Analysis of Financial Activity

The Department prepares consolidated financial statements that include (1) a Statement of Financial Position, (2) a Statement of Net Cost, (3) a Statement of Changes in Net Position, (4) a Statement of Custodial Activity, and (5) a Statement of Budgetary Resources. Overall, these statements summarize the financial activity and financial position of the Department. Additional unaudited financial information is also presented in the Supplemental Information section of the report.

Operating Expenses

As indicated in the Statement of Net Cost, the 1998 net cost of Interior operations, after earned revenue, is approximately $8.3 billion. In comparison, the Federal government expended over $375 billion for Social Security payments and almost $364 billion in interest payments on Treasury securities during fiscal year 1998.

The largest expense of the Department is salaries and benefits (*Figure 43*). In terms of personnel, Interior is the sixth largest of the 15 Cabinet agencies, with approximately 3.7 percent of total Executive Branch civilian employment. During 1998, Interior's full-time equivalent (FTE) employee level was 66,487, an increase of 759 or 1.2 percent over 1997. Since 1993, Interior has decreased staffing by 10,910 FTEs, a decline of over 14 percent.

A portion of the increase in salary and benefit expenses is attributable to a change in accounting standards that requires Federal agencies to recognize expense for that portion of their retirement and other benefits paid by the Office of Personnel Management (see Note to the Financial Statements No. 15).

Figure 43

Operating Expenses			
(dollars in billions)	**1998**	**1997**	**% Change**
Salaries and Benefits	$3.75	$3.88	-0.3
Contractual Services	2.33	2.07	12.6
Grants, Subsidies and Contributions	1.89	2.02	-6.4
Other	1.63	1.30	25.4
Total	$9.60	$9.27	3.6

Revenues

In general, Interior's missions are intended to be funded by general government funds derived from tax receipts and other sources. However, an increasing number of Departmental activities are being supported by other fees and collections.

Federal government revenue is classified as either Exchange Revenue or Non-exchange Revenue. Exchange Revenue occurs when both parties to the transaction receive value (e.g., the government sells maps, or other products and services to the public for a price). Non-exchange Revenue occurs when only one party receives value (e.g., donations to the government from the public or government demands for payment through taxes, fines and penalties). Only Exchange Revenues are presented on the Statement of Net Cost, so that the statement reflects, to the extent possible, the net cost to the taxpayer of agency operations.

Interior's revenues from the public derive from sales of hydroelectic power, entrance fees at parks and wildlife refuges, sales of maps, and other products and services directly related to the operating responsibilities of the Department (*Figure 45*). Approximately $853 million of revenues were collected from the public and were either retained in the Department after congressional appropriation to further Interior's mission, or were returned to the General Fund of the Treasury. This represents a decrease of 25 percent over the prior year. These revenues offset the taxpayers' investment in the Department. In addition, Interior earned $721 million from other Federal agencies, mostly resulting from cross-servicing agreements or reimbursable services to other agencies. These efforts help reduce the total cost of government operations by sharing expertise among agencies.

During 1998, the Department collected over $5.9 billion in revenue (see Statement of Custodial Activity) from Outer Continental Shelf and onshore oil, gas, and mineral lease sales and royalties, making Interior one of the largest collectors of revenue in the Federal government. This was a decrease of $335 million from the prior year. These receipts are presented on the Department's Statement of Custodial Activity since these collections, under Federal accounting rules, are considered to be revenue of the government as a

Figure 44

Federal Financial Statements		
Statement	**Federal Objective**	**Other Information**
Statement of Financial Position	• The Federal Statement of Financial Position is intended to present the agency's financial position -- assets, liabilities, and net position -- at the statement date.	• Federal assets are split between those that are available to the Department for use in its operations (also referred to as "Entity Assets") and those which the Department holds in its name, but which it cannot use. These assets, held on behalf of others, arise primarily when the Department is responsible for collection of monies which under law must be forwarded to the General Fund at U.S. Treasury or to other Federal agencies upon or shortly after receipt. • The Statement of Financial Position separates those liabilities for which funds have been appropriated from those which have not yet been funded.
Statement of Net Cost	• Intended to demonstrate the cost of missions and programs accomplished by the Department for the taxpayer.	This statement differs from private sector operating statements in several ways: • First, expenses are presented at the top of the statement and revenues earned from the sale of goods and services are deducted from those expenses. This is due to the fact that the objective of most government agencies is not to "make money." Rather, the objective is to efficiently and effectively carry out the missions and responsibilities assigned to the agency by the Congress and the President, elected representatives of the people. • The "bottom line" of the Statement of Net Cost is not "net income" or "net loss," because the effectiveness of Federal agencies simply cannot be evaluated by comparing revenues against expenses. The bottom line is instead "Net Cost of Operations" which discloses to the reader, at a very summary level, what the taxpayer has invested in the operations of the agency.
Statement of Changes in Net Position	• Explains how the Net Cost to the taxpayer for the Department's operations was funded, and reports other changes in equity which are not included in the Statement of Net Cost.	• "Appropriations Used" in any given period as reported on the Statement of Changes in Net Position will not exactly match expenses for that period, since budgetary accounting rules and financial accounting rules may recognize certain transactions and events at different points in time.
Statement of Custodial Activity	• Presents financial information related to oil and gas royalties and lease payments collected by the Department on behalf of the Federal government.	• The top half of this statement presents the source of Royalty-based collections. The bottom half presents the disposition of those collections (e.g., transfers to the Department of the Treasury, States, Indian Tribes, and others).
Statement of Budgetary Resources	• Provides information about how budgetary resources were made available as well as their status at the end of the period.	• Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular A-34, "Instructions on Budget Execution."
Statement of Financing	• Reports the differences and facilitates the understanding of the differences between the net cost of operations and the obligations of budget authority.	• Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. In order to understand these differences, information is needed to reconcile financial (proprietary) net cost of operations and the obligations of budget authority.

whole rather than of the Department. These revenues are distributed primarily to Federal and State treasuries, Indian Tribes and allottees, the Land and Water Conservation Fund, and the Historic Preservation Fund.

Figure 45

Exchange Revenue			
(dollars in billions)	**1998**	**1997**	**% Change**
Revenue from Sale of Goods and Services to the Public	$.85	$1.13	-24.8
Revenue from Sale of Goods and Services to Federal Agencies	.72	.67	7.5
Other Revenue	.32	.55	-41.8

Budgetary Resources

The Department obtains most of its funding from general government funds maintained by the Treasury Department and appropriated for Interior's use by Congress.

Interior's 1998 budget authority (as reported in the fiscal year 2000 budget request) was approximately $10.5 billion. This represents an increase of almost $580 million or 5.8 percent over 1997. The $10.5 billion is greater than the $9.9 billion in budgetary authority reported in the Statement of Budgetary Activity because of differences between budgetary and federal accounting guidance. The most significant difference relates to the treatment of Tribal and Individual Indian Trust funds, assets which do not belong the the Federal government. These amouts, which are discussed in detail in Note 18 of the consolidated financial statements, are excluded from Interior's financial statements but through fiscal year 1999 are included in Interior's budget requests.

Measured in terms of dollar resources, the Department, with one-half of one percent of the entire Federal budget, spends less funds than all but two of the Cabinet agencies. Despite its relatively low funding, the Department touches the lives of most citizens, often on the person-to-person level through its responsibility for the national parks, wildlife refuges, public land recreation areas, topographic maps, dams and water projects. Its operations are located throughout the country and have an immense impact on individuals throughout America and its programs provide a tangible return to taxpayers.

Since budgetary accounting rules and financial accounting rules may recognize certain transactions and events at different points in time, Appropriations Used (*Figure 46*) in any given period as reported on the Statement of Changes in Net Position will not exactly match expenses for that period.

Figure 46

Appropriations			
(dollars in billions)	**1998**	**1997**	**% Change**
Appropriations Used to Finance Operations	$8.8	$8.4	4.8

Assets

Approximately 10 percent of Interior's assets are held on behalf of others and are not available for Departmental use. Approximately 34 percent of the Department's $50 billion in assets (see Statement of Financial Position) is composed of General Property, Plant, and Equipment (*Figure 47*).

Most of Interior's Buildings, Structures, and Facilities are composed of dams and power and irrigation facilities managed by the Bureau of Reclamation. The remainder consists of buildings and other structures and facilities used in the Department's operations (e.g., visitor centers, fish hatcheries, and Bureau of Indian Affairs schools).

Interior's reported values for Property, Plant, and Equipment (PP&E) exclude stewardship property, such as land for national parks and national wildlife refuges, public domain land, historic buildings, and national monuments. Although these stewardship assets are priceless, they do not have an identifiable financial value and therefore, cannot be adequately presented on a numerically based Statement of Financial Position. An in-depth discussion of these assets is presented in the Stewardship Assets and Investments section of the report.

Figure 47

Property, Plant, and Equipment (PP&E)			
(dollars in billions)	**1998**	**1997**	**% Change**
Buildings, Structures, and Facilities	$16.6	$16.5	0.6
Other General PP&E	0.7	0.6	16.6

The Fund Balance with Treasury, which is essentially the amount of funds made available to the agency by congressional appropriation which are in agency accounts at Treasury, is $5.6 billion (*Figure 48*). The Treasury Department functions like a bank, and Interior's Fund Balance with Treasury is somewhat analogous to a checking account. The portion of Fund Balance with Treasury available to the Department for spending at any point in time depends on the terms of appropriation language and other factors.

Figure 48

Fund Balance with Treasury			
(dollars in billions)	**1998**	**1997**	**% Change**
Fund Balance with Treasury	$5.6	$4.8	16.6

The Department has Restricted Assets in Conservation and Reclamation Funds (*Figure 49*). These amounts derive primarily from royalties and lease payments generated from oil and gas extracted from the Outer Continental Shelf. The restricted asset Conservation account includes the Land and Water Conservation Fund and the Historic Preservation Fund. Approximately $897 million was deposited in these funds in fiscal year 1998. This was a decrease of 14 percent compared to fiscal year 1997 due to the expiration of the law authorizing the transfer of these funds to the Historic Preservation Fund. Spending authority for the conservation accounts is approved in subsequent years through congressional appropriations.

Figure 49

Restricted Assets			
(dollars in billions)	**1998**	**1997**	**% Change**
Land and Water Conservation Fund	$11.9	$11.9	0
Historic Preservation Fund	2.3	2.2	4.5
Reclamation Fund	3.3	3.1	6.5

Liabilities and Net Position

Federal agencies, by law, cannot make any payments unless funds have been appropriated by Congress. The Department's unfunded liabilities (approximately $1.2 billion, or 11 percent of total liabilities) consist primarily of legal and environmental contingent liabilities and unfunded annual leave, both of which are considered expense and liability in the current period, but which will be paid out of funds made available to the agency in future years.

Contingent liabilities reflect Interior's potential responsibility for cleanup of contaminated sites and for legal claims brought against the Department. The Department's liability for financial statement purposes for environmental cleanup is limited to those sites where Interior is or may be held to be legally liable for remediation of the hazard, for example, underground fuel tanks installed by the Department. In addition, there are numerous sites, including abandoned mines and illegal waste dumps, where other parties have caused contamination on lands managed by the Department. Although Interior bears no legal responsibility for these hazards, the Department will often, in its stewardship capacity, correct the environmental hazard. Wherever feasible, Interior will initiate collection efforts against the responsible parties. The Department has recognized $275 million for potential environmental cleanup liabilities and $396 million related to other claims and litigation.

The Net Position of the Department consists of three components: (1) Unexpended Appropriations, (2) Cumulative Results of Operations, and (3) Restricted Equity. The Unexpended Appropriations account reflects spending authority made available to the Department by congressional appropriation that has not yet been used by Interior. Cumulative Results of Operations reflects the net results of the Department's operations over time. Restricted Equity reflects funds in the Land and Water Conservation Fund, Historic Preservation Fund, and Reclamation Fund; these amounts have not yet been made available for Departmental use by congressional appropriation. In total, Interior's Net Position is $39.9 billion, of which $15.9 billion is Restricted Equity.

Financial Management Performance

Interior continually strives to improve the efficiency of financial management operations to increase customer satisfaction and decrease costs to the Department.

Prompt Payment Performance

Payment is required to be made within 30 days of receipt of invoice or the Federal government is required to pay interest. Performance is measured by the percentage of late payments requiring interest penalties, compared to the total number of payments subject to the Prompt Payment Act. Interior's objective is to reduce the percentage of payments with interest penalties and the percentage of interest paid to a level at or below the governmentwide average of three percent.

In January 1997, the Department established an initiative to reduce the number and dollar amount of interest penalties paid and improve its overall on-time payment performance. The initiative has paid dividends with noticeable improvement in a number of Prompt Pay measures.

Interior's on-time payment percentage increased from 77 percent in 1997 to 82 percent in 1998. In addition, the dollar amount of late payment interest penalties paid decreased by 25 percent and the number of occurrences decreased by 32 percent.

Over the past several years, the number of payments subject to the Prompt Payment Act has shown a steady decline. This decrease is attributable to the Department's increased use of the governmentwide purchase card. *Figures 50 and 51* show selected prompt pay statistics for 1996 to 1998.

This improvement effort will continue and during 1999 is expected to achieve significantly better payment performance as a result of using new technologies and best practices.

Figure 50

Timeliness of Vendor Payments

	Percent of Payments 1998	1997	1996
On-time	82.0%	77.1%	72.8%
Early	0.6%	0.6%	0.8%
Late	17.4%	22.3%	26.4%
Interest penalty paid	(6.0%)	(8.8%)	(9.8%)
Interest not due *	(10.8%)	(12.9%)	(15.9%)
Interest due but not paid	(0.6%)	(0.6%)	(0.7%)

** Interest was not due because interest was less than $1*

Figure 51

Selected Prompt Pay Data

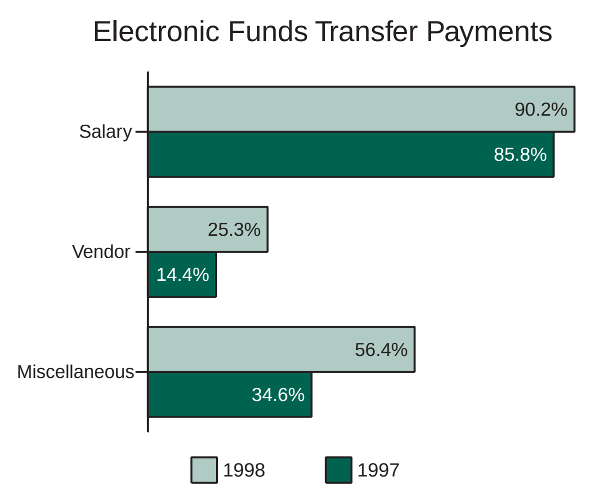
	1998	1997	1996
Invoices paid:			
Dollar amount (millions)	$1,901	$1,810	$1,874
Number	530,915	534,099	612,061
Interest penalties:			
Dollar amount (millions)	$0.9	$1.2	$1.4
Number	31,752	46,797	60,422
Interest penalties as a percent of invoices paid:			
Dollar amount	0.047%	0.067%	0.075%
Number	6.0%	8.8%	9.9%

Use of Electronic Funds Transfer (EFT)

The Debt Collection Improvement Act (DCIA) of 1996 requires that all payments be made by Electronic Funds Transfer by January 2, 1999, unless covered by a waiver; this is measured by the percentage of total payments issued that were completed using electronic mechanisms. The Department's objective is to use electronic funds transfer to the maximum extent possible, except for payments covered by waivers.

Over the past two years, Interior has increased the percentage of payments made by EFT. *Figure 52* shows EFT performance over the past two years for salary payments, vendor payments, and miscellaneous payments.

Figure 52

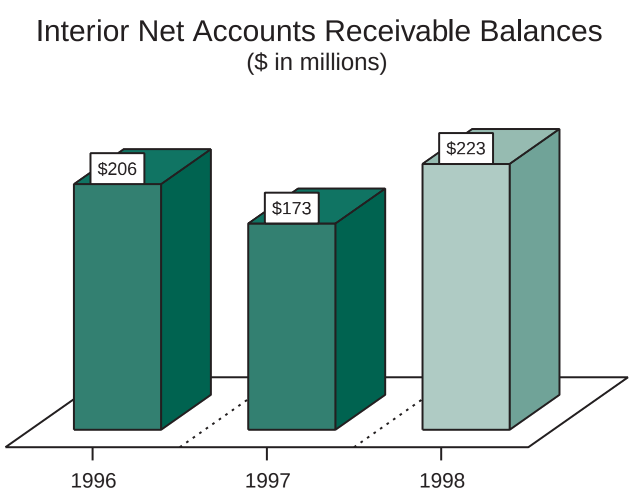


Debt Collection

The collection of delinquent debt due from the public is a major goal of the Debt Collection Improvement Act. The DCIA requires agencies to transfer eligible debt to the Department of the Treasury. Interior's objective is to transfer all eligible debt to the Department of the Treasury in compliance with DCIA. In an effort to fulfill its statutory obligations, the Department has implemented two debt management initiatives that are intended to control and manage debt due from the public and to ensure that future delinquencies are held to a minimum. These include referring 180-day and older delinquent debt to the U.S. Treasury for cross-servicing and referring delinquent debts to the Treasury Offset Program. The Department's debt management policies are designed to (1) provide sufficient and accurate management information, (2) help bureaus become more effective in their debt collection efforts, and (3) initiate appropriate litigation as necessary. With the new legal mandates and policies now being implemented, the Department expects a greater rate of collection in the years ahead.

In 1998, approximately $133 million (50 percent) of the Department's $266 million accounts receivables due from the public were considered delinquent. The nature of this debt, comprising fines and penalties, has a historically high rate of write-offs. *Figure 53* shows the Department's accounts receivable balances (net of allowance for doubtful accounts) due from the public for 1996 to 1998.

Figure 53



Civil Monetary Penalties

In 1998, civil monetary penalties were assessed in the amount of $2.3 million. During the same period, $2.1 million was actually collected. Civil monetary penalties are assessed as a result of enforcement actions by the Office of Surface Mining, the Bureau of Land Management, the Minerals Management Service, and the Fish and Wildlife Service. *Figure 54* shows civil monetary assessments and collections for 1996 to 1998.

Figure 54