by the Stewardship Guidance Work Group, which was commissioned by FASAB's Accounting and Auditing Committee and even included BLM and other Interior participation for the product, we believe retrospectively that the draft report was, at the very least, premature in much of its discussion relating to condition information.

The finding fails to take into consideration crucial language found in FASAB Standards 8 and 29 themselves. According to SFFAS 8, Paragraph 71, "'Land' is defined as the solid part of the surface of the earth. *Excluded* [emphasis added] from the definition are the natural resources (that, is depletable resources, such as mineral deposits and petroleum; renewable resources, such as timber; and the outer-continental shelf resources) related to land." The same identical definition of land is found in SFFAS 29, Paragraph 34. Footnote 17 to the latter states, "The Board presently has an active project to address standards for natural resources, for which the Board is considering developing individual standards for each type of natural resource separately. To begin the project, the Board will be addressing oil and gas resources. The framework for the oil and gas resource phase of the project will be used as a model when addressing the other types or logical sets of natural resources (e.g., timber, grazing land, solid leasable minerals) in subsequent phases of the project." FASAB in a very straightforward manner is clearly distinguishing between land as essentially rock and sediment from any type of natural resource.

The Department of the Interior has taken the position that it "will not perform formal condition assessments of stewardship land. Likewise, the Department will not perform parcel-by-parcel reviews of stewardship land, which would not be feasible or cost-effective."

The BLM has stewardship responsibilities over the natural resources on its lands and provides condition assessments on selected resources in the BLM's *Public Land Statistics (PLS)* and other reporting. For example, approximately 159 million acres of the BLM's

261 million acres is found within grazing allotments, and reporting on the vegetation on these lands is found in PLS Table 2-1, "Percent of Rangeland Acreage by Ecological Status by State." However, SFFAS 29 clearly states that FASAB will be addressing grazing land as a resource in future guidance, and there is currently no reporting requirement for this resource, particularly given FASAB's current definition of "land."

In light of BLM's multiple-use mission as defined by the Federal Land Policy and Management Act (FLPMA) of 1976, we believe that defining "acceptable" condition for "rock and sediment" in terms of "when it is adequate for the uses authorized during the period of the report" and the "needs intervention" condition category in terms of "not supporting any of the uses authorized during the period of the report" is entirely reasonable, useful, valid, and fully in accord with SFFAS 8 and 29. Using these definitions, the BLM can state that the condition of the Public Lands is "acceptable."

Recommendation G: Reporting the Condition of Museum Collections

BLM should continue to complete its review of the nonfederal facilities in accordance with the Department of the Interior's guidance and consider such information in determining the condition of museum collections. However, for financial reporting purposes, the assessment of museum collections should ultimately address the underlying condition of the individual items as opposed to the facility housing those items. If BLM does not know the condition of the individual items, then such a statement should be made in the annual report along with the reasons why such condition is unknown.

Response:

The BLM does not concur with the recommendation.

The BLM believes that collections in non-Federal facilities do not meet the SFFAS 6 criteria for being classified as BLM property. The collections in non-Federal facilities were not gathered for use by the BLM and the BLM does not plan to use them for any Federal purpose. The BLM does not intend to recover museum objects from the non-Federal facilities. As such, the BLM has only a reversionary interest in these items. Based on these considerations, a letter was sent to FASAB requesting a decision on whether or not museum collections in non-Federal facilities are in fact BLM property and should be included in reporting of heritage assets. At this point, a response has not been received from FASAB. However, the BLM continues to work with other agencies and bureaus within the Department of the Interior to secure information on the non-Federal facilities.

The recommendation and its associated findings reflect a significant departure from the requirements of SFFAS 29. Moreover, the recommendation indicates a fundamental misunderstanding of condition reporting related to museum collections. SFFAS 29 states the following:

- Paragraph 81: "The standard emphasizes reporting on asset categories, rather than individual assets."

- Paragraph 84: “Defining physical units as individual items to be counted is neither required nor prohibited. Particularly for collection-type heritage assets, it may be more appropriate to define the physical unit as a collection, or a group of assets located at one facility, and then count the number of collections or facilities.”

The recommendation directs the BLM to report museum collection information on an individual item basis for condition information. This is not required by SFFAS 29. Furthermore, reporting condition on individual museum collection items is at best a highly nebulous concept. Museum collections cannot be subject to the same condition standards as personal property. Pre-historic pottery, for example, that is retrieved from an archaeological dig in broken pieces (“shards”) cannot be deemed to be in “poor” condition. The pottery shards may be glued together to recreate a partial or even an entire pottery piece, but the pottery is nevertheless still broken. The original condition in which the item was found cannot be reversed, but the item could deteriorate beyond the condition in which it was found through improper care. The emphasis for reporting museum collection condition information is correctly placed on the facility housing the museum collection itself, because the facility itself determines whether the collection is in stable condition. Numerous factors such as temperature, relative humidity, and dust and pest control are used to evaluate facilities to determine their ability to minimize any deterioration that could happen to its contents. This methodology is consistent with standard professional museum practice as recommended by museum conservators and museum associations. Moreover, attempting to do an item-by-item condition assessment could very well result in additional damage to museum collections through unnecessary handling, so it is therefore not a general museum practice to conduct such assessments.

The BLM reported condition information on museum collections in accordance with Departmental policy, standards, and guidance. The Department determined that the most relevant information in assessing condition of museum collections is the stability of the environment in which the collection is housed. This methodology was recommended by the Department-wide Interior Museum Property Committee (composed of museum professionals representing all Interior bureaus and offices) and approved by both the Department’s Museum Program and the Assistant Secretary for Policy, Management, and Budget. This methodology is also consistent with performance measures in the Department’s strategic plan.

Recommendation H: Reporting of Deferred Maintenance Amounts for Stewardship Land

BLM should develop a process, consistent with accounting principles generally accepted in the United States of America, for estimating deferred maintenance costs on stewardship land. Such costs should encompass land that is in need of intervention and future outlays of efforts and monies are necessary to bring the land into an acceptable condition.

Response:

The BLM does not concur with the recommendation.

Unlike buildings and machinery, land (defined by FASAB “as the solid part of the surface of the earth,” i.e., rock and sediment) and the natural resources on land (minerals, trees, shrubs, water, grass, wildlife and fish, etc.) are not subject to periodic and/or recurring maintenance (the act of keeping fixed assets in a usable condition). As such, natural resources are not subject to deferred maintenance (postponed maintenance). Instead, land and the resources on land are subject to the forces of nature and man has only limited ability to influence the results of natural forces and no ability to know in advance what the location and results of those natural forces will be. Additionally, some of the effects of various natural events, such as fires, while initially seeming detrimental are actually beneficial to the long-term health of the land and its resources. For these reasons, the concept of “maintenance of fixed assets” does not apply to natural resources and the BLM does not schedule or defer maintenance activities on the natural resources that exist on the public lands. The Department of the Interior has taken the following position:

The Department has determined that stewardship land managed by the Department does not have deferred maintenance as defined by SFFAS No. 6. Accordingly, deferred maintenance estimates will not be included in the Performance and Accountability Report for either stewardship land or for heritage assets comprising primarily land and natural features. For these reasons, the Department does not impose a reporting requirement for bureaus to estimate and report deferred maintenance for bureau stewardship land in their respective financial statements.

This situation is both recognized and supported by the Office of Management and Budget. OMB Circular A-136 (Financial Reporting Requirements) states under Section 11.2 (Deferred Maintenance), “Determination of acceptable condition, therefore, affects the amounts of deferred maintenance. In some cases, such as heritage assets and stewardship land, management may determine that maintenance is not needed. In that case, deferred maintenance would not exist.”

The finding cites the BLM’s Budget Justifications and other documents to show that the BLM does devote substantial attention and resources to natural resource treatments when and if inventory, assessment, and/or monitoring activities disclose that current resource conditions do not meet the objectives for one or more of the uses authorized at that time for a given tract of land. However, resource treatments are not maintenance and are never identified as such. Unlike regularly scheduled routine or preventative maintenance or repairs, resource treatments often consist of altering use on an as-needed, ad hoc basis and then letting nature take its course. Resource treatments take many forms, such as adjusting or withholding use, chemical or mechanical activities, plantings, seeding, prescribed fire, etc. Treatments are not typically applied universally, cyclically, annually, periodically, or in any other manner that is subject to recurring actions that can be planned or scheduled for defined tracts of land.

Recommendation I: Federal Accounting Standards

We recommend BLM strengthen its policies and procedures to ensure performance measure information, reported in Management's Discussion Analysis; the condition of stewardship land and museum collections, reported as Required Supplementary Stewardship Information; and the amount of deferred maintenance for stewardship land, reported as Required Supplementary Information, are prepared in accordance with federal accounting standards.

Response:

Performance Measure Information

The BLM concurs with the recommendation and, as discussed in recommendation E, will develop a process to collect and report performance measures for wildland fire management, land sales, and helium sales.

Condition of Stewardship Land

As discussed in recommendation F, the BLM does not concur with the recommendation to consider and adhere to standards and principles of FASAB's commissioned Stewardship Guidance Work Group. The BLM believes that its reporting was done in compliance with the current standards and guidance from the Department of the Interior.

Condition of Museum Collections

As discussed in recommendation G, the BLM does not concur with the recommendation to follow DOI's guidance as well as report the condition of individual items as opposed to the facility housing those items. The BLM reported condition information on museum collections in accordance with Departmental guidance and SFFAS 6 and 29.

Deferred Maintenance Amounts for Stewardship Land

The BLM does not concur with the recommendation. As discussed in recommendation H, the BLM feels that land and natural resources are not subject to recurring maintenance as defined in SFFAS 6.

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
A, C, D, E.1, and E.2	Resolved; not implemented.	Recommendation will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.
B and I F.1, F.2, F.3, F.4, G, and H	Unresolved.	Recommendation will be referred to the Assistant Secretary, Policy, Management and Budget for resolution.