

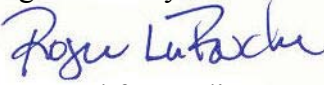


United States Department of the Interior  
Office of Inspector General  
Washington, D.C. 20240

December 9, 2003

Memorandum

To: Director, U.S. Geological Survey

From: Roger La Rouche   
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the U.S. Geological Survey's Balance Sheet for  
Fiscal Year 2003 (Assignment No. E-IN-GSV-0070-2003)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the U.S. Geological Survey's (USGS) balance sheet as of September 30, 2003. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of America, Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency, *Financial Audit Manual*.

In its Independent Auditor's Report dated October 31, 2003, (Attachment 1), KPMG issued an unqualified opinion on USGS's balance sheet. KPMG identified four reportable conditions related to internal controls and financial operations: (1) accounts receivable and deferred revenues related to reimbursable agreements, (2) Information Technology (IT) data security, (3) policies, procedures and controls over property, plant and equipment, and (4) policies procedures and controls over intra-departmental eliminations. KPMG considers the first reportable condition to be a material weakness. With regard to compliance with laws and regulations, KPMG found USGS to be noncompliant with portions of the Federal Financial Management Improvement Act. Specifically, USGS's financial management systems did not substantially comply with Federal financial management systems requirements and Federal accounting standards.

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express an opinion on the U.S. Geological Survey's balance sheet, conclusions about the effectiveness of internal controls, conclusions on whether the U.S. Geological Survey's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

In the November 13, 2003 response (Attachment 2), USGS concurred with the report's findings and recommendations and indicated corrective actions would be taken. Based on USGS's response, we consider all the recommendations resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to 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 USGS personnel during the audit. If you have any questions, please contact me at (202) 208-5512.

Attachments (2)



2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Director of the U.S. Geological Survey and Inspector General  
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheet of the U.S. Geological Survey (USGS) as of September 30, 2003. The objective of our audit was to express an opinion on the fair presentation of this financial statement. In connection with our audit, we also considered USGS's internal control over financial reporting and tested USGS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the consolidated balance sheet.

### SUMMARY

As stated in our opinion on the consolidated balance sheet, we concluded that USGS's consolidated balance sheet as of September 30, 2003, is presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We did not audit the accompanying consolidated balance sheet as of September 30, 2002 and the consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years ended September 30, 2003 and 2002.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

- A. Controls over accounts receivables and deferred revenues related to reimbursable agreements
- B. Controls over Information Technology (IT) data security
- C. Policies, procedures, and controls over property, plant and equipment
- D. Policies, procedures and controls over intra-departmental eliminations

We consider reportable condition "A", above, to be a material weakness.

The results of our tests of compliance with the laws and regulations, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 USGS's financial management systems did not substantially comply with the Federal financial management systems requirements and Federal accounting standards.

The following sections discuss our opinion on USGS's consolidated balance sheet, our consideration of USGS's internal control over financial reporting, our tests of USGS's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

## **OPINION ON CONSOLIDATED BALANCE SHEET**

We have audited the accompanying consolidated balance sheet of the U.S. Geological Survey as of September 30, 2003. The accompanying consolidated balance sheet as of September 30, 2002 and the consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years ended September 30, 2003 and 2002 were not audited by us and, accordingly, we do not express an opinion on them.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of USGS as of September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, during 2003, USGS changed its accounting for the Working Capital Fund.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information 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 Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The other accompanying information included in the Appendices section of the Annual Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information and, accordingly, we express no opinion on it.

## **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 USGS'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.

In our fiscal year 2003 audit, we noted the following matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We consider reportable condition "A" to be a material weakness.

**A. Controls over accounts receivables and deferred revenues related to reimbursable agreements**

Administrative staff did not effectively and consistently investigate and correct abnormal balances in the 289A report, which is the "Status of Funding" report printed from the PCAS system which contains a detailed listing by agreement of Accounts Receivable – Billed, Accounts Receivable – Unbilled, and Deferred Revenue. As a result, unbilled amounts may not be billed timely and incorrect balances within Accounts Receivable – Billed, Accounts Receivable – Unbilled and Deferred Revenue may not be identified and corrected in a timely manner. As a monthly internal control procedure, all cost centers which service reimbursable agreements are required to perform an analysis of billed and unbilled accounts receivable balances, and the deferred revenue balance to ensure the propriety of all reported balances and to ensure that invoices are prepared timely. This analysis is accomplished by reviewing the 289A report for large and/or abnormal balances. Based on our reperformance of the control at four cost centers, we noted that the administrative staff performing the review generally handled the large debit balances appropriately. However, they did not investigate all abnormal balances (such as credit balances) in the 289A report due to the volume of the report and the fact that many abnormal balances require extensive research. In addition, there is no standard policy for how to perform this review, nor are the terms "large" and "abnormal" specifically defined. Therefore, the control is not operating consistently to identify and correct large credit balances or all abnormal balances in a timely manner.

As a result of the above internal control issues, we took a purely substantive approach to auditing the billed and unbilled accounts receivable and deferred revenue balances related to reimbursable agreements that are reported in the consolidated balance sheet of the USGS as of September 30, 2003. During this testwork, we noted the following issues related to our statistical sample of 289 (95 billed accounts receivable; 124 unbilled accounts receivable; and 70 deferred revenue) items:



- 26 instances in which deferred revenue remained on the balance sheet for a significant period of time after completion of the agreements (ranging from 7 months to 8 years), indicating that the amount should either have been refunded to the customer (5 of the instances), or in the case of fixed price agreements, should have been recorded as revenue (21 of the instances).
- 7 instances in which USGS was not billing timely and in accordance with the billing terms stated in the agreement. In some cases, the agreement period of performance had long since passed, however, the customer had still not been billed.
- 9 instances in which there was both an unbilled accounts receivable and a deferred revenue amount for the same agreement. Deferred revenue amounts should be depleted before an unbilled accounts receivable is established. It is our understanding that this is primarily caused by an erroneous end date recorded in the system. PCAS requires a bill end date for all agreements, thus USGS generally estimates an end date well into the future to avoid this issue from occurring. However, if the bill end date has passed and the project was extended but not updated in PCAS, PCAS cannot perform the task of liquidating deferred revenue.
- 2 instances in which there were credit balances in unbilled accounts receivable that should have been recorded as deferred revenue.

### **Recommendations**

We recommend that USGS:

1. Implement more effective internal controls through a centralized review and analysis of agreements with abnormal billed and unbilled accounts receivable and deferred revenue balances.
2. Enforce current policies and procedures for conducting reviews of agreements. This should include providing the cost centers with the necessary training and resources for reviewing all agreements.
3. Standardize agreements and develop consistent billing practices that permit recovery of unbilled accounts as expenditures are incurred. Billing practices should be more in line with the bureau's normal vendor payment cycle, which is currently 30 days as required under the Prompt Payment Act.
4. Develop additional reporting capabilities that would help USGS administrative staff to focus on the agreements with the more significant and abnormal balances quicker. The additional capabilities should also include an evaluation using the agreement end date.

### **B. Controls over Information Technology (IT) data security**

Significant improvement over certain aspects of access controls and information security has been made by USGS since the FY 2002 review. USGS has prepared and



implemented a corrective action plan, re-structured its organization and added to its management staff with the goal of more effectively addressing and resolving prior years' weaknesses. The combined effect of the IT control weaknesses identified as a result of this year's review has been deemed that of a reportable condition. However, we do not consider this reportable condition to be a material weakness. Some of the identified weaknesses have been previously reported, and persist despite developed corrective action plans. Weaknesses were identified in the following IT control areas:

1. *Information Security and Logical Access Controls* – High-risk vulnerabilities were identified on the USGS internal network exposing the bureau's information systems environment to remote or local access threats. As a result of these vulnerabilities, malicious users could send email from unsuspecting accounts externally, improperly use default accounts to enumerate users and elevate rights to the system, access USGS financial systems and issue commands to add/remove files from the system. In addition, encryption tools at USGS are not being consistently used for all network related activities and transmission of sensitive or confidential data.

2. *Information Security and Application Access Controls* - USGS has not assigned responsibility for the Time and Attendance (T&A) application system security to an independent person. The system administrator currently performs security responsibilities. In addition, USGS's access controls over the T&A application need strengthening. For example, the following control weaknesses were identified:

- T&A does not maintain password history, i.e. users can reuse passwords indefinitely.
- T&A does not track failed login attempts or lock user accounts after a predetermined number of failed login attempts.
- T&A users have been assigned application privileges that violate the segregation of duties built into the application. Users have been assigned privileges that allow them to enter, modify, and approve timesheet data.

3. *Entity-Wide Security Plan: Virus Scanning* - USGS has not established workstation standards that are consistent with the current virus-scanning schedule. For example, a parent server is set up to perform virus scans on many Geographic Information Office (GIO) and Administrative Policy & Services (APS) workstations on Sunday mornings. However, the GIO and APS users are not required to leave the workstations powered up on weekends. The workstations that are powered off are not scanned. We noted that 21 out of 31 workstations we reviewed had not been scanned for over a month.

4. *User Account Management* – A standardized, fully coordinated process for reviewing and monitoring user access to all USGS platforms has not been established. As a result, two or more user IDs have been assigned to a single user, accounts have been accessed after their associated passwords should have expired, former employees continue to have active user accounts, and accounts are not consistently supported by properly prepared and reviewed documentation.



5. *Segregation of Duties: Access Controls* – USGS has not consistently ensured proper segregation of duties such that one individual cannot control key aspects of information systems operations. For example, several users have the ability to initiate and authorize account setup functions in the BASIS+ application.

## **Recommendations**

We recommend that USGS:

1. *Information Security and Logical Access Controls* - Review the assessment results that have been provided and ensure that appropriate corrective actions have been implemented to address the specific risks identified. Furthermore, USGS management should evaluate the process for identifying vulnerabilities on the internal network and ensure that thorough, periodic reviews are conducted to identify internal vulnerabilities. We further recommend that USGS management acquire and implement an encryption tool to protect sensitive and confidential data during transmission and in storage. It should be noted that management reported taking immediate action to correct the weaknesses identified as a result of the vulnerability assessment.

2. *Information Security and Application Access Controls* – Designate an independent management official to be responsible for T&A application security. Furthermore, we suggest that the following requirements be included in the administration procedures of the new T&A application:

- Implement restrictions on the reuse of passwords for at least 6 generations;
- Track unsuccessful logins and lock user accounts after 3 failed login attempts when this capability becomes available with the installation of Oracle 8.0; and,
- Enforce segregation of duties within the application so that a user cannot have more than one role.

3. *Entity-Wide Security Plan: Virus Scanning* - Standardize and formalize virus-scanning procedures to ensure that all workstations are scanned at least once a week. USGS should consider using a script as part of the boot-up process that initiates a full scan of the workstation if the last scan date is over a week-old.

4. *User Account Management* – Require that periodic review of the access control listings to its various IT resources be performed to ensure that active users have valid business needs for such access and that the access privileges are not excessive. Password policies should be strictly enforced using the technical tools available and approved user access authorization forms should be completed and maintained for all users.

5. *Segregation of Duties: Access Controls* - Ensure that a user cannot set the “Update FFS” field to “yes” and approve accounts for the same cost center. In cases where it is not feasible to do so, implement manual controls, e.g., have a management level person periodically review the accounts set up by users with incompatible privileges. Such reviews should be documented.



### **C. Policies, procedures and controls over property, plant and equipment**

When a capital asset is transferred-in from another federal agency, USGS records the transfer in and the asset at the original acquisition cost of the transferring agency instead of the asset's net book value (NBV) on the date of transfer. USGS then records the transferring agency's original in-service date into the Fixed Asset System (FAS), which results in the NBV of the asset being properly stated at the end of the fiscal year. However, this results in USGS recording more depreciation expense than appropriate in the year that the asset is transferred to USGS. It also results in both the acquisition cost and accumulated depreciation being overstated.

Additionally, we noted the following deficiencies related to the recording of personal property acquisitions in the FAS:

- In-service dates inconsistent with the date on the receiving reports
- Acquisition costs not in agreement with amounts stated on the related invoices and purchase orders
- Depreciation beginning on constructed assets before construction is completed and the asset placed in service
- Capital assets recorded with either no in-service date or with a useful life of zero resulting in these assets not being depreciated
- Assets capitalized that are under the bureau's capitalization threshold of \$15,000

We believe the cause of most of the above issues is due to lack of adequate training and supervision of field office staff and a lack of review on the part of the Property Management Branch to ensure that all assets are recorded into FAS correctly.

#### **Recommendation**

We recommend that USGS implement policies, procedures and controls to ensure that capital asset transfers from other federal agencies and personal property acquisitions are recorded in accordance with SFFAS No. 6, *Property, Plant, and Equipment*, as well as existing USGS policies and procedures.

### **D. Policies, procedures and controls over intra-departmental eliminations**

USGS did not start the fiscal year 2003 reconciliation process for its intra-departmental transactions and balances until the second quarter of the fiscal year, and as of September 30, 2003 had not fully reconciled the transactions and balances. We also noted that the intra-departmental reconciliation process is manual and depends on significant involvement of bureau staff. While the net amount of the unreconciled differences is not material to the USGS consolidated financial statements as of September 30, 2003, failure to strengthen the organization's policies, procedures and controls in this area could



jeopardize the timely preparation of accurate quarterly and year-end consolidated financial statements in the future.

### **Recommendation**

We understand that the Department of the Interior is developing an automated process to facilitate the reconciliation of intra-departmental transactions. We recommend that USGS implement this automated process. Until the automated process is implemented, we recommend that USGS improve the manual process to identify and reconcile the intra-departmental transactions. The reconciliation process should be completed at least quarterly and include procedures to resolve any differences identified in a timely manner.

\* \* \* \* \*

A summary of the status of prior year reportable conditions 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 USGS in a separate letter dated October 31, 2003.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The results of our tests of compliance with certain provisions of laws and regulations described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance 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 USGS's financial management systems did not substantially comply with the Federal financial management systems requirements and Federal accounting standards.

### **E. Federal Financial Management Systems Requirements**

As previously discussed in the "Internal Control Over Financial Reporting" section of this report, USGS did not have adequate information security and general control policies and procedures to meet the Federal financial management systems requirements of FFMIA.

### **Recommendation**

We recommend that management improve controls over information technology systems to ensure adequate security and protection of information resources and to meet the requirements of FFMIA.



## **F. Federal Accounting Standards**

USGS is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the “Internal Control Over Financial Reporting” section of this report, we identified weaknesses that affected USGS’s ability to prepare its financial statements and related disclosures in accordance with federal accounting standards. Specifically, we determined that USGS needs to improve its internal controls over reimbursable agreements, property, plant and equipment, and intra-departmental eliminations.

### **Recommendation**

We recommend that USGS implement strengthened procedures and internal controls over reimbursable agreements, property, plant and equipment, and intra-departmental eliminations to ensure the financial statements and related disclosures are prepared in accordance with the federal accounting standards.

The results of our tests of FFMIA disclosed no instances in which USGS’s financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

## **RESPONSIBILITIES**

### *Management’s Responsibilities*

The *Government Management Reform Act of 1994* (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To assist the Department of the Interior in meeting the GMRA reporting requirements, USGS prepares annual financial statements.

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;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management’s Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information, and
- Complying with laws and regulations, 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 consolidated balance sheet of USGS as of September 30, 2003 based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the consolidated balance sheet is free of material misstatement.

An audit 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 audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered USGS's internal control over financial reporting by obtaining an understanding of USGS'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 consolidated balance sheet as of September 30, 2003. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. 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 internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered USGS' internal control over required supplementary stewardship information by obtaining an understanding of USGS' 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, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, 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 performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether USGS's consolidated balance sheet as of September 30, 2003 is free of material misstatement, we performed tests of USGS's compliance with certain provisions of laws and regulations, 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 and regulations applicable to USGS. Providing an opinion on compliance with laws and regulations 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 USGS'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 for the information and use of USGS's management, the U.S. Department of Interior's management, the U.S. Department of the Interior's Office of Inspector General, OMB, the General Accounting 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*

October 31, 2003

U.S. Geological Survey  
 Status of Fiscal Year 2002 Findings  
 September 30, 2003

FY 2002 Report Reference	Condition Area	Status
A	<i>Information technology system controls</i>	<b>Partially Repeated Comment</b> See Reportable Condition 2003-B
B	<i>Organizational structure and leadership of financial management</i>	Substantial progress has been made by USGS in addressing this issue and it is no longer considered a reportable condition.
C	<i>Financial reporting controls</i>	Substantial progress has been made by USGS in addressing this issue and it is no longer considered a reportable condition.
D	<i>Account analysis and adjustments</i>	<b>Partially Repeated Comment</b> See Reportable Condition 2003-D.
E	<i>Revenue Cycle Controls</i>	<b>Partially Repeated Comment</b> See material weakness discussed in Reportable Condition 2003-A.
F	<i>Property, plant, and equipment controls</i>	<b>Partially Repeated Comment</b> See Reportable Condition 2003-C.
G	<i>Inventory</i>	Substantial progress has been made by USGS in addressing this issue and it is no longer considered a reportable condition.
H	<i>Working capital fund accounting</i>	Substantial progress has been made by USGS in addressing this issue and it is no longer considered a reportable condition.
I	<i>Compliance with FFMIA</i> <i>-EDP Controls</i> <i>-Federal Accounting Standards</i> <i>-Standard General Ledger</i>	<b>Partially Repeated Comment</b> See findings 2003-E and F in the "Compliance with Laws and Regulations" section.

# United States Department of the Interior

## U.S. GEOLOGICAL SURVEY

Reston, Virginia 20192

### MEMORANDUM

November 13, 2003

To: Roger La Rouche  
Assistant Inspector General for Audits                      Attachment 2

From: Chip Groat, Director

Subject: Comments to the Independent Auditors' Report on the U.S. Geological Survey's Balance Sheet for Fiscal Year 2003 (Assignment No. E-IN-GSV-0070-2003)

Thank you for the opportunity to respond to the Independent Auditors' Report on the U.S. Geological Survey's Balance Sheet for Fiscal Year 2003. We have reviewed the report and concur with the audit findings of four reportable conditions, one of which is considered a material weakness. Our specific comments on the report and the recommendations are documented in the attached.

Should you have any questions regarding this memorandum or any of our responses, please feel free to contact either Carol Aten at (703) 648-7200 or Karen Baker at (703) 647-7261.

## Attachment – Comments on the Independent Auditors' Report

### **General Comments:**

The USGS concurs with the findings and recommendations identified in the FY2003 Independent Auditors' Report on Internal Control Over Financial Reporting. Our responses to specific findings and recommendations are documented below.

#### ***A. Controls over accounts receivables and deferred revenues related to reimbursable agreements.***

##### **KPMG Recommendations:**

1. Implement more effective internal controls through a centralized review and analysis of agreements with abnormal billed and unbilled accounts receivable and deferred revenue balances.
2. Enforce current policies and procedures for conducting review of agreements. This should include providing the cost centers with the necessary training and resources for reviewing all agreements.
3. Standardize agreements and develop consistent billing practices that permit recovery of unbilled accounts as expenditures are incurred. Billing practices should be more in line with the bureau's normal vendor payment cycle, which is currently 30 days as required under the Prompt Payment Act.
4. Develop additional reporting capabilities that would help USGS administrative staff to focus on the agreements with the more significant and abnormal balances quicker. The additional capabilities should also include an evaluation using agreement end date.

##### **USGS Comments:**

The USGS concurs with the findings and recommendations and has begun developing corrective action plans to address the specific recommendations. The bureau has established an Office of Internal Controls and Quality Assurance (ICQA) that reports to the Deputy Chief Financial Officer. The ICQA has oversight responsibilities to monitor the operational effectiveness and implementation of bureau specific financial policies and procedures and to conduct training as needed. Additionally, the bureau is furthering use of the accounting system's functionality for automated billings based on pre-established billing cycles. USGS expects to have complied with the recommendations by June 30, 2004.

#### ***B. Controls over Information Technology (IT) data security***

##### **KPMG Recommendations:**

1. Information Security and Logistical Controls - Review the assessment results that have been provided and ensure that appropriate corrective actions have been implemented to address the specific risks identified.

2. Information Security and Application Access Controls – Designate an independent management official to be responsible for T&A application security.
3. Entity-Wide Security Plan: Virus Scanning – Standardize and formalize virus-scanning procedures to ensure that all workstations are scanned at least once a week.
4. User Account Management – Require that periodic review of the access control listings to its various IT resource be performed to ensure that active users have valid business needs for such access and that the access privileges are not excessive.
5. Segregation of Duties: Access Controls – Ensure that a user cannot set the “Update” field to “yes” and improve accounts for the same cost center.

USGS Comments:

The USGS concurs the finding and recommendations. The bureau has developed specific milestones that address the five recommendations with full implementation by March 2004.

**C. Policies, procedures and controls over property, plant and equipment**

KPMG Recommendations:

We recommend that USGS implement policies, procedures and controls to ensure that capital asset transfers from other federal agencies and personal property acquisitions are recorded in accordance with SFFAS No. 6, *Property, Plant and Equipment*, as well as existing USGS policies and procedures.

USGS Comments:

The USGS concurs with the recommendation and will revise existing policies and procedures to comply with SFFAS No.6, *Property, Plant and Equipment* by March 2004. The bureau will also provide additional on-going training to ensure that property managers understand the revised policies and procedures.

**D. Policies, procedures and controls over intra-departmental eliminations**

KPMG Recommendations:

We understand that the Department of the Interior is developing an automated process to facilitate the reconciliation of intra-departmental eliminations. We recommend that the USGS implement this automated process.

USGS Comments:

The USGS concurs with the finding and recommendation. The bureau will implement the DOI automated process as soon as it is available.