The United States Department of the Interior

Bureau of Indian Affairs

Performance and Accountability Report

Fiscal Year 2005

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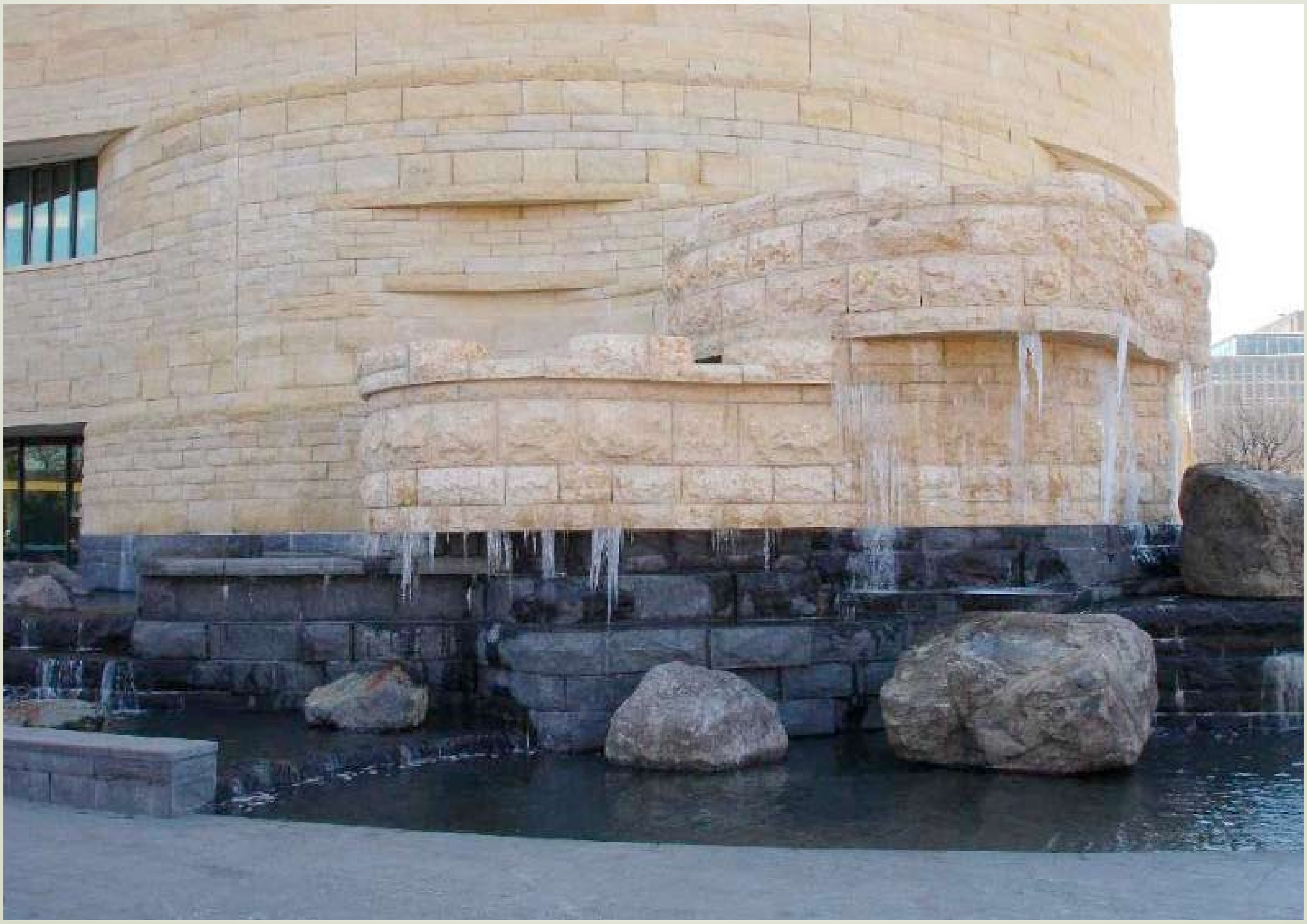
SECTION I - Management's Discussion and Analysis



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Message from the Associate Deputy Secretary

I am pleased to present our Performance and Accountability Report for Fiscal Year 2005. It is designed to inform the Administration, the Congress, and the public on the Bureau of Indian Affairs' response to its fiscal stewardship and government-to-government commitment for improving the lives of American Indians and Alaska Natives.

During the past year, we have continued the Administration's firm commitment towards resolving the American Indians and Alaska Natives issues by working on a government-to-government basis with Tribal leaders and by promoting self-determination and self-governance. By so doing, we have promoted economic growth and prosperity, while simultaneously supporting Tribal institutions that help lay the foundation for future economic success in Indian country.

We are also proud of the significant strides we made in improving the facilities conditions of several elementary and secondary Indian schools, the new construction of several detention centers and schools, the increased investment in quality education, and the continuing development and expansion of American Indian and Alaska Native business enterprises.

Clearly, dramatic developmental advances have come to Indian country over the past few years in areas such as self-determination, education, law enforcement, economic development, social services, energy and trust. More than ever before, Tribes and Tribal members now have the opportunity to engage in America's free enterprise system. Obviously, a strong Tribal economy not only strengthens Tribal government -- it also contributes to a stronger America.

In addition, we have focused our efforts on protecting trust assets and fulfilling trust responsibilities to individual and Tribal trust beneficiaries. In fact, as trustee of Indian lands and Individual Indian Money accounts, we have made significant reforms in the trust management operations, thereby improving the quality of beneficiary and customer services.

With regards to financial management, I share the view of the government-wide Chief Financial Officer Council that the key to improved financial and program management is improved financial management systems. The Bureau of Indian Affairs is no different – an enhanced financial management system will provide for and strengthen decision-making capabilities and allow the program and financial managers to more effectively achieve the Bureau of Indian Affairs' expectations.

This report also presents the status of the Bureau's compliance with certain legal and regulatory requirements. Taken as a whole, I am convinced, with reasonable assurances from our senior management team, that the Bureau systems of management, administrative and financial controls conform to the government-wide standards and the financial and performance data are reliable and complete.

Lastly, the dedicated men and women of the Bureau deserve great credit in achieving the Bureau's prescribed mission and established goals. Yet, many challenges still remain. We still need to measure and report on those program areas that are critical to the continued success in Bureau of Indian Affairs.

In sum, we are pleased with the improvements we have made in FY 2005. But meeting our challenges in FY 2006 requires new thinking and new ways of doing business. We live today in a world of competing interests and constrained budgets, so we cannot simply maintain the status quo. We need to find new ways to work smarter and apply new tools and emerging and enabling technologies within our funding resources. With renewed creativity and ingenuity, we can continue to serve our Indian beneficiaries in the 21st century and beyond.

James E. Cason
Associate Deputy Secretary

Message from the Chief Financial Officer

I am pleased to report that the Bureau of Indian Affairs received an unqualified opinion on the Bureau's consolidated Fiscal Year (FY) 2005 financial statements from our auditors. We also successfully met the Department's accelerated annual financial and performance reporting deadlines.

Although we are pleased with these achievements and several other FY 2005 improvements, we are fully cognizant that further improvements are still needed. Specifically, we need to improve our financial management and performance measurement activities in the coming years to allow for more timely, meaningful and useful information for both programmatic and budgetary reviews.

Our key for continued success, however, lies with building and maintaining a strong, knowledge-based workforce that comprise individuals with a broad spectrum of financial, budgetary and technical skills. By attracting, retaining, motivating and rewarding a top-quality, high-performing workforce, our financial management team can become the centerpiece for sound fiscal stewardship.

In fact, we continually seek new and innovative techniques to modernize and improve our financial management functions. In so doing, we have taken aggressive corrective actions during FY 2005 to address and resolve audit findings and weaknesses. Yet, this is not the time to rest on our successes, but rather to re-double our efforts and further improve our comprehensive internal financial management control processes.

We are also proud of our ongoing efforts in Activity-Based Costing (ABC). Eventually, these efforts will provide the necessary tools and results to improve the Bureau programs serving Indian country. When completed, the integral components of ABC and performance-based budgeting will be linked to resolve one of the Bureau's greatest challenges – creating reliable, relevant, and timely financial data and performance information to allow for sound and timely decisions on Bureau programs. It will also present a comprehensive and integrated picture of each program's performance and align budget submissions with actual performance results.

In sum, we are pleased with the vast improvements we have made in FY 2005, but we recognize that more is still urgently needed to provide quality financial management services in a more effective, efficient, and timely manner. Through collaborative and dedicated efforts of all Bureau employees, I am confident we will achieve our planned goals, as well as enhance our financial reporting to allow for better-informed and timely decision-making.

Grayford Payne
Chief Financial Officer

How to Read This Report: From Mission to Measurement

PURPOSE OF THE REPORT:

The Bureau of Indian Affairs' (BIA) Performance and Accountability Report (PAR) for Fiscal Year (FY) 2005 provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Bureau relative to its mission and stewardship of the resources entrusted to it.

HOW THE REPORT IS ORGANIZED:

- MESSAGE FROM THE ASSOCIATE DEPUTY SECRETARY

The Associate Deputy Secretary's message includes an assessment of whether financial and performance data in the report is reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA) indicating whether management controls are in place and financial systems conform with government-wide standards.

- MESSAGE FROM CHIEF FINANCIAL OFFICER (CFO)

The CFO's message describes the progress and challenges pertaining to the Bureau's financial and performance management, including information on the Bureau's compliance controls program under the FMFIA and financial management systems under the Federal Financial Management Improvement Act (FFMIA).

- MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire report, similar to an Executive Summary included with a private company's annual report. It includes: an organizational overview; a summary of the most important performance results and challenges for FY 2005; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Bureau's progress in implementing the President's Management Agenda (PMA) and addressing the management challenges identified by the Office of Inspector General (OIG). The MD&A is supported with other meaningful and useful financial-related information contained within the Financial Information section and the Appendix on Performance Summary.

The reader of this MD&A should consider the terms Bureau of Indian Affairs, BIA, the Bureau, and Indian Affairs as interchangeable terminology.

- FINANCIAL INFORMATION

This section contains the Bureau's financial statements and other Bureau-specific Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI) pertaining to the Bureau's financial management. For more information on this section, please contact the Office of the Chief Financial Officer at (703) 390-6558.

- INDEPENDENT AUDITORS' REPORT

This section contains the Inspector General transmittal letter, the Independent Auditors' Report, and the Bureau's response to the Independent Auditors' Report.

- APPENDICES

-- Glossary of Acronyms

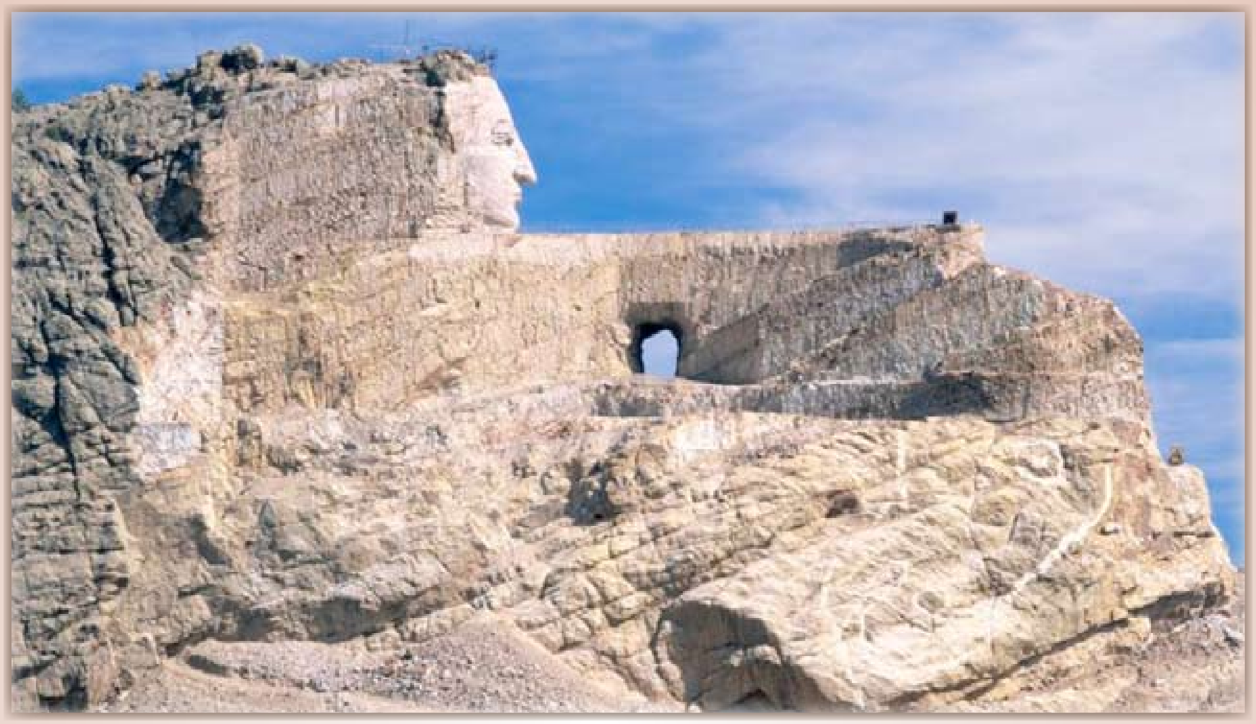
-- List of Federally Recognized Indian Tribes

-- Bureau of Indian Affairs Organizational Chart

-- Management Controls and Audit Follow-up

-- Performance Summary

Section I
Management's Discussion and Analysis



Crazy Horse Memorial, Black Hills, South Dakota

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Mission Statement

The mission of the Bureau of Indian Affairs is to enhance the quality of life and to promote economic opportunity in balance with meeting the responsibility to protect and improve the trust resources of American Indians, Indian tribes and Alaska Natives.

Overview of the Organization

Who We Are and What We Do

The Bureau of Indian Affairs (BIA) is the original bureau within the Department of the Interior (DOI).

It was established in 1824 to serve the Nation by providing services, directly or through contracts, grants or compacts, to several million American Indians and Alaska Natives, who are members of 561 Federally recognized Indian tribes.

During the last two centuries, Congress passed several Federal laws that have affected the American Indians. In fact, the impact of these laws has affected them more than any other group of people in the United States. While the Federal trust obligations lies at the heart of this special relationship, the scope of the United States' responsibilities to the American Indians extends beyond basic trust obligations, to include a wide range of services delivered in concert with the enhancement of Indian self-determination.

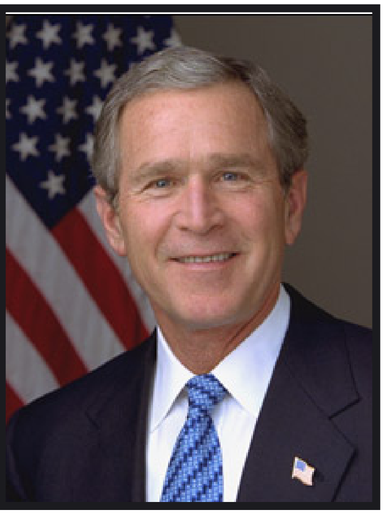
While the role of BIA has changed significantly in the last three decades in response to a greater emphasis on Indian self-determination, the Indian tribes still look to BIA for a broad spectrum of services. The extensive span of BIA programs covers virtually the entire range of State and local government services.

Some programs that are administered by either the Indian tribes, or by BIA, include such activities as:

- An educational system that consists of schools and dormitories for approximately 47,500 elementary and secondary students, including resident-only boarders
- Twenty-five tribal colleges, universities, and post-secondary schools and two BIA-owned post secondary schools
- Natural resource management on approximately 56 million acres of trust land
- Economic development programs in some of the most isolated and economically depressed areas of the United States

"My Administration will work to promote cooperation and coordination among Federal agencies for the purpose of fostering greater economic development of Tribal communities. By working together on important economic initiatives, we will strengthen America by building a future of hope and promise for all Native Americans."

George W. Bush,
November 1, 2002



- Public safety and justice
- Social services
- Administration of tribal courts
- Implementation of land and water claim settlements
- Replacement and repair of schools
- Repair and maintenance of roads and bridges
- Repair of structural deficiencies on high hazard dams.

The BIA programs are funded and operated in a decentralized manner, with about 90 percent of all appropriations expended at the local level, and about 50 percent of appropriations provided directly to the tribes and tribal organizations through grants, contracts or compacts.

In fact, these BIA programs uphold the government-to-government relationship with the tribes; honor the trust responsibilities; and provide many diverse services to American Indians and Alaska Natives. As a direct result of successful ongoing efforts within BIA and other major offices and agencies, BIA continues to work with the tribal groups and governments to:

- Fulfill trust responsibilities and mandates of Federal law
- Protect their tribal land and natural resources
- Create the necessary infrastructure and educational opportunities that help build stronger communities.

In essence, these continuing and concerted efforts are based on long-standing concepts of trust responsibility and self-determination.

Trust responsibility is a legal and political relationship among the tribes and the Federal government. In fact, this trust responsibility is a unique relationship between a "trustee" and a "beneficiary." Several Supreme Court decisions describing a guardian-ward relationship have served as the basis for this trust relationship doctrine.

Self-determination and self-governance allow the tribes to manage their own affairs, while maintaining intact the trust relationship with the Federal government. The basis for this policy is the tribal governments' sovereign authority and their inherent right to self-determination and self-governance. In addition, both policies allow the tribes to exert an increasing control over their own operations.

Furthermore, the 561 Federally recognized Native American Indian tribes and Alaska Native villages within the United States each possess inherent governmental authority derived from its original sovereignty. Their responsibilities involve education, job training, and employment programs that identify and promote long-term economic growth and social development, coupled with the management of approximately 56 million acres of Indian trust land.

It is within this framework that BIA assists the tribes in fulfilling selected responsibilities by funding government programs and services, such as:

- Education
- Social services
- Public safety and justice
- Judicial courts
- Business loans
- Land records
- Heir-ship records
- Forestry
- Agriculture development
- Water resources
- Rangeland development
- Fish conservation
- Roads
- Housing
- Irrigation systems
- Power systems.

These BIA programs and activities are incorporated within the Department of the Interior (DOI) FY 2003-2008 Strategic Plan. This plan integrates and aligns bureau responsibilities under specific major mission goals and places a strong, new emphasis on results and performance measurement. Simply stated, the plan brings all the mission responsibilities together into an integrated blueprint for success.

How We Are Organized

During the past few years, BIA completed a major reorganization that was primarily designed to improve the management of trust resources in Indian country, as well as to improve the overall Bureau-wide management structure.

Many benefits of this reorganization will be realized over time, however, there were other significant improvements that were immediately achieved, especially in the areas of personnel management, information technology, and budget and financial operations by having the personnel in these disciplines report through strengthened and streamlined chains of command.

In fact, the reorganization now allows program managers to focus their time and resources more effectively on defining and achieving established program goals. It also enhances their ability to achieve greater program and operational efficiencies, particularly in trust management. In addition, it allows line managers more time to standardize operating procedures and coordinate program improvement efforts among agency, regional and headquarter activities.

Furthermore, the reorganization consolidated and streamlined several key functions and activities under the Office of the Chief Financial Officer (OCFO) that were deemed essential to create reliable, relevant financial and performance information for making sound, informed decisions on BIA programs, budgets and financial stewardship.

For instance, the OCFO operations now cover all of the activities associated with accounting, budget formulation, budget execution, financial policy, fiscal services, financial reporting, audits and evaluations, procurement acquisition and property management.

In sum, the reorganization synchronizes the operational program functions of BIA. It refocuses its attention on the importance of tribal economic development, self-determination and self-governance. It also increases accountability in the field by adding personnel to serve as additional resources for fiduciary trust transactions, while simultaneously providing dedicated service in consolidated beneficiary services.

Under the reorganization, the Office of the Assistant Secretary – Indian Affairs is composed of the Assistant Secretary – Indian Affairs who is assisted by the Principal Deputy Assistant Secretary. There are also three Deputy Assistant Secretaries (DAS) to cover the areas of Policy and Economic Development, Management, and Information Resources Management who report to the Assistant Secretary through the Principal Deputy.

- The DAS for Policy and Economic Development manages the Economic and Energy Development, Gaming, and Self-Governance programs, as well as several policy issues (such as, international issues).
- The DAS for Management oversees the budget, finance, acquisition, property, policy, performance management, human resources, construction, facilities operations and maintenance, environmental, cultural and safety programs and equal opportunity.
- The DAS for Information Resources Management (who also serves as the Chief Information Officer for Indian Affairs) manages the Information Resources program.

In addition, two major leadership positions within Indian Affairs are responsible for key operational functions:

- The Director, Bureau of Indian Affairs manages four Deputy Bureau Directors (Tribal Services, Law Enforcement, Trust Services, and Field Operations), 12 Regional Directors, and 85 Agency Superintendents. The Bureau Director is responsible for the core land management, social services, and law enforcement programs funded or managed by BIA. This includes managing or overseeing management of approximately 45 million acres of tribal-owned land; 10 million acres of individually owned land held in trust status; and 309,000 acres of Federal owned land; and
- The Director, Office of Indian Education Programs manages or supports 184 schools for Indian children through 22 Education Line Officers. Approximately one-third of these schools are run directly by BIA, while tribal school boards run the remaining two-thirds with funding provided by BIA.

In sum, it is expected that this reorganization effort will continue to enhance the BIA ability to better serve its customers in a more effective, efficient and meaningful manner.

Workforce and Location

The BIA workforce is approximately 10,665 employees. Most of these employees are American Indians. Many individuals are seasonal employees (e.g., fire fighters and school teachers), part time employees, or term employees.

The BIA main headquarters is located in Washington, D.C., with satellite offices located in Reston, Virginia and Herndon, Virginia.

Since BIA is a decentralized organization, nearly 97 percent of BIA work is performed in schools, Regional Offices, Agency Offices, and other field locations.

"From its start, the Bush Administration has been firmly committed to American Indian and Alaska Native issues, working on a government-to-government basis with Tribal leaders to promote self-determination and self-governance.

Because quality education is paramount for today's students to succeed in tomorrow's economy, this Administration has invested more than $1 billion in four years to construct, repair, and maintain BIA funded schools. With the leadership of President Bush, the Department of Interior is committed to leave no child behind.

We are working with Tribal leaders to promote economic growth and prosperity and to build Tribal institutions that lay the foundation for the future economic success of Indian Country. We have furthered energy, forestry, and irrigation projects, and we have provided guaranteed and insured loans for the establishment, acquisition, and expansion of new American Indian and Alaska Native business enterprises. Through our economic development summit, Indian entrepreneurs have heard the stirring success stories of established Native-owned companies.

Positive and productive trust reform has remained a high priority throughout the Bush administration. As the trustee for Indian lands and funds, Interior is committed to protecting trust assets and fulfilling our trust responsibilities to individual and Tribal trust beneficiaries. Our trust budget for FY 2005 is double the FY 2001 funding, allowing us to progress toward 21st Century financial management capabilities. Significant reforms in trust management during the past four years have increased the professionalism, customer-service focus, and quality of beneficiary services.

I am proud of the significant strides we have made during my tenure. We will continue our work in areas where more remains to be accomplished. The Department embraces its mission to enhance education, prosperity, economic development, and safety across Indian Country to meet the important goals of improving the quality of life for all American Indians and Alaska Natives."

Gale A. Norton
Secretary of Interior

Challenges Facing the People We Serve

The BIA programs serve communities that continually face unending challenges. For instance, the 2000 Census data indicated that the total Native American Indian and Alaska Native population grew to 2.5 million, which is almost five times the population reported in 1960.

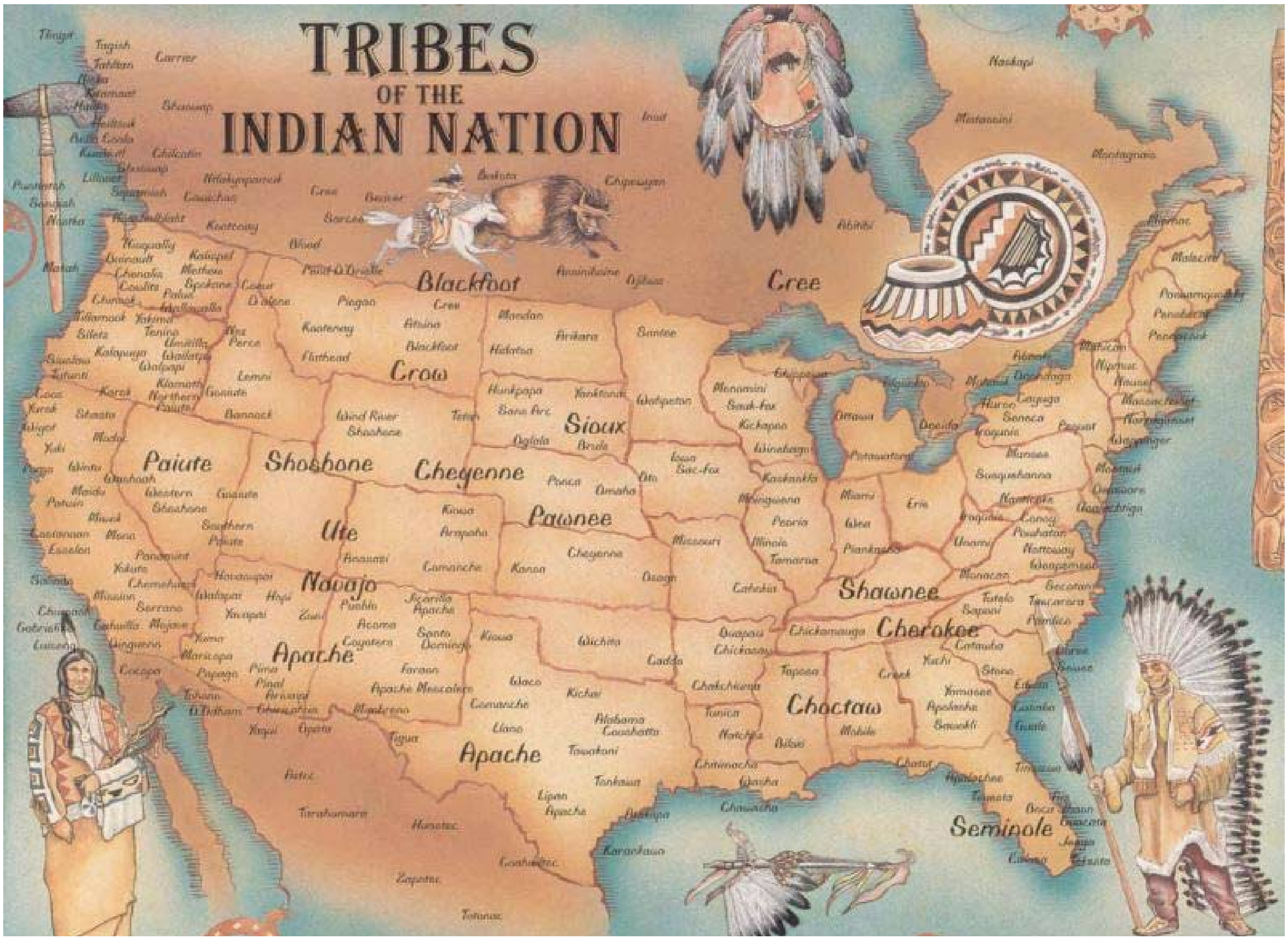
Along with this increased population, Indian country is experiencing:

- Increased poverty on the Indian reservations
- Unemployment and violence that are higher than the national average
- Incidents of infant mortality, suicide, alcoholism, and substance abuse that are far in excess of the rest of America.

Moreover, the BIA 2001 Indian Labor Force Report reflected that the Nation's Indian service population was 1.5 million, with a workforce of only 795,218. Most noteworthy, of the 403,714 Indians who were employed in 2001, 33 percent (132,500) were still living below poverty guidelines established by the Department of Health and Human Services (HHS).

Since tribal self-determination relies on a strong tribal self-governance and self-sufficiency, BIA continues to play a key role in removing the unending obstacles that hamper the building and promoting of tribal self-determination, strong and stable governing institutions, economic development and human capital development.

With BIA assistance, the tribes will continue to improve the quality of life for their members, their tribal government infrastructure, Indian education, job training and employment opportunities, along with the other requisite components for long term, sustainable development.



The Bureau of Indian Affairs Budget

Overview of the Bureau of Indian Affairs Budget

In FY 2005, the Congress enacted about $2.4 billion for the operation of Indian programs and construction projects. This funding continued BIA's commitment to reform trust management, while simultaneously funding law enforcement, public safety, tribal colleges, economic development, and self-determination efforts.

In addition, BIA also receives about $1.3 billion in additional funding from various Federal agencies via appropriation transfers, fund transfers, contract authority, and reimbursable work. These agencies include: Department of Education (Education Fund); Department of Transportation (Highway Trust Fund); US Department of Agriculture (Forest Management and Utilization Fund); Health and Human Services (Child Care and Development Block Grants; Temporary Assistance for Needy Families); Bureau of Land Management (Wildland Fire Management Fund; Central Hazardous Materials Fund), and the Department of Interior (Office of the Secretary).

Nevertheless, the management of FY 2005 trust assets for the tribes and individual Indians continues to be the key component in the BIA mission. In FY 2005, BIA continued to work closely with the Office of the Special Trustee (OST) for American Indians on their mutual ongoing efforts to reform current trust systems. BIA focused primarily on information technology, trust services, probate, forestry and workforce improvements.

The BIA budget also focused on the resources that the tribes needed to provide basic reservation programs, such as developing strong and stable tribal governments, improving education systems, and addressing critical infrastructure needs, while meeting other BIA trust responsibilities. Clearly, BIA continued its efforts to meet the commitment to the American Indians and Alaska Natives, which are in consonance with the Departmental Strategic Plan.

Information Technology

In FY 2005, BIA continued to build the information technology infrastructure to support trust reform and other ongoing programs.

A major information technology (IT) effort was to consolidate trust systems and improve the confidentiality, integrity and accessibility of data. In fact, during FY 2005 BIA successfully consolidated and improved two Trust title systems into one upgraded Trust title system.

In addition, during FY 2005, BIA continued to improve its modern IT service center that provides computer help and problem tracking. This service center represents a clear and present value to the tribes by prioritizing workloads, which in turn allows the regional support personnel to focus more effectively on business mission support, while simultaneously ensuring vital data reach the appropriate end users. Moreover, the high-speed telecommunication switches now allow BIA to reduce its total networking costs, while increasing its overall productivity.

BIA's Improved Computer Center, Herndon, Virginia

During FY 2005, BIA consolidated seven realty systems into one consolidated Trust Realty System. This action now allows BIA to strengthen its life cycle management for systems by improving the practices in investment management, portfolio management, business case development, configuration management, asset management, architecture development, and systems replacement for security and e-government capabilities.

In addition, this ongoing IT effort allows BIA to continue to transition from its existing IT network to TrustNet, which is a standards-based network that provides a more secure, timely, and controlled access to trust data. It also directly supports our ongoing efforts to attain the required certification and accreditation for high-risk systems. Moreover, it allows DOI to leverage TrustNet as the foundational network architecture when implementing the Enterprise Services Network.

Lastly, BIA is continuing substantial network upgrades to enhance telecommunication systems and expand network capacity to better serve BIA schools. All upgrades to the Education Network will provide high-speed Internet to more K-12 schools and tribal colleges. Currently, all BIA schools are connected to the Internet.

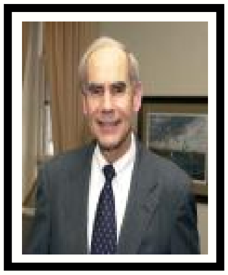
Tribes Collaborate with Interior on Boundary, Land Use Database to Improve Trust Management

Four American Indian tribes have joined Interior Department agencies in pilot projects to develop an electronic database that will provide instant access to accurate tribal boundary and land-use information to improve the management of Indian trust assets.

The Cherokee Nation, Three Affiliated Tribes, Red Lake Band of Chippewa Indians and the Spokane Business Council will work in partnership with Interior's Bureau of Indian Affairs, Office of Special Trustee and Bureau of Land Management to identify legal land boundary information for the database. The projects were selected from a field of tribal applicants.

Ross Swimmer, the Special Trustee for American Indians in the Department of Interior stated: "This innovative partnership allows the Department and the Tribes to combine their respective expertise in the development of a resource that will provide accurate trust land boundaries at the touch of a button. Use of this electronic database brings modern technology solutions to the way Interior provides land boundary services in Indian lands."

The database is a digital representation of the surveyed land boundaries and is used to identify legal land descriptions for use in managing real property and other Indian trust assets. The pilot projects are expected to demonstrate the accuracy and reliability of survey data in the management of Indian land. The projects can also document the benefits realized or the obstacles encountered in the collection of good boundary information.



The information gathered will help Interior to carry out its comprehensive trust management plan by modernizing major trust business processes including survey, ownership, title, and asset management functions that are core to Interior's trust responsibilities. Following successful completion of the pilot projects, the program is expected to be expanded to additional reservations.

Resource Management

During FY 2005, natural resources continued to play a critical role in the delivery of trust responsibilities and BIA's ability to manage trust assets. For instance, in FY 2005 BIA continued to improve the management of Indian forests, which covers nearly 18 million acres located on some 275 reservations in 26 states.

This ongoing effort allows BIA to optimize its efforts in developing Tribal Forest Management Plans, which are a key component for comprehensive management of a reservation's resources and in turn allows sustainable tribal revenue. Moreover, these plans address the best management practices for reservation forests. In fact, about 86% of forested lands on reservations are now covered by Forest Management Plans.

BIA Forestry Project

During FY 2001-2004, the Indian forestry program, which represented the combined national BIA and Indian forestry programs, harvested approximately 2.4 billion board feet from Indian forest lands. This equates to an annual average of 600 million board feet, enough to build over 30,000 residential homes a year.

During this same period, the Indian timber harvests generated nearly $290 million for the tribes and individual Indian landowners.

The indirect economic benefits, although not currently quantified, are obviously substantial. Benefits include wages to tribal loggers, sawmill workers, and lumber truck drivers; profits generated by tribal forest product enterprises; energy production from forest woody biomass;

Forest Ranger on Patrol

and support of other local businesses by tribal worker forest-generated wages. Another benefit of this Indian forestry program is the reduction of catastrophic fire risk by treating forest fuels during the harvest operations.

During the same four fiscal years that directly generated nearly $290 million for the tribes and individual Indians in timber revenue, the Federal appropriation was $168 million to operate the Indian forestry program.

Moreover, Indian tribes reinvest significantly into their forest land -- both through the legislatively mandated forest management deduction program (usually 10 percent of gross timber proceeds) or through the voluntary reinvestment in forest management activities. This prudent approach continues to result in a very successful partnership among the tribes, individual Indians, and the Federal government in the management of Indian forests.

BIA Fire Leadership Training

Public Safety and Justice in Indian Country

In FY 2005, law enforcement and security issues continue to surface within Indian country involving Indian schools, despite some progress and improvements in property protection and other public safety areas.

In addition, Indian country law enforcement officers are routinely responding to "in progress" serious assaults, car accidents, suicides, sexual assaults, incidents of child abuse, search-and-rescue operations, and missing children reports.

Nonetheless, the Office of Law Enforcement and Security (OLES) continues to conduct a myriad of community preventive and protection activities, while some officers occasionally are involved in high-speed pursuits, armed confrontations, and situations involving dangerous civil unrest.

Most alarming during FY 2005 was a shooting that occurred at a Native American Indian school on the Red Lake Reservation in Minnesota. Although this incident is still being investigated and analyzed by OLES and the Federal Bureau of Investigation, it also reflects the unending social unrest and ongoing vigilance that public safety demands on Indian country reservations that concerns the law enforcement community.

Moreover, an Inspector General report in late September 2004 made several recommendations to correct major deficiencies that directly impacted on the safety and security of BIA detention center staff and inmates.

BIA Detention Facilities

Bike Patrols Make Indian Country Safer

As a result, Indian country law enforcement continued to press forward during FY 2005 to improve public safety and protect Indian property for approximately 1.5 million American Indians residing on 56 million acres of land.

Within this framework, BIA OLES maintains direct oversight responsibility for Indian country uniformed patrol, criminal investigations, and detention centers. It also operates the Indian Police Academy, 19 detention centers, and 50 tribal contracted law enforcement detention centers. In addition, OLES monitors and oversees tribal operated law enforcement programs through Indian self-determination contracts and self-governance compacts.

Despite the major fiscal constraints and the accompanying social and economic challenges within Indian country, OLES expects to continue to focus and expand law enforcement programs in areas where violent crime is most severe.

Nonetheless, OLES will still continue to stand ready to respond to Indian country Homeland Security issues and matters affecting the nation. For example, after the September 11 terrorist attack a few years ago, approximately 25 BIA officers and special agents served in the Federal Air Marshals program in order to protect commercial air traffic. Moreover, in FY 2005, several BIA and tribal police officers, along with several fire teams from the National Fire Center, were sent to New Orleans to assist in emergency rescue and recovery efforts as a result of Hurricane Katrina.

The BIA FY 2005 budget also sought and applied funding for law enforcement services on the Tohono O'odham Reservation in southern Arizona. This particular effort is now expected to allow law enforcement personnel to enhance public safety, while simultaneously providing for quality communities in border areas and other high-risk or violent crime areas on reservations.

Furthermore, BIA and the Department of Justice (DOJ) continue to work in partnership to improve the overall public safety and justice in Indian country. In so doing, OLES recognizes that the basic foundation for effective, efficient and safe performance-based law enforcement programs begins with training. Accordingly, the Indian Police Academy continues to build the necessary partnerships with several Federal agencies in order to maximize the OLES training opportunities, while simultaneously meeting the needs of Indian country law enforcement.

Lastly, a joint DOI/DOJ initiative is constructing 20 new or expanded detention centers in Indian country. These centers are expected to be operational in 2006. In fact, the FY 2005 BIA budget included an increase of about $2.9 million to provide the start-up operations at eight BIA detention centers that were completed in FY 2005. These new detention centers will now contribute significantly toward alleviating certain systemic problematic conditions, such as overcrowding and mixing of juvenile and adult detainees.

In light of the above, there are currently tentative plans to outsource the detention of inmates to local jurisdictions in those instances where BIA facilities do not comply with nationally recognized protection standards.

Trust Management

During FY 2005, BIA continued its efforts to reorganize its trust functions. In fact, the ongoing efforts synchronized and increased BIA's focus on the fiduciary trust responsibilities to individual Indian and tribal beneficiaries. This initiative significantly expanded the number of personnel available to execute trust-related programs.

The FY 2005 BIA efforts made significant progress toward implementing trust reform and allowing more decisions to be made at the local level, thereby giving beneficiaries timely responses to questions and more efficient management of trust assets.

In fact, in FY 2005, BIA added approximately 25 new trust-related positions at the local level to oversee the daily trust transactions and operations. In addition, BIA added an additional 35 probate specialists and attorney decision-makers to expedite the processing and resolution of backlogged and pending probate cases.

In addition, during FY 2005 BIA began planning for the National Indian Programs Training Center in Albuquerque, New Mexico in order to enhance and standardize adequate trust and program-related training. When completed, this training center, which is expected to operate under DOI guidelines, will provide a broad range of mission critical, leadership and career development training to employees of the BIA and the Office of the Special Trustee (OST) for American Indians.

In addition, nine Land Titles and Records Offices continue to provide for the ongoing trust responsibility to protect and preserve trust lands and resources. Their mission is to maintain timely, certifiable Federal title, encumbrance, and ownership services and provide land title services that are accurate, timely, accountable and efficient. This includes complete title, ownership, and encumbrance information for all Federal Indian trust and restricted lands.

Lastly, these offices are also responsible for developing and implementing the trust asset management systems, which include quality assurance actions. For example, when BIA successfully negotiated the conversion of an antiquated land title system to a new title system, the deployment in the Rocky Mountain and Southern Plains Regions allowed it to be reapplied in other regions.

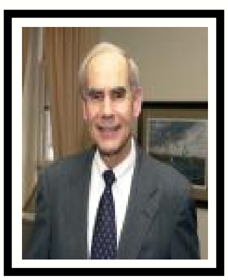
President Bush Signs Historic Measure to Provide Key Steps for Indian Trust Reform

In October 2004, President George W. Bush signed into law a measure championed by U.S. Senator Ben Nighthorse Campbell of Colorado and supported by Interior Secretary Gale Norton that will reform American Indian probate rules and will help facilitate the consolidation of Indian land ownership across the Nation.

The legislation introduced by Sen. Campbell, Chairman of the Senate Committee on Indian Affairs, was passed by both the House of Representatives and the United States Senate under 'unanimous consent' rules -- meaning no member of Congress expressed opposition to the measure.

The American Indian Probate Reform Act of 2004 (S. 1721) provides valuable tools to the Department of the Interior, Tribal governments, and individual Indians to facilitate the consolidation of Indian land ownership in order to restore economic viability to Indian assets.

Secretary Norton stated: "The swift consideration and enactment of this important legislation reflects this Administration's commitment to Indian Trust issues. This measure is one of the pieces necessary for true Trust reform."



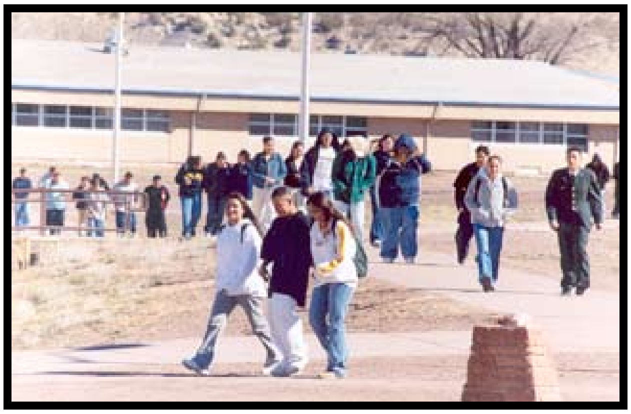
Ross Swimmer, Special Trustee for American Indians, echoed the importance of the legislation: "The ownership of many disparate, uneconomic, small interests has been feeding an administrative burden that continues to drain resources and attention away from other beneficial Indian programs. This new law is a meaningful step in our effort to improve the quality of Trust management services throughout Indian country."

The legislation provides a uniform method to pass individual Indian land ownership from one generation to the next -- creating a Federal Indian probate code that replaces the multiple individual State laws now governing Indian probate activity. This new law requires small interests in land to pass exclusively to single heirs when there is no will involved. The act provides greater flexibility for individuals and Tribes to consolidate and acquire interests during the probate process. The measure makes the Department of the Interior's Land Acquisition Pilot Program permanent and allows a Tribe, or an Indian co-owner, to request a sale of a highly fractionated parcel of land for the purposes of making that parcel whole under a single owner.

Secretary Norton recognized Sen. Campbell's role in introducing the legislation and successfully seeing it enacted in his last term in office: "Historians will have much to consider when reflecting upon the legacy of Senator Campbell's service to Indian people and this Nation. This legislation will surely be considered among Senator Campbell's most significant achievements."

Indian Education

A key BIA goal is to continue to provide quality educational opportunities to the Native American Indians and Alaska Natives from early childhood through adulthood.



American Indian Students Walking from Class

To ensure this attainment, BIA has continually complied with the pertinent Federal statutes, to include:

- Snyder Act
- Johnson O'Malley Act
- Elementary and Secondary Education Act
- Tribally Controlled Schools Act
- Indian Self-Determination and Education Assistance Act
- Indian Education Amendments of 1978
- Individuals with Disabilities Education Act
- Improving America's Schools Act
- No Child Left Behind Act of 2001
- Native American Education Improvement Act of 2001.

Although BIA tends to fall short on meeting selected baseline targets for some of its newly established education goals, its unending educational commitment toward the American Indian youth is still apparent. Its mere development of refined goals to better manage Indian education programs reflects an unswerving support for the President's "No Child Left Behind Act."

For instance, BIA continued to support school operations by expending approximately $549 million in the FY 2005 to support the 184 schools and dormitories. BIA also continued to maintain its focus on raising academic achievement scores and continuing its development and application of academic performance and cost-efficiency measures that are comparable to similar schools and in consonance with OMB's Program Assessment Rating Tool (PART) reviews.

In keeping with this key endeavor, the FY 2005 budget contained appropriate funding for selected Indian schools to raise the level of instruction and improve student attendance and achievement through such improvements as upgrading the education skill levels of teachers.

For instance, in FY 2005 BIA expanded its highly successful FOCUS program to an additional five schools. The FOCUS program concentrates on the lowest-performing schools. In fact, this specific program has already demonstrated that selected Indian schools can dramatically improve when provided the requisite resources and sound guidance that enhances effectiveness and efficiency.

Moreover, several schools on the Navajo Reservation, where student performance was well below expectations, were entered into a pilot program that was designed to give teachers and staff additional training on refining their instructional programs. As a direct result, these particular schools raised student performance significantly.

Educating Our Indian Youth

Lastly, BIA also provided in FY 2005 $53.1 million of Congressional enacted funds for tribal colleges and universities. In fact, two of these institutions recently met statutory requirements -- Tohono O'odham Community College in Arizona and Saginaw Chippewa Tribal College in Michigan. In addition, some funding was also provided for student loan repayments as a way to attract and recruit qualified BIA candidates.

Indian School Construction

School construction continues to be one of BIA's highest priorities. Clearly, safe schools are a necessary prerequisite for providing a solid foundation in making improvements in education.

During FY 2005, BIA continued the President's commitment to replace, rehabilitate, or repair deteriorating schools so Indian children can have safe and nurturing environments in which to learn. Education construction programs represent approximately 80 percent of the total construction account.

In FY 2005, BIA continued to examine the condition of its schools by using the Facilities Condition Index (FCI). The FCI identifies the school's life safety condition deficiencies. In fact, BIA uses the FCI, cost benefit analyses, and other key factors to assess and determine whether it is more cost-effective to repair or replace existing school facilities in Indian country.

For example, in FY 2005, BIA received $263.4 million of Congressional enacted funds for new school construction. With this funding, $95.5 million was applied toward constructing the remaining five replacement schools on the Education facilities construction priority ranking list and $10 million used for advance planning and design.

New Wingate Elementary Replacement School

Specific funding will provide construction or design for the following projects:

- Bread Springs Day School, New Mexico
- Ojo Encino Day School, New Mexico
- Beclabito Day School, New Mexico
- Leupp Boarding School, Arizona
- Chemawa Indian School Dormitory, Oregon
- Dilcon Boarding School, Arizona.

BIA funded the Dilcon Boarding School in Arizona, as well as three cost-share demonstration schools and the other major Facilities and Improvement Repair (F&IR) projects indicated above. Furthermore, with the enacted increase in FY 2005, BIA also funded another major project -- Santostee Day School. Since 1999, BIA has overseen the construction of 25 replacement schools. Six new schools are under construction and nine new schools are under design.

In addition, BIA has improved the efficiency and performance accountability within the overall school construction program by establishing several long-term goals as a result of the OMB PART reviews. Some goals include: construct 100 percent of replacement schools in four years from planning and design through construction; increase the percentage of academic construction projects with costs within or below the target range; and reduce the percentage of the BIA building square footage identified as excess.

In addition, BIA is continuing to focus on its FY 2005 Education facilities improvement and repair efforts. Approximately $142.5 million in Congressional enacted funds were geared toward deferred and annual maintenance needs, along with other major and minor repair projects that specifically address critical life safety concerns, non-compliance with standards, and program deficiencies at existing education facilities. This funding is deemed essential in order to alleviate the increasing deferred maintenance backlog.

Meanwhile, the BIA school system continues to strive as a leader in building energy-efficient schools. For instance, about a year ago, the U.S. Green Building Council awarded BIA and the Baca/Dlo'ay azhi Community School Project in Prewitt, New Mexico with the "Leadership in Energy and Environmental Design" (LEED) designation. The Baca/Dlo'ay azhi Community School was the first LEED-certified building in the State of New Mexico.

In fact, the design, construction and operation of this particular building are expected to minimize long-term negative environmental effects and energy demands. Furthermore, several sustainable design features, to include the Navajo cultural elements, were incorporated into the innovative design of this particular school. As a result, all replacement school construction projects are now designed to earn LEED-certification.

Moreover, BIA has revamped the way schools are categorized and slated for new construction and major rehabilitation. BIA now emphasizes life safety issues as major critical factors in determining the priority in which new schools are built.

Lastly, BIA continues to strive towards improving the Indian student academic achievement area. Well-intended efforts are unending and most challenging, especially as it relates to BIA schools. Indian country is extremely unique, since BIA schools are typically located in rural reservation communities, where remoteness and challenging socioeconomic conditions persist. These particular circumstances make it most difficult to attract and retain qualified education professionals for the Indian community. Consequently, this makes it exceedingly difficult for Indian children to receive the quality education they deserve and need today in order to succeed in tomorrow's economy.

Baca School, New Mexico

Economic Development

In FY 2005, BIA continued to assist the tribes in developing uniform business codes that are essential to attract new businesses to Indian reservations. This uniformity ensures equitable business treatment for commercial operations in Indian country.

Moreover, the guaranteed and insured loan program is an integral component that expands economic development within Indian country. With this program, BIA provides loans to tribes, Alaska Natives, and individually Indian-owned businesses.

In FY 2005, BIA continued to support and fund the loan program to help reduce unemployment on Indian reservations. These guaranteed loans make it possible for Indian economic enterprises, on or near Indian reservations, to obtain loans from private lenders. Otherwise, these enterprises would not be able to obtain the necessary loans. In FY 2005, the program executed approximately $84.7 million in loans.

Mineral Development

Solid minerals, other than coal, continue to be mined on Indian lands. Between 2001 and 2004 the tribes earned more than $25 million from these types of projects.

One particular project BIA has been actively involved with is the Bald Ridge Aggregate Project, which is mining rock that will be processed into concrete aggregate, asphalt road base, rip rap, jetty stone, and other products for shipment and use in Alaska and the U.S. West Coast. It is estimated that this project will produce more than 200 million tons of rock over a 40-year life, thus generating approximately $1 billion in revenue, while employing 60 Metlakatla Tribal members.

Promoting Economic Opportunities

Supporting Self-Determination

Since the 1970's, Indian self-determination has been the basis of Federal Indian policy. Today, BIA continues to provide funding and services to more than 1.5 million American Indians and Alaska Natives in 31 states in three ways -- directly; through self-determination contracts and grants; or through self-governance compact agreements with the tribes.

In support of self-determination efforts, BIA provided Congressional enacted funds in an amount more than $130 million for contract support and $136 million in compact funding for the past several years. These funds help to strengthen and stabilize the tribal administrative structures and the tribal organizations contracting and compacting BIA programs. The tribes use these funds for administrative and management costs, to include finance, personnel, maintenance, insurance, utilities and audits. In fact, over 450 Federally recognized tribes have self-determination contracts, or self-governance compacts, with BIA.

Self-determination contracts are provided to tribes that express a desire to execute a specific program, service, function, or activity that BIA would have otherwise provided. Tribal members then provide these services to the Tribe.

Self-governance compacts implement the Tribal Self-Governance Act of 1994. This act allows the tribes to effectively plan, conduct, consolidate, and administer various programs, services, functions, and activities for tribal citizens in accordance with the priorities established by their tribal governments. As a consequence, the tribes can re-prioritize funding and redesign programs.

In FY 2005, BIA continued its Federal commitment to support Indian self-determination and strengthen the BIA and tribal government-to-government relationship with the Indian Nations. In essence, the tribes depend on these various BIA programs for basic necessities and programs critical to improving the quality of life and economic potential on Indian reservations. Many of these program line items are included within the Tribal Priority Allocation (TPA) budget activity.

The TPA budget activity is a key aspect of self-determination in that it gives the tribes the flexibility to prioritize funds among BIA programs according to their unique needs and circumstances. In other words, it is the central driving component for accomplishing BIA self-determination performance goals.

In FY 2005, BIA continued to support the TPA program by funding approximately $769.5 million of Congressional enacted funds, which is about 40 percent of the BIA operating budget.

Lastly, the FY 2005 BIA budget contains approximately $1 million to assist new tribes in developing their governing codes, documents, and tribal constitutions, while providing program services to its eligible members.

Justice Court in Gila River Indian Community

Indian Land and Water Claims Settlement

During FY 2005, BIA continued to resolve and settle the Indian Tribe's long-standing claims, which involved water and lands. Payments are required in order to meet Federal claim requirements. The amounts indicated below are Congressional enacted amounts.

For example, in FY 2005, BIA made the first of two payments totaling $19.25 million water settlement with the Zuni Indian Tribe and $1.726 million for the Cuba Lake settlement with the Seneca Nation.

In addition, BIA settled about $8 million for the Colorado Ute/Animas La Plata settlement; $10 million for the second of four payments for the Cherokee, Choctaw, and Chickasaw Settlement in Oklahoma; while simultaneously continuing to fund the Pyramid Lake Settlement, White Earth Settlement, and the Hoopa-Yurok Settlement. These payments amount to a net decrease of $15.7 million from FY 2004 funding, because BIA settled and completed the San Domingo and Ute Indian Rights settlement in FY 2004.

Bureau of Indian Affairs

Strategic Goal: Serving Communities, i.e., safeguard lives, property and assets, advance scientific knowledge, and improve the quality of life for communities we serve.

End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities

End Outcome Goal: Advance Quality Communities for Tribes and Alaska Natives

Performance Summary

Reaching our GPRA Goals

During FY 2004, the Department incorporated the Government Performance and Results Act (GPRA) goals across the Department and bureaus, thereby creating one Department-wide strategic plan.

The plan provides the Department with a set of goals with a common agenda, coupled with an effective method to increase its focus on performance results. In fact, this plan now requires management to be more accountable, while creating a springboard for improved communication, collaboration, and coordination with interested citizens, organizations, stakeholders and constituents on a shared future direction.

During FY 2005, the BIA focused primarily on the Departmental GPRA goal "Serving Communities".

With regards to the GPRA End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities, BIA contributes to this goal by improving the Indian trust ownership; improving Indian trust asset management; and improving Indian natural resources management.

With regards to the GPRA End Outcome Goal: Advance Quality Communities for Tribes and Alaska Natives, BIA contributes to this goal by improving the education systems; promoting the economic vitality of the Indian Tribes and Alaska Natives; providing public safety and justice; and improving human services, including welfare systems.

In sum, the BIA GPRA goals for meeting the challenges of the 21st Century are now incorporated within the Department-wide strategic plan. The following pages address how the BIA performance measures are aligned with the Department-wide strategic plan.

FY 2005 Performance Highlights

Some BIA efforts that relate to specific GPRA goals and their accompanying end outcome goals, are described on the following pages.

Key Management Challenge -- Measuring Probate and Estate Services

Indian Affairs is in the midst of implementing a set of far-reaching strategic management reforms. These reforms are intended to link probate and estate services with the goals and objectives of the Department's Strategic Plan; eliminate the backlog in probates; facilitate the consolidation of Indian land ownership nation-wide; and assist in restoring economic viability to Indian assets. In so doing, we have also taken appropriate action to improve our ongoing efforts relating to the preparation of accurate probate cases; the description of probate trust estates concerning appeals and processes associated with purchasing decedent trust assets; and the definitive procedures that close trust estates among heirs, devisees and claimants.

Clearly, this is an extremely complex challenge to properly, adequately and fairly present in a performance measurement format. The multi-faceted tasks associated with identifying and distributing decedent's trust assets and liabilities in accordance with Tribal, State, and Federal probate code are daunting. Nonetheless, we are proud with the progress we have achieved during this past fiscal year, especially in the last quarter.

In fact, during FY 2005 the Probate and Estate Services have prepared and submitted a vast number of probate records to the Office of Hearings and Appeals for the determination of legal heirs and beneficiaries. Once the probate order is issued, Probate and Estate Services will distribute estate assets according to the order. Clearly, reliable probate services will improve the accuracy and timeliness of changes in ownership information. Accurate and current trust ownership records are crucial when making payments to trust beneficiaries and are essential to economic development in Indian Country -- a cornerstone of self-determination and self-sufficiency.

Furthermore, fractionation has also increased the effort required to manage trust lands and to probate Indian estates. Today, approximately 85% of all trust ownership represents less than 5% of a parcel of land. In order to offset the increased workload associated with fractionation, the Department is standardizing and streamlining the probate process to increase productivity and accountability. These changes are enabling the Department to maintain a current and accurate ownership record and to manage trust lands in accordance with beneficiary wishes.

In addition, several changes in probate and estate planning services will now allow selected contractors to eliminate backlogs and hire qualified permanent staff to monitor and service the ongoing demand for probate services. A standard case preparation and estate distribution process was also defined and documented in the Probate Handbook. Moreover, selected probate activities were consolidated and reorganized to increase management oversight, fiscal accountability and resource utilization.

A special team was also created to implement ProTrac, which is a computerized probate tracking system. ProTrac is now used Department-wide to process probate cases and monitor production accountability. This team has already completed the appropriate documentation and inventory of existing probate cases and established requisite quotas that emphasize to line officers the importance of eliminating the backlog and keeping current with probate workloads.

In sum, these above initiatives within Probate and Estate Services have already reduced the time to probate an Indian estate from years to months. Accordingly, this progress will be reflected in future performance measures in the coming fiscal year. In the interim, however, the new, enabling and emerging technologies are allowing management to monitor the progress and status of probate cases and align resources to eliminate the probate backlog. Simply stated, this streamlined process now reduces the time required to distribute assets to beneficiaries, while simultaneously improving tribal self-determination by increasing the accuracy and timeliness of trust records.

American Indian Probate Reform Act

The American Indian Probate Reform Act of 2004 (AIPRA) was signed into law by President Bush on October 28, 2004. The legislation introduced by Senator Ben Nighthorse Campbell of Colorado and supported by Secretary Norton will reform American Indian Probate rules and will help to facilitate the consolidation of Indian land ownership across the nation.

The American Indian Probate Reform Act of 2004 (P.L. 108-374) provides valuable tools for the Department of the Interior, tribal governments, and individual Indians to facilitate the consolidation of Indian land ownership in order to restore economic viability to Indian assets. AIPRA amends the Indian Land Consolidation Act and amendments made in 2000.

AIPRA provides a uniform method to pass individual Indian land ownership from one generation to the next - creating a Federal Indian probate code that replaces the multiple individual state laws now governing Indian probate activity. AIPRA requires small interests in land to pass exclusively to single heirs when there is no will involved.

AIPRA also provides greater flexibility for individuals and tribes to consolidate and acquire interests during the probate process. AIPRA authorizes appropriations for the Department of the Interior's Land Acquisition Pilot Program for ten years. The act also allows a tribe or an Indian co-owner to request a sale of a highly fractionated parcel of land for the purposes of making that parcel whole under a single owner. AIPRA encourages tribes and other organizations to assist individuals who wish to write wills or create estate plans. The probate and consolidation provisions become effective on June 20, 2006.

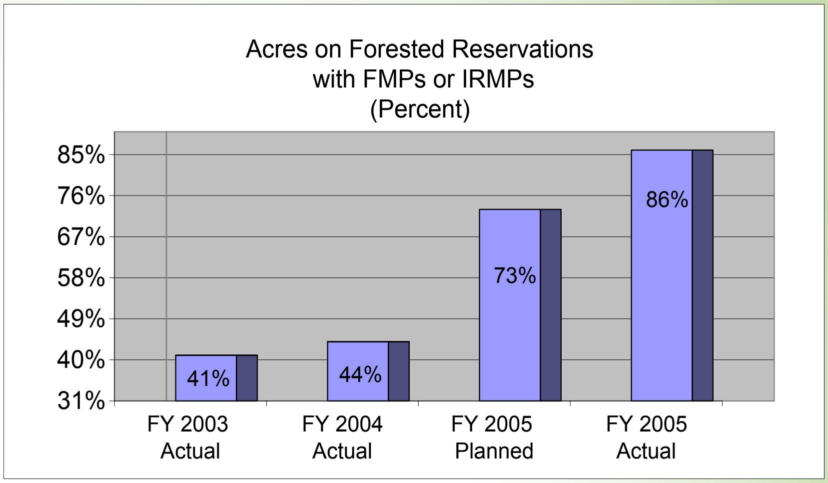
GPRA Goal: Serving Communities

End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities

Strategy: Improve the Management of Land and Natural Resources

FORESTRY:

A major accomplishment for the Division of Forestry surrounds the forest management planning effort. FY 2005 marks the inauguration of a bold new policy whose objective is to culminate ten years later with a 100% success rate. This new policy implements: 1) recommendations given in the 2nd Indian Forest Management Assessment Team (IFMAT II) report; and 2) requirements directed by the OMB in their Program Assessment Rating Tool (PART) analysis of the Forestry program.



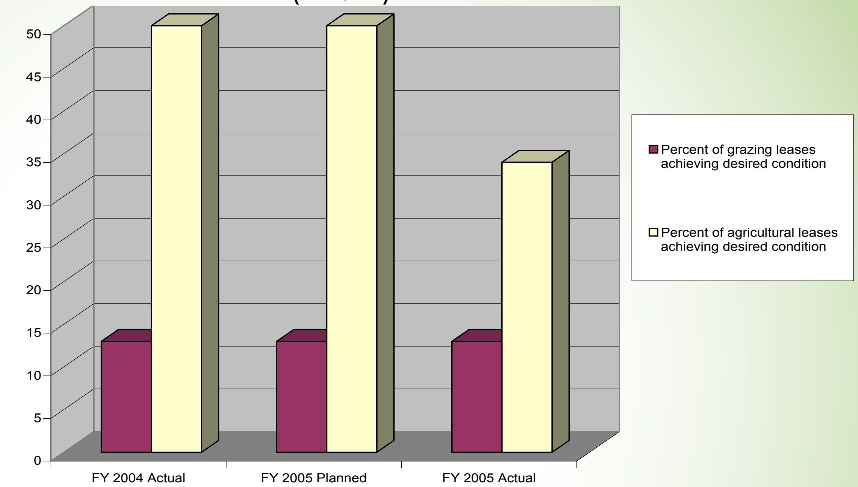
The IFMAT II report noted that in the ten years since their first report, very little progress had occurred toward the long-term goal of having all Indian forest lands under a Forest Management Plan (FMP), or Integrated Resources Management Plan (IRMP) with an FMP component. They observed that the primary reason for this lack of progress was that existing plans were expiring at rates similar to new plan completions. The PART review noted that the Forestry Program has a clear purpose, but at the time of the assessment only 37% of forested reservations were being guided by approved FMPs. In response to this finding, OMB committed to: 1) provide funds for additional forest management plans (whereby it delivered a $1 million increase in the Forestry planning budget); and 2) support a long-term goal ensuring 100% of forested reservations have FMPs (whereby they set 2015 as the BIA mandatory goal for accomplishing this).

The BIA response to the IFMAT II report and the PART review was two-fold. First, the Indian Forestry Manual, 53 IAM, needed to be modified with appropriate language allowing FMPs to remain valid as long as key components within them remained valid through modification or amendment. These changes were made and the newly drafted manual is awaiting final approval. Second, the Forest Management Planning Initiative (Initiative) was developed to address the chronic shortage of completed FMPs on the smaller forested reservations. The Initiative, which began in FY 2005, has several key components:

- Create FMP templates for each of the three smaller reservation categories (2, 3, and 4)
- Create custodial management templates for those tribes not actively managing their forest land
- Create guidelines and checklists to assist in completing the templates
- Develop a systematic process, utilizing contractors, to complete FMPs at locations where none exist
- By 2015, have 100% of all forested reservations covered by approved FMPs.

AGRICULTURE AND GRAZING:

LEASED ACRES ACHIEVING DESIRED CONDITION
(PERCENT)



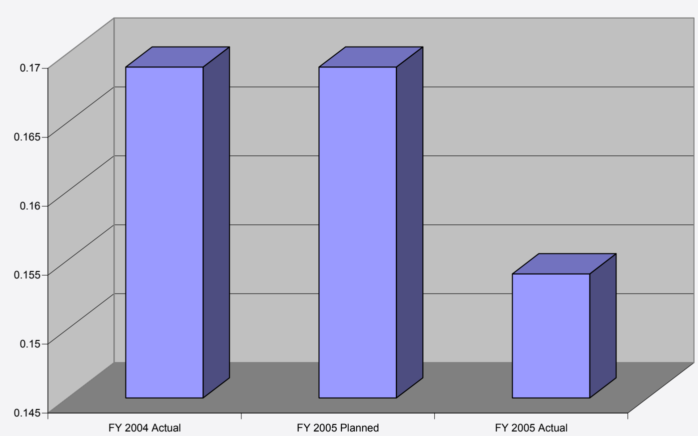
In the area of Natural Resources, the BIA Agriculture Program received funding in the amount of $22.2 million in FY 2005. A portion of these funds are allocated to soil and vegetation inventory of Indian lands. These new inventories are essential because conditions change over time and existing inventories on many reservations are 40-50 years old or non-existent. Soil and vegetative inventories are used as a basis for many of the agriculture and grazing activities performed by the BIA such as: establishing stocking rates, regulating grazing on range units, construction of range improvements, controlling invasive species, preparing farm and range management plans, and developing annual conservation plans. Monitoring the success of these activities also requires the data provided by the inventory for comparison. This comparison shows whether or not management plans and activities are moving Indian trust lands toward the desired condition. These new inventories are showing that fewer Indian lands than previously thought are meeting desired condition, which is due to years of diminishing resources in the Agriculture and Range Program.

END OUTCOME GOAL: ADVANCE QUALITY COMMUNITIES FOR TRIBES AND ALASKA NATIVES

STRATEGY: ENHANCE PUBLIC SAFETY

DETENTION CENTERS:

LAW ENFORCEMENT FACILITIES IN "FAIR" TO "GOOD" CONDITION
(MEASURED BY THE FCI)



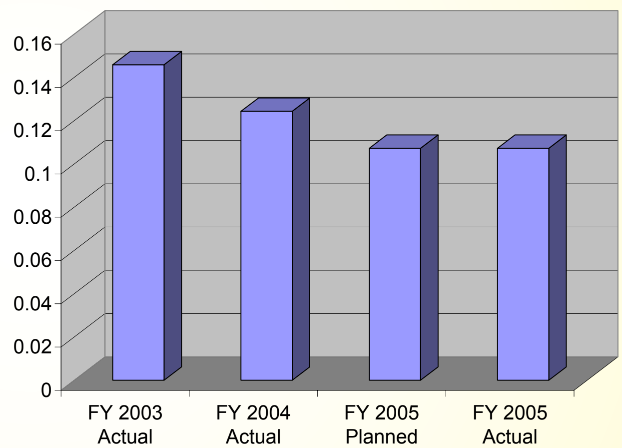
Since FY 2004, BIA pursued an aggressive program to correct facility deficiencies. As represented in the Facilities Condition Index (FCI), which is a numeric value derived by dividing the cost to repair and restore an existing facility to current standards by the cost to replace the building in kind. The FCI significance is that the lower the number, the better the condition of the facility. In FY 2005, the condition of detention facilities improved by 27%. Improvement represents increased maintenance and repair; an improved budget of approximately $7.4 million dollars; and the closing of detention centers deemed no longer usable. Majority of detention centers in Indian Country are owned by tribes, some of which are operated by BIA under agreement with the tribes. Also, Department of Justice is building 23 new detention facilities that will be owned by tribes. Although tribal-owned detention centers are not included in FCI values, the result is improved detention facility conditions across Indian Country.

STRATEGY: IMPROVE EDUCATION SYSTEMS

SCHOOL CONSTRUCTION:

In FY 2005, the BIA began tracking the physical condition of school facilities using the Facilities Condition Index (FCI). The FCI is the numerical result of dividing the cost of repairing, improving and upgrading an existing facility by the cost to replace the facility in kind. The lower the FCI, the better the condition of the school. It is the BIA's goal to improve the condition of school facilities through replacement construction, repairs and improvements. As a measure of success of the facilities program, a declining FCI value indicates improved facility conditions at specific school campuses and in summary for all school facilities. During the past three years, the FCI for school facilities has fallen 49%.

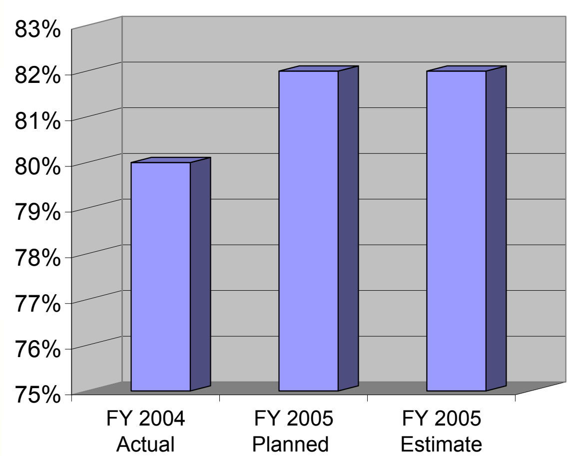
EDUCATIONAL FACILITIES IN "FAIR" TO "GOOD" CONDITION (MEASURED BY THE FCI)



EDUCATION:

In FY 2005, education funding in the amount of $517 million was provided for school operations in support of improved student proficiency and high school graduation rates, and $53 million were provided for Post-Secondary Education to ensure the higher education of American Indians and Alaska Natives. A strong focus on school management and monitoring was implemented to ensure that an improvement in student proficiency occurs and the BIA schools make "Adequate Yearly Progress" as outlined in the "No Child Left Behind" legislation.

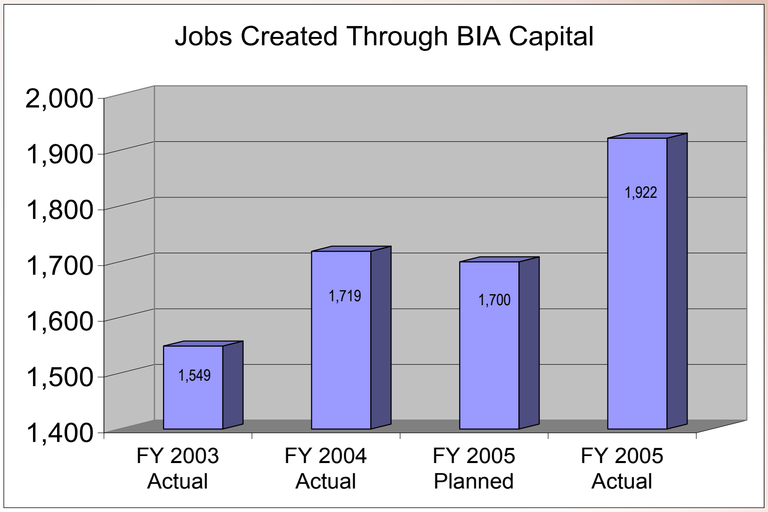
Percent of BIA High School Graduates

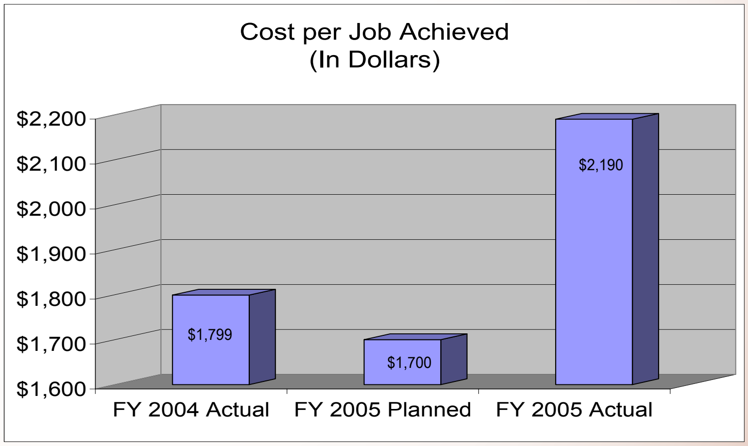


Strategy: Promote Economic Vitality

ECONOMIC GROWTH:

The BIA was very proactive in the area of economic growth during FY 2005. Planning for the comprehensive coordination of the BIA economic development under various goals, such as increasing jobs, businesses and capital investment was developed. BIA supported Tribal economic development by guaranteeing more than 45 loans totaling $85 million which created and sustained 1,922 jobs at the local reservation level.





In FY 2005, the BIA met its goal to sustain the Indian country unemployment rate at 43% and kept the unemployment gap with the rest of the nation from widening. The Job Placement and Training program consists of the P.L. 102-477, integrated training, education and related services program (477) as well as the Adult Vocational Training Program (AVT). The programs serviced 21,130 clients with Education/Training and Job Placement goals. Of those clients, 14,314 were placed with employment in FY 2005. The average cost of these placements was $2,190. Although it did not meet our target of $1,700, the increase was minimal and can be attributed to the across the board inflationary increases that impacted the nation as a whole.

Data Validation and Verification

In FY 2005, the validation and verification of BIA performance data continued to be a major concern. Despite continuing shortcomings concerning overall data integrity, BIA is committed to improving its validation and verification of performance information.

For example, during FY 2005 BIA worked closely with the appropriate IT sources to identify and assess the necessary processes that would allow BIA participation in an automated database process. In attempting to implement the database system it became apparent, however, that the proper controls to ensure the review and certification of data would not be made available. Therefore, BIA chose not to deploy the new database system. Instead BIA chose to collect performance data through an automated spreadsheet system in FY 2005 and issued formal guidance to all Deputy Directors, Regional Directors and field personnel to attain a more efficient and effective reporting system.

In support of this coordinated nationwide initiative, training sessions were conducted by the Central Office for Field and Tribal personnel in order to emphasize the importance of quality performance information. The training sessions focused on the best business practices for data gathering and data submission at the lowest level, as well as the need for proper data maintenance and record retention of adequate supporting documentation.

During FY 2005 the BIA GPRA coordinators for each budget activity completed and certified a validation checklist, which contained specific criteria from the Department's Validation and Verification Assessment Matrix for both key and non-key performance measures within the DOI Strategic Plan.

In addition, all definition templates were assessed by the BIA program officials to ensure that each BIA program was adequately measured against its prescribed performance goal. It also required that the definitions clearly describe the requirements and the characteristics of the data to be maintained within the BIA financial management systems; while ensuring that the data being created, recorded and reported are in consonance with the definitions. It also required pertinent feedback when data was inadequate to meet user needs, and that the data assurances provided attestation to, or comment on, the integrity of the information within the system.

In this regard, a series of teleconferences were conducted during FY 2005 that allowed the Central Office officials and Field personnel to work together in reviewing their performance measures to assess the validity of the performance measures, to determine the best method to report on the measures, and to confirm the proper procedures for completing requisite GPRA reports for their specific programs.

Moreover, during FY 2005, BIA took aggressive action to assess data accuracy, completeness, consistency, availability, and internal control practices that serve to determine the overall reliability of the data collected. In so doing, the GPRA coordinators documented the inconsistencies, inaccuracies and anomalies in the performance data, which allowed lingering problems to be surfaced and addressed to attain improved data integrity.

BIA recognizes that overall data stewardship is an integral ingredient to attain an effective validation and verification process. Proper data stewardship will ensure that the data captured and reported is accurate, accessible, timely, and usable for decision-making and program monitoring.

As a result of these efforts, BIA now expects to improve its validation and verification processes by establishing a much clearer connection between mission, programs, and accomplishments. In fact, these ongoing efforts demand close monitoring to ensure the stated goals are realistic, measurable, understandable, and ultimately effective and used in decision-making.

Challenges with Performance Measurement

During FY 2004, baseline data was gathered for several new measures and targets. In some instances, however, the data collected and the results it displayed revealed that the measure, as previously stated, was not appropriate. This required us to revise several goals in FY 2005 to facilitate a better linkage of certain performance measures in order to support BIA programs and Tribal objectives. Thus, we readily admit our ongoing efforts in the performance measurement area are still a work-in-process.

Like other challenging and evolving initiatives that BIA undertakes, our strategic approach and close coordination with the Department-level plan is meant to be an iterative process. As we progress, and as we listen to our stakeholders, including both internal and external customers, we are continuing to make the appropriate modifications that allow improved performance and results. This allows for the proper integration and relationship among the strategic plan, annual performance plan, budget submittals, financial plans, PART reviews, and risk assessments.

Based on the "lessons learned" during FY 2005, we expect that some performance measures, both programmatic and financial-related, will be revised, added or deleted in FY 2006 in order to more effectively demonstrate the incremental performance differences that tend to result from increases or decreases in funding.

Our aim is to establish performance measures that keep programs on track, on time, and within budget. We expect the measures to be tailored to BIA mission needs, thus providing meaningful, actionable feedback to help make managers more accountable and increase their focus on performance results, while imposing minimal workload and time burdens.

Harvest Landing

Analysis of Our Financial Statements

Results from Financial Statements

The BIA financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, as well as with guidance issued by OMB and DOI.

The Office of the Inspector General (OIG) is responsible for auditing the BIA financial statements. OIG contracted the audit services to KPMG LLP, who expressed an "unqualified opinion" on the presentation of the BIA FY 2005 financial statements.

In the FY 2004 Annual Financial Report to the Assistant Secretary - Indian Affairs, KPMG made several recommendations to improve internal controls and promote operating efficiencies within financial management. During FY 2005, BIA took immediate and significant corrective actions to implement most recommendations in order to improve the overall financial management operations.

The following financial analysis of the FY 2005 financial statements contains several highlights of significant balances contained in the accompanying basic financial statements.

Consolidated Balance Sheets

ASSETS: The FY 2005 Consolidated Balance Sheet reflects total assets of $3.1 billion, which primarily consists of the following:

Fund Balance with Treasury of $1.5 billion generally consists of appropriated funds to pay for current liabilities and to finance authorized purchase commitments.

Accounts and Interest Receivable, Net of $33.5 million consists of accounts receivable with other Federal agencies of $7.2 million and accounts receivable with the public of $26.3 million. A portion of these BIA accounts receivable, however, are for reimbursable services that BIA has performed for other Federal agencies. Accounts receivable are established to cover the costs for the services provided to other Federal agencies, or to private sector customers.

Loans and Interest Receivable, Net of $28.1 million consists of the Indian Direct Loan Program, Indian Loan Guarantee Program (Credit Reform) and Liquidating Fund for Loans (Pre-Credit Reform).

The BIA Loan Program was created to provide financial assistance for economic development to tribes and individuals through the loan guarantee program authorized by the Indian Financing Act of 1974 and the Federal Credit Reform Act of 1990. More information can be found in Note 5 accompanying the financial statements.

Property, Plant and Equipment, Net is stated at net book asset value of $1.4 billion and consists of land and land rights, buildings and improvements, production plants used in the operations of irrigation and power operations, furniture and equipment, and software purchased or developed for internal use.

LIABILITIES: The Consolidated Balance Sheet reflects BIA liabilities totaling $838.0 million and primarily consists of the following:

Accounts Payable of $145.5 million consists of $55.4 million accounts payable with other Federal agencies and $90.1 million of accounts payable with the public.

Advances and Deferred Revenue of $99.4 million consists of Federal and public deferred revenue of $92.0 million and $7.4 million, respectively. The majority of the BIA deferred revenue consists of amounts advanced to BIA from the Department of Education where BIA expends funds for Tribal and BIA-operated schools. The deferred revenue collected in advance may fluctuate from year to year depending on the availability of funds and the provisions negotiated in the reimbursable work agreements.

Future Funding Requirements of $454.9 million represents liabilities that are not currently funded by budgetary resources. These liabilities include judgment fund reimbursable payables of $117.3 million; unfunded payroll costs of $51.4 million; actuarial Federal Employee Compensation Act (FECA) liabilities of $121.3 million;

environmental and disposal liabilities of $51.6 million; resources payable to Treasury of $21.0 million; contingent liabilities of $62.5 million; and deposit fund liabilities and other liabilities of $29.8 million.

Liabilities not covered by budgetary resources include:

- Amounts Owed to Treasury recorded as judgment fund reimbursements payable for settlements on suits brought under the Contract Disputes Act. Funding must be obtained through supplemental appropriations in order to reimburse the US Treasury. The minor increase in the judgment fund liability reflects the additional payments made by the US Treasury on behalf of BIA during FY 2005.
- Settlement of Contingent Liabilities related to asserted and unassertive legal claims generally paid by the US Treasury judgment fund and does not require repayment to the US Treasury, unless related to a settlement brought under the Contract Disputes Act. More detailed information can be found in the contingent liability Note 9 accompanying the financial statements. Changes in legal interpretations that represent the outcome of cases contributed to the increase in FY 2005 contingent liabilities.
- Unfunded Payroll Costs are the amount of salaries and associated payroll taxes for unused annual leave and FECA.
- FECA includes amounts BIA must repay to the Department of Labor (DOL) for claims DOL has settled. BIA includes the estimated amount for the following years' funding requests. In addition, an actuarial amount is estimated for the expected liabilities due to death, disability, medical and miscellaneous costs for approved workman's compensation cases.
- Environmental and Disposal Liabilities are the estimated costs to cleanup sites where hazardous substances are identified. The decrease in the BIA environmental and disposal liabilities can be attributed to either minor changes in estimates, or clarification in the existing accounting policy, or correction of errors. More detailed information can be found in environmental liability Note 10 accompanying the financial statements.
- The Other Liabilities include all unfunded liabilities not recognized in any of the above categories. Detailed information can be found at Note 8 accompanying the financial statements.

Consolidated Statements of Net Cost

The FY 2005 Statement of Net Cost displays the difference between the BIA gross costs incurred and any revenue earned from its activities. Gross costs consist of the full cost of the outputs produced, plus any non-production costs that can be assigned.

Information is displayed by BIA major program and is further detailed by the strategic goals under those programs. The BIA performance goals are located within the DOI Mission Areas and the Strategic Goal: "Serving Communities". As such, BIA has certain responsibilities for achieving this particular "Mission Area" under the following End Outcome Goals:

- Fulfill Indian Fiduciary Trust Responsibilities
- Advance Quality Communities for Tribes and Alaska Natives
- Protect Lives, Resources and Property.

Although there was not a significant change in the total net cost of operations, please refer to Note 13 accompanying the financial statements which displays the changes in earned revenues and gross costs. Specifically, the total intragovernmental earned revenue increased about $112.5 million due to the services performed relating to the Education reimbursable agreements, i.e., Title I, II and IV and the Education of Handicapped Programs.

Consolidated Statements of Changes in Net Position

The FY 2005 Statement of Changes in Net Position reflects the BIA FY 2005 net position by adding the current year changes to last year's net position.

The majority of the activity in this statement involves the net cost of operations, as described in the statement of net cost of $2.8 billion, and the amount of appropriations used, which totals $2.5 billion.

The amount of appropriations used represents revenues or financing sources BIA had available through Congressional appropriations.

Combined Statements of Budgetary Resources

The FY 2005 Statement of Budgetary Resources details how budgetary resources were made available, as well as their status at year-end.

BIA received approximately 69 %, or $2.4 billion, of its $3.5 billion of total budgetary resources through appropriations, of which BIA Operation of Indian Programs Fund received $2.0 billion.

Other major sources for the budgetary resources included: $777.4 million of unobligated balances carried forward from FY 2004, and $406.0 million of spending authority from the offsetting collections and recoveries.

In 2005, BIA obligated $2.8 billion of the $3.5 billion of total budgetary resources.

Consolidated Statements of Financing

The basic objective of the FY 2005 Consolidated Statement of Financing is to provide a bridge between budgetary and proprietary accounting information.

The statement provides a reconciliation between net obligations incurred as reported on the Statement of Budgetary Resources to net cost of operations from the Statement of Net Costs.

The statement is presented in three parts:

- Budgetary resources used to finance activities
- Resources used to finance items not part of the cost of operations
- Components of net cost of operations that will not require or generate resources in the current period.

The first part displays budgetary resources obligated, which are drawn directly from the Statement of Budgetary Resources. The two other resources that are used to finance activity, but that are not budgetary resources, include transfer-in of capitalized assets and imputed financing sources.

The two main items that are included in resources used to finance activities, but do not affect the net cost of operations are the change in budgetary resources obligated for goods, services, and benefits ordered, but not yet provided, and resources that finance the acquisition of assets.

Adjustments to the statement are needed for goods and services ordered, but not yet provided, because a budgetary obligation is recognized at the time an order is placed, but the expense is not recognized until the goods and services have been provided. In addition, purchases of capitalized assets result in obligations incurred and capital expenditures. The expense from the purchased capitalized assets is not recognized until the asset is depreciated.

The components of net cost of operations that will not require or generate resources in the current period exist, because costs are not always funded in the period incurred. For instance, an expense is recognized for the increase in annual leave liability when incurred, however, the liability will not be funded until future periods when employees use the leave.

Lastly, the net cost of operations may include items that will not require or generate resources in the future. For example, depreciation expense of $70.9 million is included in the net cost of operations, but does not require budgetary resources in future periods, because resources were used when the asset was purchased.

Allocation transfers are the amount of budgetary authority and other resources transferred to other Federal entities. OMB Circular A-11, requires the "parent" (transferor of the appropriation accounts) to report the allocation agency's transactions as part of the Statement of Budgetary Resources, while the "child" (recipient of allocation transfers) reports the proprietary activity on its Balance Sheet, Statement of Net Costs and Statement of Changes in Net Position. In essence, this process creates a reconciling difference on the Statement of Financing of $522.6 million for FY 2005.

Compliance with Legal and Regulatory Requirements

Prompt Payment Act

The Prompt Payment Act (P.L. 100-496; 31 U.S.C. 3901-3907) requires Federal agencies to:

- Pay their bills on time, remit interest penalties when payments are made late, and take discounts that are advantageous to the Government
- Accurately report progress made with respect to complying with the Act
- Assess the reliability of the payment process.

The guidance implementing the Prompt Payment Act is contained within the OMB Circular A-125, "Prompt Payment."

During FY 2005, BIA continued to work towards bringing about significant changes and improvements in meeting the requirements of the Prompt Payment Act. While some identifiable improvements have been made, BIA management acknowledges that further improvements are necessary. Such efforts are underway and will be pursued as vigorously as possible given competing resource demands and increasing administrative workloads.

In FY 2005, BIA processed over 30,000 vendor invoices that were subject to the Prompt Payment Act and worth about $273 million. A significant number of these were paid on time. Within these payments, BIA also paid interest penalties on approximately 4,200 invoices that amounted to about $248,000 in interest penalties.

Notwithstanding, BIA continues to be significantly hampered and limited in its ability to process invoices more timely due to an existing court order denying high speed Internet access and other WEB-based financial initiatives. Despite this court order restriction, BIA still plans to continue enhancing the internal management controls within its quality assessments on the reliability of the BIA payment process, while simultaneously monitoring the invoice payment operations to ensure the timely payment of invoices.

For example, BIA has taken steps to ensure that all BIA components involved in voucher payments are aware of the potential problem areas and are working jointly to bring about improvement. Specifically, the financial management community has worked extensively with the pertinent procurement personnel to identify ways to improve the tracking, follow-up and timeliness of proper certification of the receipt of goods and services in order to allow timely payment of the invoice.

In addition, BIA recently purchased a high speed scanner in late FY 2005. BIA is now assessing how the scanner will be applied to improve the business processes relating to invoice processing. Specifically, BIA is examining the scanner capability in concert with an evolving Intranet invoice certification process, which would allow invoices to be certified electronically and processed for prompt payment.

This invoice certification enhancement would also allow BIA fiscal services to notify certifying officials via the Intranet e-mail of any invoice requiring certification. With this Intranet capability, certifying officials would be able to view, certify and forward the invoice to BIA fiscal services for payment processing, thus reducing the processing time from days and weeks to hours.

Moreover, by paying the vendors timely, BIA will be enhancing their relationship with these vendors, improving the competition for government business, and reducing the cost of services by avoiding interest payments.

Lastly, BIA is also embracing and encouraging the prudent use of the government-wide commercial purchase card program, which offers an electronic billing and payment process for centrally billed card accounts that can earn credit card rebates.

In the interim, however, BIA plans to continue its increased oversight of all payments, to include those not subject to the Prompt Payment Act, such as travel vouchers, along with improving the audit recovery efforts over improper vendor payments.

Debt Collection Improvement Act

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions, and referral to the proper agency for litigation.

During FY 2005, BIA continued its efforts to improve operations and internal controls in this particular area. Within this process, BIA has a cross-servicing agreement with the National Business Center (NBC) in Denver, Colorado, who performs the BIA accounts receivable activities and serves as BIA's collection entity for receivables that are delinquent more than 180 days.

In addition, NBC collects on outstanding accounts receivable and, if necessary, issues the demand letters concerning administrative offsets, wage garnishments, unpaid loans, duplicate payments, etc. and/or refers the debt to the United States Treasury, as appropriate.

Lastly, during FY 2005 BIA developed several improved policies and procedures to ensure compliance with the Debt Collection Improvement Act and proper oversight and internal management control of NBC services.

Inspector General Act Amendments (Audit Follow-up)

The BIA maintains that the timely implementation of OIG and GAO audit recommendations is essential in order to improve the BIA efficiency and effectiveness within its programs and operations, as well as achieve its integrity and accountability goals.

Accordingly, BIA has instituted a comprehensive audit follow-up program to ensure that audit recommendations are implemented in a timely and cost-effective manner.

For instance, in FY 2005, the BIA monitored a substantial amount of Single Audit, OIG, and GAO audit activity, to include 451 Single Audits, 14 OIG audits, and 20 GAO audits.

The audit follow-up actions involved analyzing the referred audit reports; advising grantors of audit findings; tracking, reviewing and validating audit recommendations; developing mutually acceptable and timely resolution to disputed audit findings and recommendations; and monitoring the recovery of disallowed costs.

In fact, Section 106 of the IG Act Amendments (P.L. 1200-504) of the IG Act (as amended) requires semi-annual reporting on IG audits and related activities as well as agency follow-up.

The report is required to provide information on the overall progress on audit follow-up and internal management controls, statistics for audit reports with disallowed costs, and statistics on audit reports with funds put to better use. For instance, in FY 2005, the OIG issued five final reports on BIA operations. These reports include:

- FY 2004 financial statements
- FY 2004 management letter of issues associated with the financial statements
- Management of Indian trust funds
- Use of facilities improvement and repair funds
- Process used to assess applications to take land into Trust for gaming purposes.

BIA agreed with the audit recommendations and is currently in the process of implementing pertinent corrective actions. In addition, DOI is tracking the implementation of corrective actions on the OIG and GAO final reports issued prior to FY 2005.

In addition to quarterly management control and the audit follow-up program, BIA maintains a monthly status scorecard and review on all audit reports and findings. This process allows BIA management to assess the implementation of audit findings and immediately identify when a slippage occurs that warrants senior management attention. BIA plans to continue applying this same aggressive monitoring mechanism in FY 2006 to ensure the continued achievement of GPRA performance goals.

Furthermore, BIA provides several millions of dollars each fiscal year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to Indian tribes, State and local governments, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantee's financial operations, management control structure, and level of compliance with pertinent laws, regulations and established thresholds must be audited each year.

All single audit reports are submitted to the Federal Audit Clearinghouse. The single audit reports requiring follow-up are then forwarded to the Department for distribution to the bureaus to include BIA, for appropriate audit follow-up, resolution and tracking.

Lastly, those audits relating to BIA activities are then reviewed to assess the action necessary when meeting with grantees and/or negotiating a resolution to the deficiencies identified within the audit report, as well as determining the allowability of any expenditure of Federal funds that was questioned by the auditors.

Improper Payments Information Act

The Improper Payments Information Act (IPIA) and the OMB require all cabinet-level Federal agencies to assess those programs and activities that may be susceptible to significant erroneous payments.

Clearly, BIA recognizes that improper payments continue to be a significant and long-standing problem within the Federal government. In light of this challenge, BIA continued its ongoing efforts in FY 2005 to implement appropriate internal management controls that preclude, or identify erroneous payments.

This effort is still ongoing, but when completed, BIA expects that formal desk-level procedures and policies will allow for the review of erroneous payments, or inadvertent errors, if any, through various sampling techniques.

For instance, in FY 2005, BIA selected various program offices to conduct risk assessments concerning improper payments and concluded that these programs were not highly susceptible to improper payments. This is in consonance with BIA position that the ultimate success of any government-wide effort to reduce improper payments hinges on a shared commitment and diligence within both the financial management and program management communities.

In fact, BIA conducted several efforts during FY 2005 to help highlight and reduce the possibility of improper payments. These in-house efforts focused on the following areas:

- Identifying problem payments
- Estimating the magnitude of actual problems
- Determining the cause of erroneous payments
- Determining the nature and extent of possible improper payments
- Determining the corrective action necessary to resolve erroneous payments
- Assessing the systemic and recurring events
- Identifying cost-effective control measures to address risk and/or weakness areas
- Reporting on the progress made to reduce any future improper payments.

BIA concluded that the risk of improper payments tended to increase in programs with a significant volume of transactions; or with complex criteria for computing the payments; or with the over-emphasis on expediting payments with limited staffing.

Accordingly, corrective action was immediately taken to correct and preclude any future inadvertent payment errors, to include duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; and payments for services not rendered or rendered to ineligible payees. In no case, however, were there any incidents where the payment resulted in fraud or abuse.

Nonetheless, BIA fully recognizes that further improvement is still needed in developing effective internal management controls that not only measure and report on improper payments, but rather focus on the design, development and implementation of better internal controls. In fact, BIA realizes that this requires a dedicated and concerted commitment by both the financial management and program management staffs.

Accordingly, BIA is planning to assign responsibility for managing improper payments to a senior official, who will establish policies and develop appropriate desk-level procedures that will directly reduce any risk or occurrence of improper payments. It is expected this action, when completed, will demonstrate a comprehensive approach toward reducing improper BIA payments. It will also allow for more transparency in the actual reporting, which is crucial in addressing any erroneous payment problem.

Lastly, BIA is working with various external stakeholders to seek, coordinate and provide the necessary assistance that is reasonable and effective for addressing and implementing corrective action plans solely geared toward reducing improper payments.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the OMB require all cabinet-level Federal agencies to annually review their management control system.

The objectives of the DOI management control system are to provide reasonable assurance that:

- The Department's obligations and costs are in compliance with applicable laws
- The Department's assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the DOI operations are continually evaluated using information obtained from reviews conducted by GAO, OIG, bureau reviews, and/or specifically requested studies.

On a yearly basis, DOI requires all of its bureaus, to include BIA, to conduct self-assessments of their FMFIA compliance. These diverse reviews provide a high level of assurance that Department systems and management controls comply with standards established by the FMFIA.

In compliance with this requirement, the Associate Deputy Secretary, as the Acting Assistant Secretary -- Indian Affairs, submitted BIA's annual assurance statement to the Department. Supporting assurance statements were also submitted by the five senior managers, i.e., Director, Bureau of Indian Affairs; Director, Office of Indian Education Programs; Deputy Assistant Secretary for Management; Deputy Assistant Secretary for Policy and Economic Development; and Deputy Assistant Secretary for Information Resources Management / Chief Information Officer. Furthermore, the Director, BIA, assurance statement was supported by assurance statements from the Regional Directors and the principal Central Office Directors. The Director, OIEP, assurance statement was supported by assurance statements from the Education Line Officers. These assurance statements attest to specific areas of responsibility and that the systems of management, administration, and financial controls are being maintained in accordance with standards, objectives, and guidelines prescribed by the FMFIA and the OMB Circular A-123.

The objectives of these assessments ensures that:

- Programs achieved their intended results
- Resources were used consistent with the bureau's mission
- Resources were protected from fraud, waste and mismanagement
- Laws and regulations were followed
- Reliable and timely information was maintained, reported, and used for decision making.

In performing this assessment, BIA relied on the knowledge and experience gained from the daily operations of the programs and systems of accounting and administrative controls, and information obtained from sources such as management control assessments, OIG and GAO audits; program evaluations and studies; independent audits of financial statements; performance plans and reports; and other information.

Each assurance statement provided documentation on specific management control assessments conducted and audits and or reviews conducted by the OIG and/or GAO.

In sum, the Acting Assistant Secretary - Indian Affairs relied on this documentation to support the Bureau's assurance statement on financial reporting to the Department on June 30, 2005 and for the overall assurance statement provided to the Department on September 30, 2005.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires Federal agencies to improve Federal financial management reporting by requiring that financial management systems comply substantially with the following three requirements:

- Federal financial management system requirements
- Applicable Federal accounting standards
- The US Standard General Ledger at the transaction level.

The Act also requires that the independent auditors' report on the financial statements state whether the BIA financial management system complies with the above requirements.

In light of the above, BIA evaluated the financial management system in FY 2005 and determined that it generally conforms to the above governmental financial system requirements.

In addition, BIA continued to maintain the necessary management controls and financial management system programs as required by FFMIA. Within this framework, BIA continues to:

- Integrate the appropriate management controls into business processes and the financial management system at organizational levels
- Review management controls and financial management system controls on a recurring basis
- Develop correction action plans on the control weaknesses
- Monitor the corrective action plans until the weaknesses are corrected.

Nonetheless, in successive audits, the independent auditors' report has determined that BIA's financial management system do not fully comply with the FFMIA accounting and system requirements concerning selected federal accounting standards and the US Standard General Ledger at the transaction level.

The independent auditors' report on the BIA financial statements, however, did not identify any known instances in which the BIA financial management system did not substantially comply with the FFMIA requirements.

Resolution of Internal Control Weakness and Non-Compliance with Legal and Regulatory Requirements

In FY 2005, BIA took aggressive action to resolve and correct most deficiencies that were identified by the independent certified public accounting firm in prior year audits and current year audits.

The findings and deficiencies primarily centered on the financial management systems, information technology systems, internal management controls and legal compliance.

Although BIA made significant progress in FY 2005 to correct most of the weaknesses identified in the CFO audits, some corrective actions still remain to be completed within selected financial management related operations.

Nonetheless, the rigor of the BIA review and their demonstrated ability to resolve immediately the deficiencies is a positive reflection on the OCFO staff and senior management's dedication toward complying with established Departmental policies and pertinent laws involving sound financial management. Clearly, the corrective actions illustrate BIA's continued commitment to identify and eliminate immediately the known systemic problems in order to improve financial management processes and customer services.

Most noteworthy were the corrective actions in FY 2005 that specifically addressed and resolved one of the FY 2004 material weaknesses -- the need for internal controls over fund balances with the US Treasury. BIA developed and implemented the necessary policies, staff training and the requisite management reviews to ensure appropriate monthly reconciliations were performed.

In addition, BIA addressed other areas that required extensive coordination and reconciliation efforts. For example, in the area of Construction-in-Progress (CIP) , BIA reissued an updated CIP Accounting Management Handbook in FY 2005.

In addition, training was provided by the OCFO to pertinent program managers within the Office of Facilities Management and Construction (OFMC) on the importance of monthly CIP reconciliations and quarterly reporting.

Training is planned in FY 2006 for selected personnel in Power and Irrigation, Information Resources Management, and Fire Management. The training will address the need for monthly reconciliations and quarterly reporting.

Nonetheless, OFMC project managers will again be reminded to provide the requisite quarterly estimates on project status in order to allow for the proper transfer of funding from Advance to CIP and for the transfer of completed projects from CIP to real property accounts. It is in these latter CIP-related activities and other corollary operations, however, that further improvement and corrective action are warranted. Accordingly, both OFMC and OCFO are continuing to make concerted efforts to address and resolve the complex and lingering anomalies involving CIP-related operations.

In addition, during FY 2005 several BIA policies and procedures were developed on various programmatic and financial-related topics. This is an ongoing effort that will be continued in FY 2006.

Despite these positive actions, BIA remains cognizant that much has yet to be done, especially in transferring completed projects from CIP to real property. Accordingly, both OCFO and OFMC management are committed to resolving and correcting this particular persistent shortcoming in the coming fiscal year.

At the same time, the BIA leadership is also aware that the financial management staff is facing increased burdens with the normal day-to-day work, not to mention the unending requisite financial analysis and time-consuming and ever-increasing reporting requirements being imposed by internal and external customers, while major management initiatives and new mandated systems requirements are simultaneously demanding resources for review, testing and implementation.

Furthermore, the BIA reorganization not only changed how daily accounting operations are performed, but also the accompanying year-end financial reports and close-out activities as well.

In fact, the BIA financial management staff in the field is now reporting to the OCFO. This particular measure is expected to improve the uniform application of financial management policies and procedures throughout BIA, while streamlining the workflow and the financial information reporting processes.

Lastly, several newly hired personnel have quickly and admirably stepped forward to help the BIA financial management community. Although the BIA financial management challenges are well known and extremely complex, both the financial management and the information technology communities are continuing to work together to remove any lingering challenges, or obstacles, so that the positive momentum will continue during the coming years.

The President's Management Agenda

The President established a bold strategy to improve the Federal Government's management and performance by calling on Federal agencies to focus on and solve the most critical problems.

The following information provides BIA's assessment of six government-wide initiatives that are described within the President's Management Agenda (PMA).

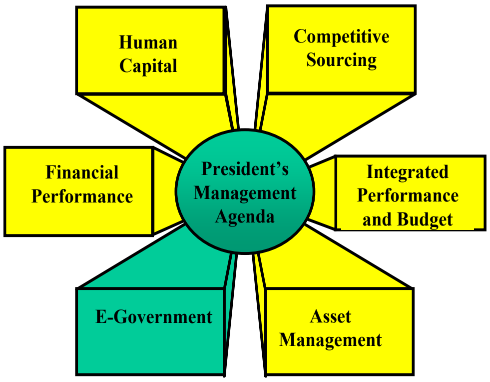
In FY 2005, BIA continued to make significant progress toward the six mutually reinforcing management initiatives -- each area was targeted for specific improvement:

- Strategic management of human capital
- Competitive sourcing to create effective competition between public and private sectors
- Improved financial performance and accountability
- Increased use of electronic government to expand services and lower costs
- Integrated performance and budget decision-making
- Strengthening asset management.

Accordingly, BIA evaluated its FY 2005 progress on the above PMA initiatives by using the three-color OMB-prescribed Balanced Scorecard:

- **"Green"** signifying success
- **"Yellow"** signifying mixed results
- **"Red"** signifying unsatisfactory performance.

In essence, the Balanced Scorecard is a set of financial and non-financial measures that relate to certain critical success factors. It is innovative and novel in that its components are designed in an integrative fashion so as to reinforce each other, while simultaneously reporting on current and future status.



The following table summarizes the BIA Balanced Scorecard on the PMA initiatives and shows how their performance changed from FY 2004 to FY 2005:

PMA Initiative	FY 2004 Color	FY 2005 Color
Human Capital	Yellow	Yellow
Competitive Sourcing	Yellow	Yellow
Financial Performance	Yellow	Yellow
E-Government	Yellow	Green
Integrated Performance and Budget	Yellow	Yellow
Asset Management	N/A	Yellow

It must be noted, however, that the OMB criteria was modified substantially during FY 2005 for selected PMA initiatives. This revision impacted directly on the BIA PMA scorecard. Specifically, the revision forced each government agency to improve its management practices within designated activities.

Despite the higher standard imposed by the new FY 2005 scorecard criteria, BIA still attained a "Green" score in the E-Government initiative, while maintaining a "Yellow" score in all other PMA initiatives, to include the new Asset Management government-wide initiative.

To maintain the positive momentum and progress attained during FY 2005, BIA has specifically placed a strong focus on working with selected BIA programs in FY 2005 to ensure that pertinent Program Assessment Rating Tool (PART) scores are improved at the program-level. This action is expected to preclude and remove the "results not demonstrated" score that selected BIA programs at times demonstrated in the past. In addition, nation-wide training sessions on this topic have also taken place to rectify this shortcoming. In fact, some Activity-Based Costing efforts are already paying dividends, since selected costing data is being used to effect decision-making in certain programs.

Accordingly, in FY 2005 BIA has continued to apply the PART against several programs. In fact, the PART was used to assess and improve the program performance in selected programs so that the BIA can achieve better results in those programs. By so doing, the PART reviews identified each program's strengths and weaknesses in order to allow appropriate funding and informed management decisions aimed at making the programs more effective.

Furthermore, since the PART also includes a consistent series of analytical questions, it has allowed several BIA programs to show improvement over time, while simultaneously highlighting some comparisons and contrasts between similar programs. The net result of these FY 2005 efforts are reflected in the progress attained to date and the improved scores in the PMA initiatives.

In sum, the BIA PART reviews have continued to look at the PMA initiatives and key factors that tend to affect and illustrate a program's performance, such as the program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results.

Strategic Management of Human Capital

Like most Government agencies, BIA is undergoing a transformation of its workforce brought about by increased retirements, especially within the financial management operations. The imminent retirements and eligible retirees continue to be a management concern. Obviously, the retirements tend to rob government organizations of institutional knowledge and critical in-depth familiarity with the nuances of financial management operations, Federal laws and regulations involving complex Federal programs.

During the past few years, BIA was no exception. Workforce retirements and employee transfers tended to diminish BIA's institutional knowledge base. Addressing this challenge required that BIA put in place the means to more prudently manage human capital to ensure that BIA sought, acquired and retained the talent and leadership it needs to accomplish its critical mission requirements.

In FY 2005, BIA continued to develop an appreciation for and awareness of the unique diversity within Indian Affairs responsibilities. BIA recognized that it can better serve the needs of the American Indians and meet its widespread organizational needs when BIA possesses employees from a variety of backgrounds, cultures and experiences, while simultaneously complying with Indian preference laws. Accordingly, BIA seeks the best and the brightest employees since these individuals tend to bring creativity and innovation to the workplace.

In consonance with this above initiative, BIA maintains a key focus on certain human capital areas that tend to contribute significantly toward achieving and maintaining a workforce with the necessary skill levels, such as: the continuing education of its managers; the heterogeneous workforce; stepping up recruitment efforts for qualified Native American Indians; improving retention of the workforce; zero tolerance for discrimination, harassment, and retaliation; and ensuring accountability for achieving diversity goals.

Clearly, the DOI policy on "Zero Tolerance" on discrimination underscores the importance of accountability and is the cornerstone that supports the implementation of the BIA strategies for achieving and maintaining a highly skilled and diverse workforce.

In addition, BIA is currently establishing a training center as a centerpiece for training its workforce within financial management operations. This training center ensures that the BIA financial management staff maintains the necessary up-to-date skills deemed essential to succeed in the ever-changing landscape of the Federal government.

Clearly, the BIA human capital initiative is based on building and retaining a solid BIA workforce for the future, while simultaneously recruiting new college graduates/interns and working aggressively to retain those individuals with the requisite essential skills.

Building the right workforce also means providing training and development to equip the employees with the appropriate skills they definitely need to meet the future challenges. Retention efforts will continue to focus on improving the overall quality of the BIA work environment, while fostering a positive image of the Federal government and BIA as a compassionate employer.

Because the Bureau is such a decentralized organization, many of the regional offices, agencies, field offices and line offices are dispersed across the country in varied cities and remote areas. As a result, it is important that BIA maintain a proper balance in the composition of its workforce. Clearly, experience has shown that the workforce needs to be more representative of its Native American heritage in order to better serve the Indian country, local communities, trading partners, customers and neighbors.

Moreover, BIA has conducted a major reorganization over the past few years wherein selected field organizations were streamlined, various administrative and program functions consolidated, and selected staff re-deployed to mission-related functions. All these actions were geared toward making the BIA financial management operations more effective and efficient, while striving to be more responsive to customer needs.

In sum, BIA fully recognizes that human capital is our greatest resource. At the same time, BIA recognizes that a transformation is occurring within the Federal government wherein a greater emphasis is being placed on performance and accountability. And within this paradigm, BIA realizes that people serve the indispensable role for successfully achieving the established strategic goals and objectives that serve customers and stakeholders.

Competitive Sourcing

In FY 2005, BIA has adopted competitive sourcing as a process for improving some of their day-to-day operations. The BIA competitive sourcing is not about contracting out, or downsizing the BIA workforce. It reflects BIA's commitment to the Administration's efforts to market-based government, where competition drives performance and efficiency. As a result, BIA identified selected functions that were typically performed by Federal employees, but can be potentially performed by the commercial marketplace at significant savings.

In FY 2005, BIA selected two commercial activities that are performed by government through the dynamics of competition. BIA applied a process for conducting competitions, which is outlined within OMB Circular A-76, "Performance of Commercial Activities" while simultaneously using the Federal Activities Inventory Reform (FAIR) Act inventory as a baseline.

The main focus of the FAIR Act inventory is to determine which positions are inherently governmental activities and which are commercial activities. In addition, it assists BIA management in using the inventory to rethink program requirements and to identify competition opportunities.

In FY 2005, BIA committed to two streamlined competition studies to be conducted on Motor Vehicle Operators in Montana and New Mexico, who perform road maintenance. The streamlined studies involve: management personnel; staff employees; union representatives; contract personnel; human resources; BIA competitive sourcing/A-76 personnel; and some consultant support.

In March 2005, BIA and DOI provided both the union notification and Congressional notification. In fact, in late September 2005, the government's "most efficient organization" (MEO) process was completed and final decisions made.

Moreover, during the past 12 months, the BIA competitive sourcing program:

- Refined selected roles and responsibilities to assure completion of streamlined competitions
- Coordinated efforts through the Department to provide effective communication among selected organizational units
- Maintained appropriate emphasis on best results for the citizen through transparent and fair competition processes
- Established and maintained appropriate time frames for streamlined competitions
- Identified and communicated with various competition officials such as competitive sourcing official; contracting officer, performance work statement team leader; Agency tender official; and human resource advisor
- Increased the visibility into BIA management by identifying inherently governmental activities and justifying determination.

Notwithstanding, BIA expects its FY 2006 competitive sourcing activities to be devoted primarily toward integrating and standardizing the use of the revised OMB Circular A-76, assessing the new scorecard criteria, and implementing competitive sourcing studies on a Bureau-wide basis.

Improved Financial Performance and Accountability

The President's financial management improvement initiative requires that Federal agencies gauge their financial systems to:

- Meet Federal financial standards
- Support management operations
- Enable the agency to receive an unqualified audit opinion
- Provide strong administrative funds controls
- Strengthen internal controls to preclude internal control weaknesses.

In FY 2005 BIA developed and implemented over 40 corrective action plans to improve financial performance and accountability. The BIA actions were primarily earmarked toward improving the financial management operations, while simultaneously ensuring the corrective actions were in consonance with other ongoing Department-wide financial management initiatives and mandates.

Despite the competing forces to improve specific activities with limited resources, BIA took on the difficult challenges confronting our financial management systems and programs. It was within this process that significant changes occurred to provide timely and accurate financial information for sound program management. Yet in order to obtain the "clean audit" opinion it attained in FY 2004, BIA has often done so after making extraordinary, labor-intensive assaults on financial transactions and business processes.

Moreover, BIA took aggressive action during FY 2005 to specifically develop and implement internal controls that affected BIA operations to include: programmatic, financial and compliance. In implementing these higher standards, policies and best practices, BIA management ensured that the internal controls were an integral part of the financial operations and reconciliations. Each of the best practices strived to incorporate:

- **Control environments** – sets the tone and influences the control consciousness of BIA employees; includes integrity and ethical values, employee competence, leadership style, and the assignment of authority and responsibilities
- **Risk assessments** – identifies and analyses relevant risks that may impede the achievement of BIA objectives, while forming the basis for determining how risks should be managed
- **Control activities** – are the policies and procedures that help ensure management directives are carried out; includes IT and security activities such as access security, application controls, and financial system controls
- **Information and communication** – enables BIA managers and employees to capture and exchange information needed to conduct, manage and control BIA operations
- **Monitoring** – assesses the quality of the internal control system's performance over time; periodic evaluations assess the effectiveness of

the internal control process and the ongoing monitoring procedures.

Notwithstanding, BIA continued to pursue during FY 2005 various initiatives on a number of other fronts to produce more meaningful, accurate and timely financial information to support policy, budget and operational decisions. These actions involve both improved business processes and systems-oriented efforts.

Simply stated, the purpose of these coordinated efforts is to improve our systems effectiveness and efficiency; enhance management empowerment; and improve compliance with legal and regulatory requirements, while simultaneously strengthening the internal financial management controls.

For instance, during FY 2005 BIA streamlined its year-end financial statement reporting process significantly in order to meet its accelerated FY 2005 due dates, while simultaneously achieving an "unqualified audit opinion" on its financial statements. Clearly, accurate and timely financial information is integral to optimum performance and critical to providing full accountability to the American people. The continued attainment of "unqualified audit opinions" is essential for effective management.

In addition, nested within the forthcoming Departmental financial management system will be an Activity-Based Costing sub-system that will capture costs of core mission activities, coupled with labor and non-labor costs of BIA operations. When completed, the BIA staff and managers will be able to use the data from this ABC sub-system to analyze the cost of operations when making decisions on improving business processes, setting fees, developing programs, and formulating and justifying budget requirements.

In sum, BIA is continuing to take corrective action to improve its financial management operations in consonance with other Department-wide financial management initiatives. Although we made tangible improvements in key business areas within the financial management operations in FY 2005, we still have plenty of challenges to address and areas for improvement in FY 2006.

Increased Use of Electronic Government

In FY 2005, BIA continued to make progress in the PMA initiative Electronic Government (E-Gov). In fact, the improvements resulted in a "Green" score in the E-Gov initiative.

Despite this improved FY 2005 score, BIA efforts have continued to be severely hampered at times in expanding electronic services due to the ongoing court ordered shutdown of BIA Internet connection. Nonetheless, the Information Technology (IT) staff continued to move forward in FY 2005 on several IT E-Gov project milestones. The IT constraints, however, of the Cobell v. Norton court proceedings continue to adversely affect BIA's ability to make even further IT improvements in the PMA initiative on E-Gov.

Although our IT scorecard is "Green", BIA continues to participate as an active member of the Department's E-Gov Team, Information Technology Management Council, and Investment Review Board, along with several other Chief Financial Officer (CFO) and IT oriented forums. In fact, BIA also has various innovative E-Gov plans and improvements that can be immediately implemented as soon as the Court rescinds the current Internet restrictions.

In the interim, the IT systems with Web-based interfaces and enhancements are still being developed and tested, along with other high-speed level security measures, in order to ensure continued IT progress and improved program performance.

Furthermore, although the non-availability of the Internet capability exists throughout BIA, IT still remains a key component within the BIA financial management community and the Department's modernization efforts. In fact, BIA clearly recognizes the importance of leveraging the emerging and enabling IT technologies to create an effective and modern delivery system.

In sum, BIA is committed toward continuing its IT efforts to develop, improve and apply the available technologies to complement the business process re-engineering efforts in order to increase productivity and attain accountability and optimum results, while simultaneously improving information delivery to its internal and external customers.

Integrated Performance and Budget

During FY 2005 BIA continued its ongoing financial performance efforts to replace the existing financial reporting system with a new reporting system that will integrate all financial, budgeting, property and acquisition disciplines into a consolidated Department-wide reporting system.

This Financial Business Management System (FBMS) will be the Department's core financial reporting system that will be developed and implemented in each bureau during the next several years.

When completed, FBMS is expected to support and enhance BIA capabilities by providing reliable, accurate, timely, and useful financial information for each bureau and the Department, as well as satisfy current and future Federal financial reporting requirements. The system is scheduled for Department-wide deployment in FY 2008, or shortly thereafter.

In the interim, BIA is continuing its ongoing efforts to seek and obtain certain meaningful and useful financial information through its development of Activity-Based Costing / Management (ABC/M) models. Within these models are data elements and activities that are earmarked to link selected performance-oriented goals with measurable inputs, outputs, outcomes and impacts. When completed, BIA plans to apply these models and techniques to prioritize funding to specific BIA programs that demonstrate improved effectiveness and efficiency, while improving pertinent business processes, where appropriate.

Moreover, during FY 2005 BIA linked and cross-walked the activity accounting codes and their accompanying expenditures between BIA and the Department. This involved a complex mapping of one-to-one, one-to-many, and many-to-one relationships. As a direct result of this effort, this previously non-integrated crosswalk now allows BIA to report selected costs in terms relating to the Department's prescribed strategic goals and end outcome goals.

Moreover, it is within this concerted effort that BIA is trying to drive the financial management goals toward specific, targeted outcomes that can be achievable and accurately measured. In so doing, BIA maintains that good performance measures should contain the following characteristics:

- **Aligned** -- the measure must be related to a driver of performance or a desirable strategic outcome
- **Actionable** – results can be controlled or influenced to improve performance
- **Clearly defined** – managers and employees know what the measure represents and how it is calculated
- **Measurable** – the measure can be quantified and the data elements are available
- **Credible** – the Bureau must be confident in the accuracy of the data
- **Timely** – results must be made available according to the frequency of change and sensitivity of the measures.

During FY 2005, BIA has aligned itself with dedicated partners both at the bureau-level and Department-level. These partners are working hand-in-hand with a deliberate actionable road map that is expected to produce real business results, wherein goals, targets, inputs, outputs and measurable outcomes are clearly defined via activity codes and crosswalk mappings. Furthermore, it is also expected that these partners will continue to transfer their ABC/M knowledge base and accompanying databases to the BIA government personnel through formal briefings and training sessions in FY 2006 and the upcoming years.

This approach and road map ensures that BIA plans are linked with performance targets that achieve desired outcomes. Moreover, business cases are now being developed for the resources needed to execute the strategy.

In addition, BIA is using the OMB's Program Assessment Rating Tool (PART) as a key instrument to evaluate program performance in order to make better-informed budget decisions.

With PART, BIA is assessing selected programs in a more objective and transparent manner. In fact, the Regions and Field Offices can now evaluate selected programs, to include their purpose, plans, design, progress, risks, management, effectiveness, and results.

In sum, PART is being applied as an accountability tool that can now assess the strengths and weaknesses of selected BIA programs with a particular focus on the actual results the individual program produces. Clearly, PART is laying the groundwork for evidence-based funding decisions that are based on objective analysis and improved results.

Strengthening Asset Management

In February 2004, President Bush signed Executive Order 13327, "Federal Real Property Asset Management," to better ensure the most effective management of hundreds of billions of dollars in real property owned by the Federal Government.

During FY 2005, OMB added Strengthening Asset Management as the sixth initiative under PMA. In FY 2005, BIA attained a "Yellow" score for this initiative.

In FY 2005, BIA began to take some steps toward implementing the best practices employed by private sector real property portfolio managers. For instance, BIA initiated plans to develop and implement over the next few years an effective asset management plan; identify and apply appropriate performance measures; and work toward the development of a comprehensive and descriptive BIA database of real properties.

The asset management plan, performance measures, and database will eventually serve our BIA management team in making informed decisions about what properties are truly needed, what properties are being utilized effectively, and which properties are in fact not needed. Similarly, it is imperative to accurately identify and classify those properties that are not needed, and to take appropriate action to dispose of such properties.

Clearly, the current Administration has laid the basic foundation for comprehensive real property asset portfolio management. In other words, it expects assets to be justified and accounted for, and plans be made for purchases, management, maintenance, and operation.

In addition, BIA established a Senior Real Property Officer as the designated senior management official within BIA. This Senior Real Property Officer now serves as the senior manager tasked with developing and implementing the BIA asset management plan.

In addition, this individual will specifically identify and categorize any real property owned, leased or otherwise managed by BIA; prioritize actions to be taken to improve the operational and financial management of inventory; make life-cycle cost estimations associated with the prioritized actions; identify legislative authorities that are required to address the priorities; identify and pursue goals and targets with appropriate time frames and deadlines; provide advice on adequate budget amounts for activities; and focus on those activities and efforts allowed under current law.

With proper tools and resources, BIA expects to evaluate its currently owned and leased properties versus their future needs. BIA also expects to better manage properties that are needed, while disposing of their excess. As with other PMA initiatives, the real property asset management results will be monitored under the new PMA program initiative.

Forward Looking

In FY 2008, or shortly thereafter, BIA plans to implement a new Financial Business Management System (FBMS) that will replace the existing financial reporting system.

This new system is expected to integrate all financial, budgeting, property and acquisition disciplines into a consolidated Department-wide reporting system. This new system is expected to assist management immeasurably in maintaining the requisite integrity and accountability within all financial management operations.

The new system will also allow for reliable, complete and timely data being maintained and used for informed decision-making at all levels. Moreover, it will allow BIA programs and operations to achieve the intended results more efficiently and effectively.

In the interim, however, BIA plans to continue its review and development of its Corporate Performance Model (CPM) that is intended to assist the CFO and others in analyzing the underlying drivers of financial results. In fact, the CPM is expected to evolve into a management model for translating business strategy into action. Some basic CPM characteristics include:

- Coherent business objectives expressed in a language of financial planning and budgeting
- Continuous, factual assessment of operating processes, decisions and results
- Interventions, when needed, to realign operating activity with strategic aims
- Periodic refreshing of strategic assumptions with insights gained in the field.

When completed, the BIA CPM is expected to reach far beyond the realm of information technology. It will provide the necessary framework for examining process improvements, performance measurements, capital investments, new innovations, and management initiatives. An example of information capital is a customer database that the CFO and others can use to isolate the best return on BIA investments. In essence, the CPM will strike the right balance among BIA internal and external customers, along with other BIA stakeholders.

Currently, this once-abstract concept is already being applied in its early stages in truly productive ways. As a result, BIA is expected to gain:

- Better management visibility into operating budgets
- Ready access to relevant performance information for finance and non-finance personnel
- More accurate information to fuel situation analysis and strengthen decision support
- The ability to correct problems without delay.

As such, this evolving CPM is a BIA management model to boost and track performance by keeping BIA strategy fresh and making sure decisions are made in consonance with the overall President's Management Agenda in mind. In fact, within this overall CPM model are three key BIA efforts that are ongoing and evolving. These efforts include: Activity-Based Costing (ABC); Activity-Based Management (ABM); and Performance-Based Budgeting (PBB).

During FY 2005, BIA continued to make some progress in its ABC, ABM and PBB efforts. These key financial management initiatives and concepts have and are continuing to provide the necessary framework and methodology for resolving one of the CFO's greatest challenges -- creating reliable, relevant financial and performance information to make sound decisions on BIA programs, budgets and fiscal stewardship.

In so doing, the following is a snapshot on these BIA forward-looking initiatives:

Activity-Based Costing

The BIA Activity-Based Costing (ABC) model is an effective method to determine the costs of doing business. The ABC methodology relates BIA functional activities to costs incurred and pinpoints areas to attack in managing costs.

It provides a full range of ABC services that identify specific resources, determines root causes of costs, and distributes costs across activities in process-documented models. Through the use of the ABC data, BIA is expected to help its programs identify, eliminate, or reduce resources for specific activities that add cost and time, but not value, to their products and services.

Activity-Based Management

The Activity-Based Management (ABM) model is a comprehensive way to analyze BIA processes. It is based on what the organization does.

With ABM, management will have a better understanding of where costs are and where potential improvements exist. ABM centers on applying the hard data generated by the ABC models to improving business processes. In essence, ABM will be the key tool for improving business processes through the data collected in the accompanying ABC component.

Performance-Based Budgeting

The BIA Performance-Based Budgeting (PBB) model is an integrated approach to budgeting, performance measurement, management control and accountability.

With this approach, BIA will eventually allow its customers to define and link what they intend to achieve with allocated resources. Simply put, it will help BIA achieve outcome measures, efficiency measures, output measures, input measures, and the explanatory impact.

In summary, BIA expects to use these ongoing and evolving initiatives to improve the performance results of selected activities, while streamlining the costs at its regional and agency offices.

When completely implemented, the CPM is expected to facilitate a vast improvement in performance measurement. In fact, the financial information is expected to be tied to major business activities and outputs that allow BIA management to assess in real-time its business processes and make better-informed decisions.

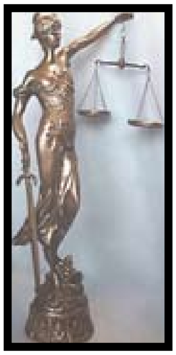
Simply stated, the cost information will allow BIA to meet established strategic goals and objectives, while simultaneously meeting the prescribed requirements imposed by pertinent Federal laws and regulations.

Future Impact of Current Situations or Events

Cobell v. Norton Lawsuit

The Cobell litigation has been pending for a long time. After nine years of litigation, it is clear the Courts have not reached a resolution that is broadly supported by Congress. Furthermore, the Department's annual appropriations make it clear that Congress has not and does not support the kind of accounting effort required by the District Court.

Everyone, however, involved in the Cobell lawsuit -- the Government, the Indian plaintiffs, and the judges in the district courts and the appeals court -- shares, we believe, the same objective. But the protracted and painful litigation that has occurred over the years does not serve that objective as well as would a settlement reached by agreement of the parties.



It may not be easy for the Government and the Native American Indians to reach a settlement, but it is well worth the ongoing effort for all concerned to engage in a good faith effort to resolve the matter. It is, however, important that any settlement must have the support of the Congress, since a settlement could not be implemented without appropriation of the necessary funds.

Although Congress recently took actions to forestall the implementation of the District Court's structural injunction regarding historical accounting, the introduction of S. 1439 is the first serious Congressional effort we have seen to comprehensively resolve the issues involved in the Cobell lawsuit.

While many legal details remain to be negotiated and clarified, the bill represents an important step towards bringing the parties together for a meaningful effort to seek closure on this matter.

Hurricane Katrina

In FY 2005, the BIA joined in the massive emergency efforts when President George W. Bush issued a Presidential Disaster Declaration in response to Hurricane Katrina's devastating destruction in the Gulf Coast region.

A firefighter walks atop destroyed houses

The affected tribal communities included: the Poarch Band of Creek Indians in Alabama; the Chitimacha Tribe, Coushatta Tribe, Jena Band of Choctaws and Tunica-Biloxi Tribe in Louisiana; the Mississippi Band of Choctaw Indians, and the Alabama-Coushatta Tribes in Texas. In fact, the Mississippi Choctaw and Alabama-Coushatta reservations were directly in the storm's paths and suffered extensive damage. Despite the magnitude of this disaster, BIA responded admirably and immediately assessed the evacuees' needs concerning public safety and emergency services.

BIA's Eastern Regional Office and Choctaw Agency coordinated the initial recovery efforts with the Mississippi Choctaw tribal government, whose facilities were severely damaged. These entities, along with others, provided various critical supplies that included first aid, food, water, ice, clothing, fuel, canopies, tents, cots, pillows, bed sheets, transportation and medical necessities. Several shelters were also opened for the tribal communities and non-tribal evacuees.

BIA also assisted the tribal police with additional BIA law enforcement personnel to help deter and investigate disaster-related crimes. The additional personnel allowed for house-to-house searches that were required for families displaced by the hurricane.

The BIA Office of Law Enforcement Services (OLES) also coordinated with the law enforcement personnel sent by the Seminole Tribe of Florida, the Cherokee Nation of Oklahoma, the Miccosukee Tribe of Florida, the Fort McDowell Yavapai Nation of Arizona, and the Tohono O'odham Nation of Arizona to assist the Mississippi Choctaw Tribe. Approximately 80 BIA and tribal officers participated in the relief effort.

In addition to working with tribal officials, BIA personnel worked with Federal and State emergency management agencies to provide the necessary assistance to non-Indian communities in the region.

In addition, BIA assisted in several other areas to help accommodate the displaced individuals, the volunteers and relief workers. Efforts tended to center on command, control and communication issues involving the rescue, recovery and relief efforts.

Cars crushed by fallen bricks

For instance, BIA network efforts included a locally developed 24-hour hot line and crisis center that helped ensure appropriate consulting services and sensitivity awareness. Other arduous efforts related to sanitation issues, establishing phone banks, setting up logistical bases, emergency funding, financial assistance, debris removal, food storage, food distribution, food safety, water purifiers, temporary quarters on Indian reservations, employment, relocation issues, rebuilding concerns, cleanup efforts, immunizations, children schooling and education arrangements, child care, foster care, insurance concerns, mental health services, Medicaid/Medicare issues, and medical treatment.

In particular, BIA volunteers experienced wide-spread tree damage that blocked roads and damaged building structures; electrical power outages that prevented proper food storage and receipt of water; and fuel shortages that impacted directly on emergency vehicle expectations and services. Consequently, BIA had to resort to renting heavy equipment to remove significant debris and purchasing fuel, food, ice, baby supplies, cots and blankets in order to alleviate the severity of the emergency.

In sum, BIA personnel and volunteers performed herculean tasks in response to the Hurricane Katrina and the National Response Plan. The associated funding to reimburse BIA for its efforts in supporting the evacuees of Hurricane Katrina are still ongoing at this time.

Residents affected by Hurricane Katrina

Limitations to Our Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the BIA, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of BIA in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States government, a sovereign entity.

Section II
Financial Information

Indian Ceremonial Grounds and ancient drawings on stone

Contents

Basic Financial Statements and Notes to the Basic Financial Statements

This part of the Section II: Financial Information contains our basic Financial Statements and accompanying notes, which are an integral part of the Financial Statements.

Contents Include:

U.S. Department of the Interior

Bureau of Indian Affairs

Consolidated Balance Sheets

September 30, 2005 and September 30, 2004

(in thousands)

	FY 2005	FY 2004
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 1,508,092	$ 1,468,919
Investments (Note 3)	66,541	68,565
Accounts and Interest Receivable (Note 4)	7,231	28,199
Other:		
Advances and Prepayments	2,556	1,732
Total Intragovernmental Assets	1,584,420	1,567,415
Public Assets:		
Cash (Note 3)	638	432
Investments, Net (Note 3)	1,065	1,077
Accounts and Interest Receivable, Net (Note 4)	26,330	26,388
Loans and Interest Receivable, Net (Note 5)	28,131	33,558
General Property, Plant and Equipment, Net (Note 6)	1,372,343	1,328,541
Other:		
Advances and Prepayments	82,632	91,412
Total Public Assets	1,511,139	1,481,408
TOTAL ASSETS (Note 7)	$ 3,095,559	$ 3,048,823
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 55,409	$ 43,240
Debt (Note 12)	29,715	29,615
Other:		
Accrued Employee Benefits	29,890	27,172
Advances and Deferred Revenue (Note 8)	91,966	146,882
Deposit Funds (Note 8)	2,790	1,114
Judgment Fund (Note 9)	117,323	117,248
Resources Payable to Treasury (Note 8)	21,041	25,994
Other Miscellaneous Liabilities (Note 8)	11,264	18,734
Total Intragovernmental Liabilities	359,398	409,999
Public Liabilities:		
Accounts Payable	90,099	94,146
Loan Guarantee Liability (Note 5)	81,670	60,081
Federal Employees Compensation Act Actuarial Liability	121,283	118,325
Environmental and Disposal Liabilities (Note 9, 10)	51,576	67,065
Other:		
Accrued Payroll and Benefits	22,263	17,886
Unfunded Annual Leave	26,030	26,493
Advances and Deferred Revenue (Note 8)	7,400	7,550
Deposit Funds (Note 8)	4,357	7,747
Contingent Liabilities (Note 9)	62,487	58,070
Other Miscellaneous Liabilities (Note 8)	11,396	27,851
Total Public Liabilities	478,561	485,214
TOTAL LIABILITIES (Note 12)	837,959	895,213
Commitments and Contingencies (Note 9,10,11)		
NET POSITION		
Unexpended Appropriations	1,242,503	1,177,902
Cumulative Results of Operations	1,015,097	975,708
TOTAL NET POSITION	2,257,600	2,153,610
TOTAL LIABILITIES AND NET POSITION	$ 3,095,559	$ 3,048,823

U.S. Department of the Interior

Bureau of Indian Affairs

Consolidated Statements of Net Cost

For the Years Ended September 30, 2005 and September 30, 2004

(in thousands)

MISSION: SERVING COMMUNITIES

	FY 2005	FY 2004
End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities		
Costs	$ 626,836	$ 588,233
Less: Earned Revenue	101,758	97,362
Net Cost	525,078	490,871
End Outcome Goal: Advance Quality Communities for Tribes and Alaska Natives		
Costs	2,412,939	2,392,086
Less: Earned Revenue	344,682	237,943
Net Cost	2,068,257	2,154,143
End Outcome Goal: Protect Lives, Resources and Property		
Costs	192,988	218,307
Less: Earned Revenue	2,120	210
Net Cost	190,868	218,097
Total		
Costs	3,232,763	3,198,626
Less: Earned Revenue	448,560	335,515
Net Cost of Operations (Note 13)	$ 2,784,203	$ 2,863,111

U.S. Department of the Interior

Bureau of Indian Affairs

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2005 and September 30, 2004

(in thousands)

	FY 2005	FY 2004
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 1,177,902	$ 1,149,927
Budgetary Financing Sources		
Appropriations Received, General Funds	2,338,479	2,332,793
Appropriations Transferred In/Out	248,838	289,264
Appropriations-Used	(2,491,411)	(2,564,378)
Other Adjustments	(31,305)	(29,704)
Net Change	64,601	27,975
ENDING BALANCE - UNEXPENDED APPROPRIATIONS	$ 1,242,503	$ 1,177,902
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 975,708	$ 1,004,583
Budgetary Financing Sources		
Appropriations-Used	2,491,411	2,564,378
Budgetary Transfers In/Out without Reimbursement	240,178	218,845
Non-Exchange Revenue	153	187
Other Budgetary Financing Sources	(4,968)	2,642
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	68,435	52,189
Other Transfers In/Out without Reimbursement	12,218	(4,005)
Donations and Forfeitures of Property	16,165	-
Total Financing Sources	2,823,592	2,834,236
Net Cost of Operations	(2,784,203)	(2,863,111)
Net Change	39,389	(28,875)
ENDING BALANCE - CUMULATIVE RESULTS OF OPERATIONS	$ 1,015,097	$ 975,708

U.S. Department of the Interior

Bureau of Indian Affairs

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2005 and September 30, 2004

(in thousands)

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
	FY 2005	FY 2004	FY 2005	FY 2004
BUDGETARY RESOURCES (Note 14):				
Budget Authority:				
Appropriations Received	$ 2,428,873	$ 2,418,800	$ -	$ -
Borrowing Authority	-	-	100	4,500
Net Transfers, Current Year Authority	3,898	40,431	-	-
Unobligated Balance:				
Beginning of Fiscal Year	700,581	793,380	76,836	66,160
Net Transfers, Unobligated Balance, Actual	(7,963)	(7)	-	-
Spending Authority From Offsetting Collections:				
Earned				
Collected	340,434	251,890	16,581	17,193
Receivable From Federal Sources	3,483	(9,066)	-	-
Change in Unfilled Customer Orders				
Advance Received	(55,001)	3,490	-	-
Without Advance From Federal Sources	19,959	(17,461)	-	-
Subtotal: Spending Authority From Offsetting Collections	308,875	228,853	16,581	17,193
Recoveries of Prior Year Obligations	80,562	79,265	-	-
Permanently Not Available	(42,024)	(34,334)	-	-
TOTAL BUDGETARY RESOURCES	$ 3,472,802	$ 3,526,388	$ 93,517	$ 87,853
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	$ 2,480,165	$ 2,572,771	$ 10,400	$ 11,017
Reimbursable	348,742	253,036	-	-
Total Obligations Incurred	2,828,907	2,825,807	10,400	11,017
Unobligated Balance:				
Apportioned	602,303	666,883	83,117	76,836
Unobligated Balance not Available	41,592	33,698	-	-
TOTAL STATUS OF BUDGETARY RESOURCES	$ 3,472,802	$ 3,526,388	$ 93,517	$ 87,853
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligations Incurred	$ 2,828,907	$ 2,825,807	$ 10,400	$ 11,017
Obligated Balance, Net, Beginning of Year	650,114	479,093	3,824	13
Obligated Balance, Net, End of Year:				
Accounts Receivable	11,017	7,534	-	-
Unfilled Customer Orders From Federal Sources	23,053	3,094	-	-
Undelivered Orders	(643,898)	(531,977)	(63)	-
Accounts Payable	(136,684)	(128,765)	(1)	(3,824)
Total Obligated Balance, Net, End of Fiscal Year	(746,512)	(650,114)	(64)	(3,824)
Less: Spending Authority Adjustments	(104,004)	(52,739)	-	-
Outlays:				
Disbursements	2,628,505	2,602,047	14,160	7,206
Collections	(285,433)	(255,379)	(16,581)	(17,193)
Net Outlays Before Offsetting Receipts	2,343,072	2,346,668	(2,421)	(9,987)
Less: Offsetting Receipts	(93,383)	(92,805)	-	-
NET OUTLAYS (Receipts)	$ 2,249,689	$ 2,253,863	$ (2,421)	$ (9,987)

U.S. Department of the Interior

Bureau of Indian Affairs

Consolidated Statements of Financing

For the Years Ended September 30, 2005 and September 30, 2004

(in thousands)

	FY 2005	FY 2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 2,839,307	$ 2,836,824
Less: Spending Authority From Offsetting Collections and Recoveries	(406,018)	(325,311)
Obligations Net of Offsetting Collections and Recoveries	2,433,289	2,511,513
Less: Offsetting Receipts	(93,383)	(92,805)
Net Obligations	2,339,906	2,418,708
Other Resources:		
Donations and Forfeitures of Property	16,165	-
Transfers In/Out Without Reimbursement	12,218	(4,005)
Imputed Financing From Costs Absorbed by Others	68,435	52,189
Net Other Resources Used to Finance Activities	96,818	48,184
Total Resources Used to Finance Activities	2,436,724	2,466,892
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(104,312)	(105,595)
Increase (Decrease) in Unfilled Customer Orders	(35,042)	(13,972)
Resources That Fund Expenses Recognized in Prior Periods	(33,469)	(16,068)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	16,581	17,193
Offsetting Receipts Not Part of the Net Cost of Operations	1,089	219
Resources That Finance the Acquisition of Assets	(120,219)	(58,968)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(6,195)	(5,520)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(281,567)	(182,711)
Total Resources Used to Finance the Net Cost of Operations	2,155,157	2,284,181
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	-	1,491
Increase in Environmental and Disposal Liability	-	-
Upward/Downward Re-estimates in Credit Subsidy Expense	21,358	-
Increase in Contingent Liability	4,417	-
Other	5,115	28,337
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	30,890	29,828
Components Not Requiring or Generating Resources:		
Depreciation and Amortization (Note 6)	70,905	67,184
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts are Reported by Other Federal Entities (Note 15)	522,623	493,398
Other	4,628	(11,480)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	598,156	549,102
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	629,046	578,930
NET COST OF OPERATIONS (NOTE 13)	$ 2,784,203	$ 2,863,111

U.S. Department of the Interior

Bureau of Indian Affairs

Notes to the Basic Financial Statements

September 30, 2005 and September 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Bureau of Indian Affairs (BIA), created in 1824, is a bureau within the Department of the Interior (DOI). The BIA is primarily responsible for the administration of Federal programs for federally recognized Indian Tribes, and for carrying out the Trust responsibilities emanating from treaties, the U.S. Constitution, laws, court decisions and other agreements with American Indian Tribes and Alaska Natives.

The accompanying financial statements of the BIA include all appropriated funds obtained through the DOI. They do not contain Trust funds, Trust deposit funds, or clearing accounts that are maintained by the Office of Trust Funds Management (OTFM), a non-BIA program operated by the DOI. The financial statements of the BIA also do not include information related to the Indian Arts and Crafts Board (Board). While the BIA receives appropriations related to the Board, the assets are under the control of the Office of the Secretary. Therefore, the Office of the Secretary is the reporting entity for the Board.

(b) Basis of Presentation

These financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, the status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the BIA, consistent with the Chief Financial Officers' Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the BIA in accordance with accounting principles generally accepted in the United States of America (GAAP) using guidance issued by the Federal Accounting Standards Advisory Board (FASAB), the Office of Management and Budget (OMB), the DOI, and the BIA's accounting policies summarized in this note. These financial statements present proprietary and budgetary information, while other financial reports prepared by the BIA pursuant to the OMB directives are used to monitor and control the BIA's use of Federal budgetary resources.

In accordance with OMB Circular A-136, Form and Content of Agency Financial Statements, the consolidated Balance Sheets, Statements of Changes in Net Position, Statements of Financing, Statements of Net Cost, and associated notes are presented on a comparative basis with the prior year. The Statements of Budgetary Resources are presented on a combined rather than consolidated basis, which means that intra-entity eliminations were not made.

(c) Basis of Accounting

Financial transactions reflected in the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and Consolidated Statements of Changes in Net Position are recorded on an accrual basis of accounting. Financial transactions reflected in the Combined Statements of Budgetary Resources are reported on a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting method facilitates compliance with legal requirements and mandated controls over the use of Federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, or services received, that will require payments during the same or future period. The BIA's Statements of Financing reconcile differences between the budgetary and accrual basis of accounting. Intra-entity transactions have been eliminated for financial statements presented on a consolidated basis.

(d) Revenues and Financing Sources

Appropriations/Appropriations-Used: Most of the BIA's operating funds are provided by the budget authority within Congressional appropriations. The BIA receives appropriations on an annual, multi-year, and no-year basis. Upon expiration of an annual or multi-year appropriation, the obligated and unobligated balances retain their fiscal year identity. Expired unobligated balances are maintained separately within an expired account. Unobligated balances for expired funds can be used to make adjustments to existing obligations, but are otherwise not available for any new obligations except in certain cases relating to Indian Trust management and reform activities. In such cases, unobligated balances from prior appropriations acts made under the same headings are available for expenditure or transfer. Annual and multi-year appropriations are canceled at the end of the fifth year after expiration. No-year appropriations do not expire. Appropriations of budget authority are recognized as used when goods and services are received, benefits provided, or grants are disbursed.

Reappropriations/Balance Transfers: The BIA is authorized to transfer the balances of certain expired funds at the end of the fiscal year in which they expire. Balances that expire for appropriations 14202100, Operation of Indian Programs, and 14202628, Guaranteed Loans – Program account, can be reappropriated or transferred, respectively, into appropriation 14202100.

Contract Authority: Budget authority is granted to the BIA from the Department of Transportation (DOT) in the form of contract authority, which authorizes the BIA to incur obligations for the maintenance and construction of roads on BIA and Trust properties. A receivable is recorded for the amount of expenses incurred but not reimbursed, and when funding is requested from the DOT to facilitate road construction projects. Upon the DOT approval and disbursement of funds, contract authority is converted to a "transfer in" financing source. The Federal Highway Administration (FHA) issues contract authority to the BIA with which it can then obligate funds. Upon disbursement of the obligations, contract authority is converted to a "transfer in" after FHA approval.

Appropriations Transfers - In (Out): The BIA is provided financing through transfers from the Bureau of Land Management (BLM), DOI's Office of the Secretary, Federal Highway Administration (FHA), Department of Labor (DOL), Department of Health and Human Services (HHS), and Department of Agriculture (DoA). The BIA also transfers funds to the Bureau of Reclamation (BOR). Intragovernmental transfers of budget authority (i.e., appropriated funds), or assets without reimbursement, are recorded at book value.

Exchange and Non-Exchange Revenue: The BIA classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both parties, the BIA and the public or other governmental entity, receive value. They include fees collected for utilities, the BIA's education and school lunch programs, construction operations, and the rental of equipment. Reimbursable agreements with the Department of Education (Education), which offset the cost of Tribal and BIA operated primary schools, are recognized as exchange revenue. Exchange revenue presented on the BIA's Consolidated Statement of Net Cost serves to reduce the reported cost of operations.

Non-exchange revenue is derived from the government's sovereign right to demand payment, including fines for late payment of loans. Non-exchange revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. These revenues are not considered in reducing BIA's operating costs and are therefore reported on the Consolidated Statements of Changes in Net Position.

Prices charged to the Tribes by the BIA are set by law or regulation and in certain cases may not be designed to recover full costs (e.g., fees collected for utilities and school lunch programs).

Imputed Financing from Costs Absorbed by Others: In certain cases, operating costs of the BIA are paid for by funds appropriated to other Federal entities. For example, the Office of Personnel Management (OPM) pays for pension benefits for most BIA employees. Certain legal judgments against the BIA are paid from the Judgment

Fund maintained by the Department of the Treasury (Treasury). The OMB limits imputed costs to be recognized by Federal entities to the following: (1) employees' pension benefits; (2) health insurance, life insurance, and other benefits for retired employees; (3) other post employment benefits for retired, terminated, and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under Federal Employees' Compensation Act (FECA); and (4) losses in litigation proceedings. The BIA reports applicable imputed costs on the Consolidated Statements of Net Cost.

In FY 2005, DOI implemented FASAB Interpretation No. 6, "Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4". It clarifies that reporting entities should account for the imputed intra-departmental costs in accordance with the full cost provisions of SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts". A department-wide analysis was conducted to determine the type of activities that were applicable under the Interpretation. Based on the analysis, the BIA recognized the following intra-departmental imputed costs and imputed financing from the following providing bureaus: (1) Office of the Solicitor for non-reimbursed costs related to legal assistance and council directly identifiable to BIA, (2) Bureau of Reclamation for the non-reimbursed costs performed under the Chiloquin Dam Fish Passage Project for BIA, (3) Bureau of Land Management for the non-reimbursed overhead costs related to reimbursable services performed for BIA, and (4) Office of the Special Trustees for the non-reimbursed costs related to the assistance with BIA's special deposit accounts cleanup and technical assistance provided for maintaining the Trust and non-Trust records. The impact of implementing this new standard on BIA's FY 2005 financial statements was to increase intra-departmental imputed costs and imputed financing by approximately $13.5 million for the year ended September 30, 2005. This new standard had no impact on the amount reported for FY 2004 as it was implemented prospectively effective October 1, 2004.

In addition, an imputed financing source is recognized on the Consolidated Statements of Changes in Net Position. Those intra-departmental imputed costs and imputed financing are eliminated for the DOI financial statements.

Rescissions: Occasionally, the Congress passes legislative action to permanently cancel portions of budgetary resources. Note 14 provides additional information regarding rescissions.

(e) Assets

Assets presented on the BIA's Consolidated Balance Sheets include both entity and non-entity balances. Entity assets are assets that the BIA has authority to use in its operations. Non-entity assets are held and managed by the BIA, but are not available for use in its operations. Intragovernmental assets arise from transactions between the BIA and other Federal entities.

(f) Fund Balance with Treasury

Fund Balance with Treasury represents undisbursed balances remaining as of fiscal year-end from which the BIA is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Fund Balance with Treasury includes funds received from direct appropriations, contract authority, transfers, offsetting receipts, and funds held in budget clearing accounts.

(g) Investments, Net

The BIA is authorized by law to invest irrigation and power receipts in Treasury and public securities. Investments consist of marketable and overnight investments with the Treasury, and in public securities. Public securities consist mainly of various mortgage instruments, bonds, and bank notes. Mortgage instruments are with the Federal National Mortgage Association, the Government National Mortgage Association, and the Federal Home Loan Mortgage Corporation. Bonds and bank notes are with the Federal Home Loan Bank and the Federal Judiciary.

Investments are reported on the Consolidated Balance Sheets at cost, net of amortized premiums or discounts, if any. It is the BIA's intent to hold investments to maturity unless they are needed to finance claims or otherwise sustain the operations of the BIA. No provision has been made in the financial statements for unrealized gains or losses on these securities.

(h) Accounts and Interest Receivable, Net

Accounts receivable consist of amounts owed to the BIA by other Federal agencies and the public. Amounts due from Federal agencies arise from work performed under reimbursable agreements by the BIA for the benefit of other Federal agencies. These amounts are considered fully collectible. Accounts receivable from the public includes amounts for various programs, including fees for irrigation and power services. Receivables due from the public are stated net of an allowance for estimated uncollectible amounts, which are determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, and an analysis of aged receivable activity.

(i) Loans and Interest Receivable, Net

Loans are accounted for as receivables after the funds have been disbursed. Direct loans and loan guarantees made prior to October 1, 1991 are stated net of an allowance for estimated uncollectible amounts. Direct loans and loan guarantees obligated on or after October 1, 1991 are stated net of an allowance for estimated uncollectible amounts, which is equal to the present value of the subsidy costs. Interest income is recorded periodically based on lending rates.

Credit reform legislation authorizes the BIA to borrow from the Treasury the amount of a direct loan disbursement, less the subsidy. In the case of the guaranteed loan financing, the BIA may borrow to meet default claims in excess of its cash balances expected from collections and subsidy costs. Credit subsidy costs represent the estimated long-term cost to the government of direct loans or loan guarantees calculated on a net present value basis, excluding administrative costs. The Direct and Guaranteed Loan Programs are authorized to use loan repayments to retire borrowings from the Treasury; to pay guaranteed loan default claims, interest on borrowing, and interest supplements to participating banks, and to close pre 1992 direct loan accounts.

Note 5 provides additional information on Loans and Interest Receivable, Net.

(j) Property, Plant and Equipment, Net

Property, plant and equipment consists of land and land rights, buildings and improvements, production plants used in the operation of irrigation and power operations, furniture and equipment, construction-in-progress (CIP), and software purchased or developed for internal use. Land easements and rights-of-way purchased for maintenance of roads on Trust property are expensed as incurred. Land easements and rights-of-way purchased for power and irrigation activities are capitalized at acquisition cost. All costs related to roads, bridges, trails, land and land rights on Trust property are expensed as incurred. There are no restrictions on the use or convertibility of property, plant and equipment.

The BIA capitalizes property, plant and equipment purchases with an acquisition cost in excess of $15,000 for personal property, $100,000 for buildings and improvements, and $100,000 for software. Depreciation and amortization are computed using the straight-line method over the assets' useful lives, ranging from 3 to 25 years for furniture, equipment, and software. Buildings, improvements, production plant, and other structures useful lives range from 15 to 50 years. Amortization of capitalized software begins on the date of acquisition if purchased, or when the module or component has been successfully tested if developed internally. Leasehold improvements are amortized and depreciated in the same manner as the associated leased asset.

Costs for construction projects are recorded as CIP until completed. The BIA begins to record depreciation expense once the asset has been placed in service.

The BIA leases the majority of its office space and vehicles from the General Services Administration (GSA). The lease costs approximate commercial lease rates for similar properties and vehicles.

(k) Other Assets

Other assets consist of prepayments, advances, and the cost of fractional interests in Indian land allotments. Prepayments are expenditures that provide future benefits, and are often recurrent in nature, covering such items as rent, insurance, and supplies.

Advances are payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets. Advances consist primarily of amounts paid to Tribes for future construction activities. The BIA records disbursements made to the Tribes for the construction of BIA owned assets as Advances to Others, with periodic adjustments made to CIP as work is performed (i.e., expenditures are incurred). All other disbursements to the Tribes related to grants and contracts are recorded as expenses of BIA at such time as the funds are disbursed to the Tribes.

Indian Land allotments were acquired under the Indian Land Consolidation Act Amendments of 2000 (PL106-462). The Act was created as a Trust reform measure to reduce the large number of fractionated interests. The Act provides that the Secretary of the DOI can hold, in Trust for the Tribe, an interest in Indian land acquired under the program. Revenues generated from that interest would accrue to the BIA to recover the purchase price of the land, and to provide funds to purchase additional fractionated lands. Once the purchase price is recovered, future revenues generated from the fractional land held would accrue to the Tribe. The Act also provides that the fractional land may be sold to an Indian landowner or to the Tribe prior to recovery of the purchase price, subject to restrictions and subject to a DOI Secretarial finding. In FY 2004, the BIA created a reserve for the entire amount of the asset as its recoverability was uncertain. This policy continued through FY 2005.

(l) Liabilities

Intragovernmental liabilities are claims against the BIA by other Federal entities. Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or other resources (funding from receivables and offsetting receipts). Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other resources. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other resources. Liabilities resulting from Indian Self-Determination Contract Agreements are recognized at the time an Indian Tribe requests the disbursement. All other liabilities are recognized as goods or services are provided to the BIA.

(m) Advances, Deferred Revenue, and Deposit Fund Liabilities

The BIA receives an advance of funds for reimbursable work performed for other Federal agencies and the public. Advances and deferred revenue are recognized when the funds are received. Revenue is recognized when reimbursable costs are incurred, and the advance balance is decreased accordingly. The most significant portion of advances is for reimbursable agreements with the U.S. Department of Education, where the BIA is reimbursed for the expenditures incurred related to Tribal and BIA operated schools.

The Deposit Fund Liabilities balance includes the liability for funds associated with the Non-Trust Deposits and Bids for Indian Lands (14X6053). These are bids held in escrow until the winning bid is determined.

(n) Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts for annual leave, compensatory time, and other leave time. A significant amount of the accrual is presented as a component of liabilities not covered by budgetary resources on the Consolidated Balance Sheets, and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is expensed when taken.

(o) Retirement Plans

Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS): Most employees of the BIA participate in either the CSRS or FERS defined-benefit pension plans. FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security, or remain in the CSRS.

The BIA is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. The OPM administers the plans, is responsible for, and reports these amounts.

Thrift Savings Plan (TSP): Employees covered by CSRS and FERS are eligible to contribute to the U.S. Government's TSP, administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS-covered employees, and the BIA makes a mandatory contribution of one percent of basic pay. FERS-covered employees are entitled to contribute up to 15 percent of basic pay to their TSP account, with an annual cap of $14,000. The BIA makes matching contributions up to four percent of basic pay. Employees covered by CSRS are entitled to contribute up to 10 percent of basic pay to their TSP account. The BIA makes no matching contributions for CSRS-covered employees.

Federal Employees Health Benefit (FEHB) Program: Most BIA employees are enrolled in the FEHB Program, which provides post-retirement health benefits. The OPM administers this program and is responsible for the reporting of the associated liabilities. Employer agencies and covered employees are not required to contribute for post-retirement health benefits. The OPM calculates the U.S. Government's service cost for covered employees each FY. The BIA has recognized the entire service cost of these post-retirement benefits for covered employees as an imputed cost and an imputed financing source on its financial statements.

Federal Employees Group Life Insurance (FEGLI) Program: Most BIA employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the BIA paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. The OPM administers this program and is responsible for the reporting of those liabilities. For each FY, the OPM calculates the U.S. Government's service cost for the post retirement portion of basic life coverage. The BIA's contributions to the basic life coverage are fully allocated by the OPM to the pre-retirement portion of coverage, and accordingly, the BIA has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source.

(p) Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees Compensation Act (FECA). The FECA program is administered by the DOL, which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. A reimbursement to the DOL on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to the BIA as part of its annual appropriation from Congress in the year in which the reimbursement to the DOL takes place.

Additionally, the liability estimate includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. Based on information provided by the DOL, the DOI allocates the actuarial liability to its bureaus and departmental offices based on the payment history for those entities. The estimated liability is not covered by budgetary resources and will require future funding.

(q) Contingent Liabilities

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. The BIA recognizes a contingent liability when a past event or exchange transaction has occurred, and a future outflow or other sacrifice of resources is measurable and probable. A contingency is disclosed in the Notes to the Basic Financial Statements when any of the conditions for liability recognition are not met, and when the chance of the future confirming event or events occurring is more than remote.

The BIA does not record a liability for environmental and disposal costs on non-BIA owned land where the BIA did not cause or contribute to the contamination, without first conducting a legal review of the matter. Further, the BIA will not record an environmental liability for the estimated remediation or abatement of certain building materials, such as asbestos, lead-based paint, and polychloronatedbiphenols (PCBs) unless and until the materials become friable or otherwise capable of causing contamination.

Changes in environmental and disposal cost estimates are recognized prospectively and developed in accordance with Departmental policy, which addresses systematic processes for cost estimating including third-party estimates. Changes in environmental cleanup cost estimates are based on progress made in, and revision of, the cleanup plans, assuming current technology, laws and regulations. There is no broad application of any particular inflation or deflation factors to prior estimates.

Notes 9 and 10 provide additional information regarding other contingent liabilities and environmental and disposal liabilities.

(r) Intra-governmental Debt

Intra-governmental debt consists primarily of notes payable to Treasury related to borrowings to fund the Credit Reform loan program. See full discussion regarding loans and the related notes payable to Treasury in Note 1 (i) and Note 5.

(s) Unexpended Appropriations

Unexpended appropriations represent the net budget authority from appropriations that have not yet been used. The BIA recognizes appropriations received as "Unexpended Appropriations" even if a Treasury Warrant has not yet been received, or the amount has not been fully apportioned. The BIA reduces unexpended appropriations as expenditures are made, and also adjusts for other changes in budgetary resources, such as rescissions and transfers. The net increase or decrease in unexpended appropriations for the year is recognized by the BIA as a change in net position and reported on Consolidated Statements of Changes in Net Position.

(t) Offsetting Receipts

Offsetting Receipts are cash collections resulting from business-type activities that are credited to the offsetting receipt accounts, and deducted from gross budget authority and outlays, rather than added to receipts. The receipts types included for the BIA are Intra-budgetary Receipts deducted by the BIA, and Proprietary Receipts from the Public.

(u) Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities, revenues, expenses, obligations incurred, spending authority from offsetting collections, and in the footnote disclosures. Actual results could differ from these estimates. Significant estimates in the accompanying financial statements include the Loan Guarantee Liability, Environmental Cleanup Costs, Allowance for Doubtful Accounts, Depreciation and Amortization, and Contingent Liabilities.

(v) Taxes

The BIA, as a Federal agency, is not subject to Federal, state, or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

(w) Reclassifications

The BIA has reclassified certain FY 2004 balances in both the Financial Statements and accompanying Footnotes to be consistent with the current year presentation.

NOTE 2: FUND BALANCE WITH TREASURY

The BIA's Fund Balance with Treasury as of September 30, 2005 and 2004 are summarized as follows:

Fund Balance with Treasury by Fund Type

(dollars in thousands)	FY 2005	FY 2004
General Funds	$ 1,374,367	$ 1,347,891
Special Funds	16,798	18,273
Revolving Funds	85,526	82,587
Trust Funds	21,157	6,931
Other Fund Types	10,244	13,237
Total Fund Balance with Treasury by Fund Type	$ 1,508,092	$ 1,468,919

The BIA maintains balances with Treasury by fund type. The fund types and purposes are described below:

- General Funds – These funds consist of appropriations and other receipts not earmarked by law for a specific purpose, and the related expenditures of those funds.
- Special Funds – These funds are credited with receipts from special sources that are earmarked by law for a specific purpose. When collected, these receipts are available immediately for expenditure for special programs such as Operation and Maintenance of Quarters, Indian Irrigation and Power Systems, and the Alaska Re-supply Program.
- Revolving Funds – These funds account for cash flows to and from the government resulting from direct and guaranteed loan activity of the BIA for loans, which occurred before and after enactment of the Federal Credit Reform Act of 1990. The programs provide guaranteed loans to Indian Tribes and organizations, individual Indians, and Alaska Natives for economic development purposes.
- Trust Funds –This fund accounts for the budget authority granted to the BIA from the DOT Highway Trust Fund used for the maintenance and construction of roads on BIA and Trust property.
- Other Fund Types – These funds account for the subsidy re-estimates of the Indian Direct Loan Program. They also include miscellaneous receipt accounts, transfer accounts, performance bonds, deposit and clearing accounts maintained to account for receipts and disbursements awaiting proper classification.

The amounts in the Status of FBWT differ from those presented in the Combined Statements of Budgetary Resources because (1) the FBWT amounts include balances without corresponding budgetary amounts for miscellaneous receipt and allocation transfer accounts where the BIA is the child (receiver of the transfer); (2) for allocation transfers where the BIA is the parent (transferor), and the budgetary amounts are reported by the BIA but the fund balance is reported by the child; (3) budgetary resources supported by invested balances, and; (4) amounts in deposit and budget clearing accounts.

Status of FBWT as of September 30, 2005 and 2004 are summarized as follows:

Status of Fund Balance with Treasury

(dollars in thousands)		**FY 2005**		**FY 2004**
Unobligated Available	$	612,272	$	670,704
Unobligated Unavailable		145,373		137,061
Total Unobligated		757,645		807,765
Obligated Not Yet Disbursed		740,202		647,917
Subtotal		1,497,847		1,455,682
Deposit Funds, Clearing, and Suspense Accounts		10,245		13,237
Subtotal		10,245		13,237
Total Status of Fund Balance with Treasury	$	1,508,092	$	1,468,919

The unobligated, unavailable fund balance represents amounts from appropriations for which the period of availability for obligation has expired.

NOTE 3: INVESTMENTS, NET AND CASH

Intragovernmental marketable securities consist of overnight investments with Treasury. The overnight investments earn interest based on Treasury's daily repo rate, which averaged 2.65% during the year ended September 30, 2005, and 1.10% during the year ended September 30, 2004.

The BIA's investments as of September 30, 2005 and 2004 are summarized as follows:

Historical Cost

(dollars in thousands)		**FY 2005**		**FY 2004**
Intragovernmental Securities -				
Marketable Treasury Securities	$	66,541	$	68,565
Public Securities, Net		1,065		1,077
Investments at Cost	$	67,606	$	69,642

Market Value Disclosure

(dollars in thousands)		**FY 2005**		**FY 2004**
Intragovernmental Securities -				
Marketable Treasury Securities	$	66,541	$	68,565
Public Securities		1,066		1,078
Market Value Disclosure	$	67,607	$	69,643

Cash

(dollars in thousands)		**FY 2005**		**FY 2004**
Cash Not Yet Deposited to Treasury	$	623	$	417
Imprest Funds		15		15
Total Cash	$	638	$	432

NOTE 4: ACCOUNTS AND INTEREST RECEIVABLE, NET

Accounts and Interest Receivable, Net as of September 30, 2005 and 2004, are summarized as follows:

Accounts and Interest Receivable from the Public

(dollars in thousands)	FY 2005	FY 2004
Accounts and Interest Receivable from the Public		
Current	$ 4,553	$ 3,000
1 - 180 Days Past Due	5,203	3,641
181 - 365 Days Past Due	1,212	7,117
1 to 2 Years Past Due	3,092	17,439
Over 2 Year Past Due	15,092	-
Total Billed Accounts and Interest Receivable - Public	29,152	31,197
Unbilled Accounts Receivable	21,987	19,178
Total Accounts and Interest Receivable - Public	51,139	50,375
Allowance for Doubtful Accounts - Public	(24,809)	(23,987)
Total Accounts and Interest Receivable - Public, Net of Allowance	$ 26,330	$ 26,388

Change in Allowance for Doubtful Accounts - Public	FY 2005	FY 2004
Allowance for Doubtful Accounts, beginning of the year	$ 23,987	$ 37,076
Additions	21,822	454
Deletions	(21,000)	(13,543)
Allowance for Doubtful Accounts, end of the year	$ 24,809	$ 23,987

Accounts and Interest Receivable from Federal Agencies

(dollars in thousands)	FY 2005	FY 2004
Accounts and Interest Receivable from Federal Agencies		
Current	$ 747	$ 16,036
1 - 180 Days Past Due	-	-
181 - 365 Days Past Due	-	53
1 to 2 Years Past Due	32	136
Over 2 Year Past Due	135	-
Total Billed Accounts and Interest Receivable - Federal	914	16,225
Unbilled Accounts Receivable	6,317	11,974
Total Accounts and Interest Receivable - Federal	7,231	28,199
Allowance for Doubtful Accounts - Federal	-	-
Total Accounts and Interest Receivable - Federal, Net of Allowance	$ 7,231	$ 28,199

Unbilled Receivables reflect work performed to date on agreements that will be billed in the future.

NOTE 5: LOANS AND INTEREST RECEIVABLE, NET

Loans and loan guarantees consist of the Indian Direct Loan Program (Credit Reform), Indian Loan Guarantee Program (Credit Reform), and Liquidating Fund for Loans (Pre Credit Reform).

Direct loan obligations and loan guarantee commitments made prior to FY 1992, and the resulting direct loans or loan guarantees, are reported using the allowance for loss method. Under this method, the nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount the agency estimates will more likely than not require a future cash outflow to pay default claims.

Direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990 (The Act). The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 360 day year for pre credit reform loans and a 365 day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act rate that was effective at the time the loan was made. Interest is accrued on current and delinquent loans. Late fees accrue if a payment is received 15 days after its due date. For pre credit reform loans, the amount of interest and late fees receivable is reduced by an allowance for uncollectible amounts. For credit reform direct loans, the interest and late fees receivable are considered in the subsidy allowance account.

FY 1995 was the final year of funding for the Indian Direct Loan Program. Although funding ended, the BIA continues to receive collections on direct loans made in 1995 and earlier. The Indian Loan Guarantee Program continues to receive annual funding from Congress.

Included in the financial statements is a subsidy reestimate computed at the end of each FY. The amounts included in the consolidated financial statements are not reported in the budget until the following FY. Neither the amounts in loans receivables, net, nor the value of the assets related to direct loans disclosed in this report, are the same as the proceeds that would be expected from selling these loans.

A. The Direct Loan and /or Loan Guarantee Programs

(i) Indian Direct Loan Program (Credit Reform) – The BIA made direct loans to an eligible individual, business, or Tribe during FY 1992 through FY 1995.

(ii) Indian Loan Guarantee Program (Credit Reform) – The BIA guaranteed loans made by private lenders to an eligible individual, business, or Tribe after FY 1991.

(iii) Liquidating Fund for Loans (Pre-Credit Reform) – The BIA made direct loans and guaranteed loans made by private lenders to an eligible individual, business, or Tribe prior to FY 1991.

Loans and interest receivable, net of allowance for doubtful collection, for the BIA's loan programs as of September 30, 2005 and 2004 consist of:

Notes and Interest Receivable, Net

(dollars in thousands)	FY 2005	FY 2004
Direct Loans Obligated Prior to FY 1992	$ 18,378	$ 22,826
Direct Loans Obligated After FY 1991	8,890	9,920
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	317	558
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	546	254
Total Loans	$ 28,131	$ 33,558

An analysis of loans receivable, loan guarantees, the liability for loan guarantees, the nature and amounts of the subsidy, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

(dollars in thousands)

Indian Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
FY 2005	$ 17,154	$ 4,812	$ -	$ (3,588)	$ 18,378
FY 2004	$ 21,529	$ 7,281	$ -	$ (5,984)	$ 22,826

C. Direct Loans Obligated After FY 1991:

(dollars in thousands)

Indian Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
FY 2005	$ 7,774	$ 461	$ -	$ 655	$ 8,890
FY 2004	$ 9,528	$ 685	$ -	$ (293)	$ 9,920

D. Total Amount of Direct Loans Disbursed Post-1991:

Funding for the Indian Direct Loan Program ended in FY 1995.

E. Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Loans Disbursed – Modifications and Reestimates

(dollars in thousands)

Indian Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FY 2005	$ -	$ 51	$ 3	$ 54
FY 2004	$ -	$ -	$ 267	$ 267

F. Subsidy Rates for Direct Loans by Program and Component:

Funding for the Indian Direct Loan Program ended in FY 1995.

G. Schedule for Reconciling Direct Loan Subsidy Cost Allowance Balances:

Beginning Balance, Changes, and Ending Balance (Post-1991 Direct Loans)

(dollars in thousands)	FY 2005	FY 2004
Beginning Balance of the Subsidy Cost Allowance	$ 293	$ 15,128
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
(a) Interest Rate Differential Costs	-	-
(b) Default Costs (net of recoveries)	-	-
(c) Fees and Other Collections	-	-
(d) Other Subsidy Costs	-	-
Total of the Above Subsidy Expense Components	-	-
Adjustments:		
(a) Loan Modifications	-	-
(b) Fees Received	-	-
(c) Foreclosed Property Acquired	-	-
(d) Loans Written Off	(847)	(15,410)
(e) Subsidy Allowance Amortization	(42)	478
(f) Other	(113)	(170)
Total Adjustments	(1,002)	(15,102)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ (709)	$ 26
Add or Subtract Subsidy Reestimates by Component:		
(a) Interest Rate Reestimate	51	-
(b) Technical/Default Re-estimate	3	267
Total of the Above Reestimate Components	54	267
Ending Balance of the Subsidy Cost Allowance	$ (655)	$ 293

The allowance for subsidy account reflects the unamortized credit reform subsidy for direct loans. It appears in the financing fund of the direct loan program, and is subtracted from the loans receivable on the consolidated balance sheet.

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

(dollars in thousands)

Liquidating Fund for Loans	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FY 2005	$ 6,804	$ 3,757	$ -	$ (10,244)	$ 317
FY 2004	$ 11,087	$ 7,503	$ -	$ (18,032)	$ 558

I. Defaulted Guaranteed Loans from Post-1991 Guarantees (Present Value Method):

(dollars in thousands)

Indian Direct Loan Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FY 2005	$ 4,930	$ 1,052	$ -	$ (5,436)	$ 546
FY 2004	$ 2,148	$ 779	$ -	$ (2,673)	$ 254

J. Loan Guarantees:

Guaranteed Loans Outstanding as of September 30, 2005

(dollars in thousands)	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Pre-1992	$ 5,301	$ 4,753
FY 1992	705	625
FY 1993	1,417	1,227
FY 1994	10,859	9,761
FY 1995	2,396	1,946
FY 1996	6,594	5,934
FY 1997	6,335	5,587
FY 1998	4,687	4,199
FY 1999	26,936	24,007
FY 2000	41,953	37,724
FY 2001	24,116	21,303
FY 2002	29,665	26,088
FY 2003	46,623	41,793
FY 2004	71,912	64,265
FY 2005	28,697	25,815
Total	$ 308,196	$ 275,027

New Guaranteed Loans Disbursed in FYs 2005 and 2004

(dollars in thousands)	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Amount Paid in FY 2005 for Prior Years	$ 24,305	$ 21,874
Amount Paid in FY 2005 for 2005 Guarantees	28,725	25,852
FY 2005 Total:	$ 53,030	$ 47,726
Amount Paid in FY 2004 for Prior Years	$ 32,315	$ 29,083
Amount Paid in FY 2004 for 2004 Guarantees	55,855	49,850
FY 2004 Total:	$ 88,170	$ 78,933

K. Liability for Loan Guarantees:

Liability for Loan Guarantees (Estimated Future Default Claims for Pre-1992 Guarantees)

(dollars in thousands)

Indian Loan Guarantee Program	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
FY 2005	$ -	$ 81,670	$ 81,670
FY 2004	$ -	$ 60,081	$ 60,081

L. Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees

(dollars in thousands)

Indian Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
FY 2005	$ 2,415	$ 2,011	$ (954)	$ -	$ 3,472
FY 2004	$ 3,976	$ 3,220	$ (1,592)	$ -	$ 5,604

Modifications and Reestimates

(dollars in thousands)

Indian Loan Guarantee Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FY 2005	$ -	$ 3,760	$ 14,955	$ 18,715
FY 2004	$ -	$ -	$ 451	$ 451

Total Indian Loan Guarantee Subsidy Expense

(dollars in thousands)	**FY 2005**	**FY 2004**
Indian Loan Guarantee Program	$ 22,187	$ 6,055

M. Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts

Indian Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
FY 2005	4.48%	4.08%	-1.80%	0.00%	6.76%
FY 2004	4.65%	3.28%	-1.80%	0.00%	6.13%

The subsidy rates disclosed pertain only to the current year cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both the current year and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

N. Schedule for Reconciling Loan Guarantee Liability Balances

Beginning Balance, Adjustments and Ending Balance

(dollars in thousands)	FY 2005	FY 2004
Beginning Balance of the Loan Guarantee Liability	$ 60,081	$ 52,185
Add Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:		
(a) Interest Supplemental Costs	2,415	3,976
(b) Default Costs (net of recoveries)	2,011	3,220
(c) Fees and Other Collections	(954)	(1,592)
(d) Other Subsidy Costs	-	-
Total of the above Subsidy Expense Components	3,472	5,604
Adjustments:		
(a) Loan Guarantee Modification	-	-
(b) Fees Received	952	1,422
(c) Interest Supplements Paid	(1,657)	(1,564)
(d) Foreclosed Property and Loans Acquired	-	-
(e) Claim Payments to Lenders	(2,849)	(1,281)
(f) Interest Accumulation on the Liability Balance	2,956	3,264
(g) Other (recovery, revenue, and prior period adjustments)	-	-
Total Adjustments	(598)	1,841
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ 62,955	$ 59,630
Add or Subtract Subsidy Reestimates by Component:		
(a) Interest Rate Re-estimate	3,760	-
(b) Technical/Default Re-estimate	14,955	451
Total of the Above Reestimate Components	18,715	451
Ending Balance of the Loan Guarantee Liability	$ 81,670	$ 60,081

The loan guarantee liability account is the financing fund for loan guarantee programs. It represents the expected present value of cash flows to and from the government from loan guarantees. The initial transaction transfers the subsidy monies from the program fund to the financing fund.

Other Federal Credit Reform Information

O. Administrative Expense

(dollars in thousands)	FY 2005	FY 2004
Indian Loan Guarantee Program	$ 1,151	$ 4,405

P. *Resources Payable to Treasury*

The resources payable to Treasury represents the BIA's liquidating fund assets (cash and loans receivable, net of an allowance) less any liabilities that may be held as working capital. Loans made in 1991 and before (pre credit reform direct loans and assigned loan guarantees) are accounted for in liquidating funds. These funds collect loan payments and pay any related expenses or default claims. At the end of each year, any unobligated cash on hand is transferred to Treasury. As of September 30, 2005 and 2004, the payable to Treasury amounted to $21.0 million and $26.0 million, respectively.

Q. *Notes Payable to Treasury*

The BIA has authority to borrow funds from Treasury for its loan programs in accordance with the Federal Credit Reform Act of 1990 and related legislation.

The guaranteed loan financing fund can borrow funds when the cash balance in a financing fund cohort is insufficient to pay default claims, interest subsidy payments, downward subsidy reestimates or the interest expense on prior Treasury borrowings. The balance in this account as of September 30, 2005 and 2004 was $6.8 million and $6.7 million, respectively.

The BIA's direct loan program ended in 1995. However, borrowings arising from direct loans made between 1992 and 1995 are still outstanding. These borrowings are being repaid as scheduled and as of September 30, 2005 and 2004 the balance was $22.9 million.

These balances are reported on the BIA's Balance Sheet and together comprise the full amount of the BIA's Intragovernmental Debt.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT, NET

Property, Plant, and Equipment balances as of September 30, 2005, are summarized as follows:

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	**FY 2005** Net Book Value
Land and Land Improvements	$ 66,629	$ 25,084	$ 41,545
Buildings	1,338,761	612,208	726,553
Structures and Facilities	942,450	551,119	391,331
Construction in Progress			
Construction in Progress - General	116,896	-	116,896
Equipment, Vehicles and Aircraft	223,742	139,349	84,393
Internal Use Software			
In Use	15,865	4,248	11,617
In Development	8	-	8
Total Property Plant and Equipment	$ 2,704,351	$ 1,332,008	$ 1,372,343

Property, Plant, and Equipment balances as of September 30, 2004, are summarized as follows:

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	**FY 2004** Net Book Value
Land and Land Improvements	$ 62,828	$ 23,474	$ 39,354
Buildings	1,285,316	589,712	695,604
Structures and Facilities	912,732	529,863	382,869
Construction in Progress			
Construction in Progress - General	111,319	-	111,319
Equipment, Vehicles and Aircraft	219,157	133,334	85,823
Internal Use Software			
In Use	15,928	2,356	13,572
Total Property Plant and Equipment	$ 2,607,280	$ 1,278,739	$ 1,328,541

Depreciation and amortization expense amounted to $70.9 million and $67.2 million for the years ended September 30, 2005 and 2004, respectively.

In fulfilling the Bureau's mission, BIA frequently donates property to Indian Tribes. The net book value recognized as a loss on disposal of equipment related to donated property amounted to $16.1 million and $21.2 million during the years ended September 30, 2005 and 2004, respectively.

NOTE 7: ASSETS ANALYSIS

Non-entity accounts receivable include amounts that will be collected by the BIA in the future, but will not be available for use. The amounts will be forwarded to Treasury at a later date. Non-entity accounts receivable include accrued interest and penalties on delinquent debt, and other miscellaneous receivables.

Non-entity FBWT consists of receipts collected on behalf of the OTFM (Appropriation 14X6053, Non-Trust Deposits and Bids for Indian Land). These are primarily for real estate services where bids are held in escrow until the winning bid is determined.

Assets, as of September 30, 2005, are summarized as follows:

(dollars in thousands)	Entity Unrestricted	Non-Entity Restricted	**FY 2005** Total
Intragovernmental Assets			
Fund Balance with Treasury	$ 1,501,329	$ 6,763	$ 1,508,092
Investments, Net	66,541	-	66,541
Accounts and Interest Receivable, Net	5,778	1,453	7,231
Other Assets			
Advances and Prepayments	2,556	-	2,556
Total Intragovernmental Assets	1,576,204	8,216	1,584,420
Cash	638	-	638
Investments, Net	1,065	-	1,065
Accounts and Interest Receivable, Net	15,228	11,102	26,330
Loans and Interest Receivable, Net	28,131	-	28,131
General Property, Plant, and Equipment, Net	1,372,343	-	1,372,343
Other:			
Advances and Prepayments	82,632	-	82,632
Subtotal	82,632	-	82,632
Total Assets	$ 3,076,241	$ 19,318	$ 3,095,559

Assets, as of September 30, 2004, are summarized as follows:

(dollars in thousands)	Entity Unrestricted	Non-Entity Restricted	FY 2004 Total
Intragovernmental Assets			
Fund Balance with Treasury	$ 1,460,513	$ 8,406	$ 1,468,919
Investments, Net	68,565	-	68,565
Accounts and Interest Receivable, Net	23,994	4,205	28,199
Other Assets			
Advances and Prepayments	1,732	-	1,732
Total Intragovernmental Assets	1,554,804	12,611	1,567,415
Cash	432	-	432
Investments, Net	1,077	-	1,077
Accounts and Interest Receivable, Net	(3,226)	29,614	26,388
Loans and Interest Receivable, Net	33,558	-	33,558
General Property, Plant, and Equipment, Net	1,328,541	-	1,328,541
Other:			
Advances and Prepayments	91,412	-	91,412
Subtotal	91,412	-	91,412
Total Assets	$ 3,006,598	$ 42,225	$ 3,048,823

NOTE 8: ADVANCES, DEFERRED REVENUE, AND OTHER LIABILITIES

Deferred revenue represents reimbursable work performed for Education, where the BIA receives funds for Tribal and BIA operated schools prior to providing the service, and for other public and Federal entities. Other Liabilities to Federal Agencies include Resources Payable to Treasury, Other Funded Liabilities, and Other Unfunded Liabilities. Other Liabilities to the Public include Other Unfunded Liabilities.

Advances and Deferred Revenue as of September 30, 2005 and 2004 consist of the following:

Advances and Deferred Revenue

(dollars in thousands)	FY 2005	FY 2004
Received from Federal Agencies	$ 91,966	$ 146,882
Received from the Public	7,400	7,550
Total Deferred Revenue	$ 99,366	$ 154,432

Deposit Fund Liabilities as of September 30, 2005 and 2004 consist of the following:

Deposit Funds

(dollars in thousands)	FY 2005	FY 2004
Received from Federal Agencies	$ 2,790	$ 1,114
Received from the Public	4,357	7,747
Total Deposit Funds	$ 7,147	$ 8,861

Resources Payable to Treasury and Other Miscellaneous Liabilities as of September 30, 2005 and 2004 consist of the following:

Resources Payable to Treasury and Other Miscellaneous Liabilities

(dollars in thousands)	FY 2005	FY 2004
Received from Federal Agencies	$ 32,305	$ 44,728
Received from the Public	11,396	27,851
Total Other Liabilities	$ 43,701	$ 72,579

NOTE 9: CONTINGENT LIABILITIES

The BIA is a party to various administrative proceedings, legal actions, environmental suits, and claims that may eventually result in the payment of substantial monetary claims to third parties, or in the unplanned reallocation of material budgetary resources to pay for the cleanup of environmentally damaged sites. Sufficient information is not currently available to determine if the ultimate resolution of these proceedings, actions and claims will materially affect the financial position or net cost of operations of the BIA.

The legal claims deemed probable of loss have been enumerated and submitted to the BIA by the DOI Office of the Solicitor (SOL). The BIA reviews these claims and summarizes the data on a detailed Contingent Liability Report. The BIA forwards questions to the DOI Office of the Solicitor regarding cases where changes were made (i.e., estimate change, change in probability, deletions and additions) and where no explanation for the change was evident on the legal letter. The amount of potential minimal liability has been estimated and accrued in the financial statements, including certain judgments that have been issued against the BIA and appealed. The BIA has not accrued estimated legal liabilities if the amounts or probability of loss against the BIA are uncertain.

The payment of any judgment against the BIA could be made from the BIA's appropriations or from Treasury's Judgment Fund. Generally, cash settlements are expected to be paid out of the Judgment Fund rather than from the operating resources of the BIA. The BIA is required, however, to reimburse the Judgment Fund for settlements or court orders on suits brought through the Contract Disputes Act of 1978.

The potential liability for claims deemed to be probable or reasonably possible of loss is outlined in the table below. The lower value of the estimated range of probable loss has been accrued and presented as a contingent legal liability payable in the accompanying Consolidated Balance Sheets.

The total amount that the BIA is required to repay to the Judgment Fund is $117.3 million at September 30, 2005 and $117.2 million at September 30, 2004, and is recorded as a Judgment Fund reimbursement payable on the September 30, 2005 and 2004 Consolidated Balance Sheets.

Contingent and Environmental and Disposal Liabilities as of September 30, 2005 and 2004 are summarized as follows:

FY 2005

(dollars in thousands)	Accrued Liabilities	Additional Potential Liabilities: Lower End of Range	Additional Potential Liabilities: Upper End of Range
Contingent Liabilities			
Probable	$ 62,487	$ 62,487	$ 399,088
Reasonably Possible		114,842	431,267
Environmental and Disposal Liability			
Probable	51,576	51,576	52,360
Reasonably Possible		8,715	8,717
Total Contingent and Environmental and Disposal Liabilities - Accrued	$ 114,063	$ 237,620	$ 891,431

FY 2004

(dollars in thousands)	Accrued Liabilities	Additional Potential Liabilities: Lower End of Range	Additional Potential Liabilities: Upper End of Range
Contingent Liabilities			
Probable	$ 58,070	$ 58,070	$ 103,540
Reasonably Possible		134,120	493,380
Environmental and Disposal Liability			
Probable	67,065	67,065	67,300
Reasonably Possible		9,281	9,281
Total Contingent and Environmental and Disposal Liabilities - Accrued	$ 125,135	$ 268,536	$ 673,501

Indian Trust Fund Litigation

The Secretary of the Department of the Interior is entrusted with the management of the monies and lands held in Trust by the Federal Government for Indian tribes and individuals. There have been long-standing, complicated problems with Indian Trust accounting and management. Presently, there is significant litigation pending related to Trust management for Indian tribes and individuals.

Twenty-five tribal Trust cases currently are pending in various Federal district courts and the U.S. Court of Federal Claims. The cases, which were brought by nineteen different tribes, involve claims for Trust fund and asset mismanagement, accounting and other declaratory relief. A substantial number of the cases are stayed pending settlement negotiations.

In addition, a significant class action lawsuit has been brought on behalf of individual Indian beneficiaries of the Individual Indian Money (IIM) Trust accounts. The lawsuit alleges that the Interior and Treasury Departments have breached their Trust obligations with respect to the management of funds in the IIM accounts. The plaintiffs claim they are seeking an accounting of the IIM Trust funds and no damages.

Notwithstanding the damages or other claims described above, no probable estimate or range of loss can be made at this time regarding any financial liability that may result from judgment or settlement of the tribal Trust cases or IIM Trust fund litigation.

NOTE 10: ENVIRONMENTAL AND DISPOSAL LIABILITIES

The BIA is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and, the operations and closure of facilities at which environmental contamination may be present. The primary Federal laws covering environmental response, remediation and monitoring are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), the Oil Pollution Act (OPA), the Clean Water Act (CWA), the Clean Air Act (CAA), the Safe Drinking Water Act (SDWA), and the Asbestos Hazard Emergency Response Act (AHERA). Responsible parties, which may include Federal agencies under certain circumstances, are required to remediate releases of hazardous substances at or from facilities they own, operated, or at which they arranged for the disposal of such substances.

The BIA remediates many types of environmental contaminations including hazardous materials, oil spills, asbestos, lead-based paint, and landfills. The BIA annually compiles the estimated amount of future liability, estimated cost of preparing studies, and estimated amount of funding needed for remediation. The potential liability for remediation costs deemed probable or reasonably estimable (but do not meet the requirements for accrual), as of September 30, 2005, and 2004, is outlined in the table presented in Note 9. The lower value of the estimated range of probable loss has been accrued and presented as an environmental cleanup cost liability in the accompanying Consolidated Balance Sheets.

The BIA's contingent liability for potential environmental cleanup of sites that are considered reasonably possible and estimable include the expected future response costs, and, for those sites where future cleanup costs are unknown, the cost of studies necessary to evaluate cleanup requirements. Note 9 describes contingent legal liabilities, some of which are related to environmental claims made by third parties.

The change in the estimated accrued environmental liability from September 30, 2004 to September 30, 2005 is primarily due to refinement of estimated remediation costs, the addition of new sites, and the payment of the liability when remediation is performed. There are no material changes in total estimated cleanup costs that are due to changes in law and technology.

NOTE 11: LEASES

The BIA has many cancelable operating leases with the General Services Administration (GSA), primarily for office space and vehicles, that do not have a stated expiration date. The BIA has reported its future minimum liability on the GSA operating leases based on a schedule of lease terms provided by the GSA. The BIA has non-GSA leases for other real and personal property and has projected the future minimum lease rental expenses based on GSA inflation factors for the FY 2005 base year. For non-GSA leases, the BIA intends to replace expired leases with similar lease terms on like-kind properties. Future estimated minimum lease payments for operating leases as of September 30, 2005 are as follows:

Future Operating Lease Payments

	Real Property		**Personal Property**		
(dollars in thousands)	Federal	Public	Federal	Public	Total
2006	$ 17,701	$ 6,258	$ 9,466	$ 414	$ 33,839
2007	15,477	6,200	9,694	88	31,459
2008	13,500	6,349	9,926	48	29,823
2009	12,265	6,465	10,165	12	28,907
2010	9,300	6,617	10,409	-	26,326
Thereafter	42,513	33,846	13,878	-	90,237
Total Future Operating Lease Payments	$ 110,756	$ 65,735	$ 63,538	$ 562	$ 240,591

Rental expenses of approximately $38.6 million and $39.8 million were incurred for operating leases for the years ended September 30, 2005 and September 30, 2004, respectively.

NOTE 12: LIABILITIES ANALYSIS

Public liabilities are claims against the BIA by non-federal entities. The BIA anticipates that the liabilities listed below will be funded from future budgetary resources when required. The BIA receives budgetary resources for the FECA liability, the environmental cleanup costs, and contingent liabilities when they are needed for disbursements. The unfunded Accrued Payroll and Benefits due to the public represents annual leave.

Current liabilities are amounts owed by the BIA that are due within the fiscal year following the reporting date. Non-current liabilities are amounts owed by the BIA and are not due to be paid within one year of the fiscal year-end.

Liabilities as of September 30, 2005 is summarized as follows:

Total Liabilities, September 30, 2005

	Covered By Budgetary Resources		Not Covered By Budgetary Resources		FY 2005
(dollars in thousands)	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
Accounts Payable	$ 55,409	$ -	$ -	$ -	$ 55,409
Debt	-	29,715	-	-	29,715
Other:					
Accrued Employee Benefits	4,561	-	9,335	15,994	29,890
Advances and Deferred Revenue	91,965	-	1	-	91,966
Deposit Funds	-	-	-	2,790	2,790
Judgment Fund	-	-	-	117,323	117,323
Resources Payable to Treasury	-	-	-	21,041	21,041
Other Miscellaneous Liabilities	-	-	-	11,264	11,264
Total Intragovernmental Liabilities	151,935	29,715	9,336	168,412	359,398
Public Liabilities:					
Accounts Payable	90,099	-	-	-	90,099
Loan Guarantee Liability	-	81,670	-	-	81,670
FECA Actuarial Liability	-	-	-	121,283	121,283
Environmental and Disposal Liabilities	-	-	-	51,576	51,576
Other:					
Accrued Payroll and Benefits	22,263	-	-	-	22,263
Unfunded Annual Leave	-	-	-	26,030	26,030
Advances and Deferred Revenue	7,400	-	-	-	7,400
Deposit Funds	-	-	-	4,357	4,357
Contingent Liabilities	-	-	-	62,487	62,487
Other Miscellaneous Liabilities	-	-	-	11,396	11,396
Total Public Liabilities	119,762	81,670	-	277,129	478,561
Total Liabilities	$ 271,697	$ 111,385	$ 9,336	$ 445,541	$ 837,959

Liabilities as of September 30, 2004 is summarized as follows:

Total Liabilities, September 30, 2004

	Covered By Budgetary Resources		Not Covered By Budgetary Resources		FY 2004
(dollars in thousands)	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
Accounts Payable	$ 43,240	$ -	$ -	$ -	$ 43,240
Debt	-	29,615	-	-	29,615
Other:					
Accrued Employee Benefits	3,925	-	9,299	13,948	27,172
Advances and Deferred Revenue	146,882	-	-	-	146,882
Deposit Funds	-	-	-	1,114	1,114
Judgment Fund	-	-	-	117,248	117,248
Resources Payable to Treasury	-	-	-	25,994	25,994
Other Miscellaneous Liabilities	4,684	-	-	14,050	18,734
Total Intragovernmental Liabilities	198,731	29,615	9,299	172,354	409,999
Public Liabilities:					
Accounts Payable	94,146	-	-	-	94,146
Loan Guarantee Liability	-	60,081	-	-	60,081
FECA Actuarial Liability	-	-	-	118,325	118,325
Environmental and Disposal Liabilities	-	-	-	67,065	67,065
Other:					
Accrued Payroll and Benefits	17,886	-	-	-	17,886
Unfunded Annual Leave	-	-	-	26,493	26,493
Advances and Deferred Revenue	7,550	-	-	-	7,550
Deposit Funds	-	-	-	7,747	7,747
Contingent Liabilities	-	-	-	58,070	58,070
Other Miscellaneous Liabilities	-	-	-	27,851	27,851
Total Public Liabilities	119,582	60,081	-	305,551	485,214
Total Liabilities	$ 318,313	$ 89,696	$ 9,299	$ 477,905	$ 895,213

The BIA acts as a custodian for Treasury when it receives principal, interest, and penalties from the beneficial users of agreements related to construction costs of power and irrigation projects. The BIA is required to transfer collections to the Treasury General Fund. As of September 30, 2005 and 2004, the BIA recorded a receivable and an offsetting payable for these agreements in the amount of $11.4 million, and $13.5 million, respectively. The payable balance is recorded in other liabilities, intra-governmental, and the receivable is recorded in public accounts receivable.

The BIA classifies receipts on behalf of the OTFM in 14X6053 (Non-Trust Deposits and Bids for Indian Lands) as non-entity liabilities. These are primarily for real estate services where bids are held in escrow until the winning bid is determined.

Unfunded annual leave amounted to $26.0 million as of September 30, 2005, and $26.5 million as of September 30, 2004.

The BIA's only debt is with Treasury for the borrowings related to the loan programs. The BIA's total borrowings from Treasury as of September 30, 2005 and 2004 were $29.7 million and $29.6 million, respectively. See Note 5 for additional information regarding the BIA's loan programs.

NOTE 13: NET COST OF OPERATIONS

The Government Performance and Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to these goals. Under GPRA, Strategic Plans are to be revised and updated every three years. Accordingly, the BIA updated its Strategic Plan in FY 2004, and replaced the three BIA GPRA Goals, applicable in FYs 2001 through 2003, with one BIA GPRA Mission Goal. The Mission Goal, which is applicable beginning in FY 2004, is Serving Communities.

GPRA also requires that the BIA report costs for the Mission Goals identified in the Strategic Plan. Accordingly, the BIA has presented the earned revenues and gross costs through FY 2005 and 2004 by the Mission Goal identified in the FY 2004 Strategic Plan.

MISSION: SERVING COMMUNITIES

End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities

(dollars in thousands)	FY 2005	FY 2004
Intragovernmental Costs	$ 159,990	$ 147,802
Public Costs	466,846	440,431
Total Costs	626,836	588,233
Intragovernmental Earned Revenue	9,846	3,681
Public Earned Revenue	91,912	93,681
Total Earned Revenue	101,758	97,362
Net Costs	$ 525,078	$ 490,871

End Outcome Goal: Advance Quality Communities for Tribes and Alaska Natives

(dollars in thousands)	FY 2005	FY 2004
Intragovernmental Costs	$ 164,355	$ 178,267
Public Costs	2,248,584	2,213,819
Total Costs	2,412,939	2,392,086
Intragovernmental Earned Revenue	319,715	213,391
Public Earned Revenue	24,967	24,552
Total Earned Revenue	344,682	237,943
Net Costs	$ 2,068,257	$ 2,154,143

End Outcome Goal: Protect Lives, Resources and Property

(dollars in thousands)	FY 2005	FY 2004
Intragovernmental Costs	$ 50,219	$ 48,119
Public Costs	142,769	170,188
Total Costs	192,988	218,307
Intragovernmental Earned Revenue	20	59
Public Earned Revenue	2,100	151
Total Earned Revenue	2,120	210
Net Costs	$ 190,868	$ 218,097

Total

(dollars in thousands)	FY 2005	FY 2004
Intragovernmental Costs	$ 374,564	$ 374,188
Public Costs	2,858,199	2,824,438
Total Costs	3,232,763	3,198,626
Intragovernmental Earned Revenue	329,581	217,131
Public Earned Revenue	118,979	118,384
Total Earned Revenue	448,560	335,515
Total Net Cost of Operations	$ 2,784,203	$ 2,863,111

NOTE 14: COMBINED STATEMENTS OF BUDGETARY RESOURCES

Apportionment Categories of Obligations Incurred

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as their status at the end of the period. It is the only financial statement "exclusively" derived from the entity's budgetary general ledger accounts in accordance with budgetary accounting rules that are incorporated into GAAP for the Federal Government. The Total Budgetary Resources are $ 3,566.3 million and $3,614.2 million as of September 30, 2005 and 2004, respectively; which includes new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations, and any adjustment to these resources. The BIA's Unobligated Balance Available at September 30, 2005 is $ 685.4 million, and at September 30, 2004 is $743.7 million, none of which is exempt from apportionment.

For the years ended September 30, 2005 and 2004, the BIA incurred obligations as summarized below:

Incurred Obligations, September 30, 2005

(dollars in thousands)	**Apportioned** Category A	Category B	**Not Subject to Apportionment**	**FY 2005** Total
Obligations Incurred:				
Direct	$ -	$ 2,490,565	$ -	$ 2,490,565
Reimbursable	-	348,742	-	348,742
Total Obligations Incurred	$ -	$ 2,839,307	$ -	$ 2,839,307

Incurred Obligations, September 30, 2004

(dollars in thousands)	**Apportioned** Category A	Category B	**Not Subject to Apportionment**	**FY 2004** Total
Obligations Incurred:				
Direct	$ -	$ 2,583,788	$ -	$ 2,583,788
Reimbursable	-	253,036	-	253,036
Total Obligations Incurred	$ -	$ 2,836,824	$ -	$ 2,836,824

All of these obligations were by apportionment Category B, which typically distribute budgetary resources by activities, projects, objects, or a combination of these categories, as opposed to fiscal quarters or years.

Borrowing and Contract Authority

The BIA receives borrowing authority from Treasury for its loan programs in accordance with the Federal Credit Reform Act of 1990 and related legislation. In FY 2005, the BIA exercised its statutory authority and borrowed $100 thousand from Treasury. No new authority was granted or exercised in FY 2004. See Note 5 for details regarding the terms of the borrowing and authority used.

Adjustments to the Beginning Balance of Budgetary Resources

During FY 2005, the Congress passed the Appropriations Act of 2005 (P.L.108-447). As a result of this legislative action, the Treasury issued three warrants rescinding approximately $33 million of the BIA's budgetary resources.

Permanent Indefinite Appropriations

The BIA has several permanent indefinite appropriations which are primarily for special projects and loan programs, such as Claims and Treaty Obligations, Indian Loan Guaranty Financing and Insurance Fund Liquidating Account, Revolving Fund for Loans Liquidating Account, and Alaska Resupply Program.

Appropriations Received

Appropriations Received on the Combined Statements of Budgetary Resources differ from those reported as Appropriations Received, General Fund on the Consolidated Statements of Changes in Net Position because the balance on the Consolidated Statements of Changes in Net Position excludes certain earmarked receipts.

Legal Arrangements Affecting Use of Unobligated Balances

The BIA's Unobligated Balance, not Available of $41.6 million and $33.7 million for the years ended September 30, 2005 and 2004, respectively, are summarized as follows:

Expired authority is not available to fund new obligations but remains available for up to five years to pay for adjustments to obligations incurred prior to expiration.

(dollars in thousands)		**FY 2005**		**FY 2004**
Unapportioned Amounts Unavailable for Future Apportionments	$	831	$	6,290
Expired Authority		40,761		27,408
Apportionment Available in Subsequent Periods				
Total Budgetary Accounts		41,592		33,698
Non Budgetary Credit Program Financial Accounts		-		-
Unobligated Balance, Unavailable	$	41,592	$	33,698

Explanation of Differences Between the Combined Statements of Budgetary Resources and the Budget of the United States Government

Paragraph 79(g) of Statement of Federal Financial Accounting Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for an explanation of any material differences between the information reported in the Combined Statements of Budgetary Resources and the amounts described as 'actual' in the Budget of the United States Government. As such, the BIA has reconciled the President's FY 2006 Budget Request to the September 30, 2004 financial statements. The President's FY 2007 Budget Request will be available in February, 2006. At that time, the BIA will reconcile the FY 2005 Combined Statement of Budgetary Resources to the FY 2007 Budget Request.

In other words, during the budget process, the BIA uses the information on the SF-133 and other reports to input budgetary information into the "actual" column of the Program and Financing (P&F) Schedules contained within the Presidents Budget (PB). This means that certain amounts in the SBR can be linked to the amounts in the "actual" columns of the P&F Schedule. Because guidance for preparing the SBR and the "actuals" in the PB may differ for certain line items, and because the timing of the submission of budgetary information for the PB may be earlier than the audit completion dates, differences may exist between the two documents. Differences between amounts in the SBR and the "actuals" in the P&F Schedule can occur because of differences in treatment of certain items in the two documents, such as the amounts unavailable for obligation and expired accounts. For example, expired budget authority is excluded from the PB but included in the SBR. Because such differences may exist, the Federal accounting standards require all agencies to explain the significant differences between the information presented in the SBR and the information described as "actual" in the PB in the Notes to the Basic Financial Statements.

The following chart summarizes the significant differences between the BIA's SBR and the PB.

(dollars in millions)	FY 2004 Amount per President's Budget *	FY 2004 Amount per Statement of Budgetary Resources	Differences	Explanations
Budgetary Resources:				
Unobligated Balance:				
Beginning of Fiscal Year	$ 692	$ 860	$ (168)	a
Net Transfers, Unobligated Balance, Actual	23	0	23	b
Spending Authority From Offsetting Collections	398	246	152	c
Recoveries of Prior Year Obligations	38	79	(41)	b
Temporarily Not Available Pursuant to Public Law	(9)	0	(9)	b
Status of Budgetary Resources:				
Obligations Incurred	2,824	2,837	(13)	b
Unobligated Balance & Unobligated Balance Not Available	750	770	(20)	b
Relationship of Obligations to Outlays:				
Obligations Incurred	2,824	2,837	(13)	b
Outlays:				
Disbursements	2,602	2,609	(7)	b
Collections	(403)	(273)	(130)	d

* Source: Fiscal Year 2004 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2006

Explanation of Differences:

a. During fiscal year 2003, advances from the Department of Education of $133 million were recorded in a deposit fund and reported under unfilled customer orders with advances on the Combined Statement of Budgetary Resources (SBR). These same advances were recorded under unfilled customer orders without advances for FACTS II reporting and the subsequent President's Budget (PB) submission. This difference in treatment was necessary due to the fact that certain edits in the FACTS II submission process do not allow balances in deposit funds to be recorded as unfilled customer orders with advances. Accordingly, all lines which are calculated based on the fiscal year 2004 beginning balance of unfilled customer orders with advances or unfilled customer orders without advances will have a difference of $133 million between the SBR and the President's Budget. The remaining $35 million difference is due to balances in expired appropriations that are included in the SBR but excluded from the President's Budget.

b. Difference is due to activity in expired appropriations which is included in the SBR but excluded from the President's Budget.

c. Difference is due to $23 million of activity from expired appropriatrions included in the SBR but excluded from the President's Budget and $133 million difference in the change in unfilled customer orders with advance (as described in a. above).

d. Difference is due to $133 million difference in the change in unfilled customer orders with advance (as described in a. above).

NOTE 15: STATEMENTS OF FINANCING

There is a relationship between certain line items reported on the Consolidated Statements of Financing under "Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods," and the change in components of costs that are included in liabilities not covered by budgetary resources reported in Note 12. Increases in liabilities covered by budgetary resources will be reported in this section; decreases will be reported as part of the line item "Resources that Fund Expenses Recognized in Prior Periods."

The BIA is a recipient of allocation transfers of funds from the BLM, DOT, DOL, USDA, HHS, and the DOI Office of the Secretary. The BIA currently transfers funds to the BOR.

The BIA transfers funds to the BOR for construction of the Navajo Indian Irrigation Project (NIIP). This project was authorized by P.L. 87-483 (September 13, 1962), and construction began in 1964. Project facilities are being constructed in 11 blocks with current work in the 9th block. Each block is approximately 10,000 acres. Based on a FY 2004 recalculation of developed irrigation acreage, the project is 64 percent complete. Eight blocks were under irrigation for both periods ending September 30, 2005 and 2004. Completion may require an additional 18 to 31 years of construction and development, depending on annual funding levels from $40 million to $26 million, respectively. Under this law, Congress appropriated funding for the project to the BIA, which then transferred funding to the BOR for construction and cost accounting of the facilities. Subsequently, the BOR and the BIA entered into a formal Memorandum of Agreement that provides for the transfer of the book value costs of the project facilities to the BIA upon completion. As such, upon completion of construction of designated segments of project facilities, agreed upon by both bureaus, the book value costs of the completed facilities will be transferred to the BIA by formal document. The BIA recognizes the asset as a transfer-in at the time of transfer. Reclamation transferred to the BIA $14.3 million in residual costs in FY 2005 and $816 thousand in FY 2004.

The allocation transfers that occurred during the years ended September 30, 2005 and 2004 are noted in the following tables:

This table summarizes the transfer appropriations where BIA is the transferor (i.e., parent)

			Reconciling Difference (dollars in thousands)	
Appropriation	**Trading Partner**	**Name and Purpose of Transfer**	**FY 2005**	**FY 2004**
14X2301	DOI - Bureau of Reclamation	Construction of distribution systems for the NIIP by BOR	$ (7,410)	$ (13,841)

This table summarizes the transfer appropriations where BIA is the recipient (i.e., child)

			Reconciling Difference (dollars in thousands)	
Appropriation	**Trading Partner**	**Name and Purpose of Transfer**	**FY 2005**	**FY 2004**
14-14X0120.20	DOI - Office of the Secretary	TAAMS/Trust Fund Improvement	$ 11,429	$ 19,882
14-14X1105.20	Department of Agriculture	Forest Management and Utilization	824	820
14-14X1119.20	DOI - Bureau of Land Mgmt	Fire Protection	7,669	-
14-14X1121.21	DOI - Bureau of Land Mgmt	Central Hazardous Materials	1,279	1,122
14-14X1125.20	DOI - Bureau of Land Mgmt	Wildland Fire Management	159,886	172,204
14-14X1618.20	DOI - Office of the Secretary	Natural Resource Damage Assessment	1,044	1,793
14-14X2103.20	DOI - Office of the Secretary	Indian Land Consolidation Project	44,176	28,034
14-16 0174.20	Department of Labor	Training & Employment Services for Native Americans	12,096	11,860
14-69X8083.20	Federal Highway	Roads Construction on Fed and Indian Lands	247,188	231,351
14-75X1550.20	Health and Human Services	Child Care Development	13,456	13,004
14-75X1515.20	Health and Human Services	Payments to States for Child Care Development	10,498	10,515
14-75X1552.20	Health and Human Services	Native Employment Works	20,488	16,654
		Total Reconciling Difference	$ 530,033	$ 507,239
		Net Reconciling Difference	$ 522,623	$ 493,398

Required Supplementary Information

(Unaudited; see Auditors' Report)

This part of the Section II Financial Information contains our required supplementary information disclosures.

Contents Include:

Deferred Maintenance

The BIA owns, builds, purchases and contracts services for assets such as schools, dormitories, detention facilities, police stations, office buildings, roads, bridges, dams, and irrigation systems.

These assets are used to support the BIA's stated mission. The BIA's assets include some deteriorating facilities for which repair and maintenance have not been adequately funded. Current and prior budgetary restraints require that repair and maintenance on these assets be postponed to future years.

The BIA defines to deferred maintenance as maintenance that was not performed when it should have been or that was scheduled but was put off or delayed until a future period. Inadequately funded maintenance may result from reduced budgets, reallocation of maintenance funds for emergency requirements, insufficient management systems or practices, and competition for resources from other program needs.

Deterioration of facilities can adversely impact public health and safety, reduce employees' morale and productivity, and increase the need for costly major repair or early replacement of structures and equipment. Undue wear on facilities may not be immediately noticeable to users, but inadequate maintenance can require that a facility be replaced or undergo major reconstruction before the end of its expected useful life.

The BIA program staff use BIA's Facilities Management Information System to regularly update BIA's multi-phased inventory and deferred maintenance backlog. The BIA's current estimate for deferred maintenance includes property categories such as roads, bridges, and trails; irrigation, dams, and other water structures; buildings, and other structures.

Generally, the estimates include costs for such items as: (1) construction contract administration and inspection; (2) construction materials; (3) transportation; (4) removal of existing appurtenances, (e.g., guard rails), furnishing and equipment items that are not physically attached to property, along with related storage, inventorying, and tagging; (5) fixed equipment; and/or (6) routine annual and preventive maintenance of facilities and other infrastructure. Estimates generally exclude vehicles and most other categories of operating equipment.

The Office of Facilities Management and Construction (OFMC) prepares the estimates for buildings and other structures. The Division of Transportation (DT) prepares the estimates for roads, bridges, and trails. The Division of Natural Resources, Branch of Irrigation, Power and Safety of Dams (IPSOD) prepares the estimates for irrigation, dams, and other water structures.

New Wingate Elementary Replacement School

Due to the scope, nature, and variety of the assets entrusted to the BIA, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance are very difficult to determine. The assessment of deferred maintenance for the BIA is dependent upon OFMC, DT, and IPSOD having accurate and complete facilities information. In addition, the accumulation of facility data will provide the necessary information for compliance with the Federal accounting standard that requires annual reporting of deferred maintenance of fixed assets (SFFAS No. 6, Accounting for Property, Plant, and Equipment). The BIA has chosen "condition assessment" as the method to be used for determining deferred maintenance data.

FY 2005 Bureau Deferred Maintenance Estimates

Type of Deferred Maintenance	**Items Covered**	**Condition Category**	**Estimated Range of Deferred Maintenance for 2005**					
			General PP&E		**Stewardship PP&E**		**Total**	
(dollars in thousands)	Note (1)	Note (2)	Low	High	Low	High	Low	High
Financial Statement Estimated Deferred Maintenance								
Roads Bridges and Trails	A,B,C,D	G,F,P	$ 257,536	$ 314,767	$ 1,034	$ 1,264	$ 258,570	$ 316,031
Irrigation, Dams, and Other Water Structures	A,B,C,D	G,F,P	1,312,616	1,604,308	816	998	1,313,432	1,605,306
Buildings (e.g., Administration, Education, Housing, Historic Buildings)	A,B,C,D	G,F,P	567,810	693,990	3,139	3,837	570,949	697,827
Other Structures (e.g., Recreation Sites, Hatcheries, etc.)		N/A	-	-	-	-	-	-
Total BIA		G,F,P	$ 2,137,962	$ 2,613,065	$ 4,989	$ 6,099	$ 2,142,951	$ 2,619,164

Note (1) Category:

A- Critical Health and Safety Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to public or employee safety.

B- Critical Resource Protection Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to natural or cultural resources.

C- Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission.

D- Compliance and other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility: compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Note (2) Condition Assessment:

Good: Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life

Fair: Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy

Poor: Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases that includes condemned or failed facilities.

Based on periodic condition assessments, the indicator of condition is the percent of facilities and items of equipment in each of the Good, Fair, or Poor categories.

Combining Statement of Budgetary Resources by Major Program

The BIA receives funding from four direct appropriations and several permanent appropriations. The direct appropriations include:

- Operation of Indian Programs (OIP)
- Construction
- Indian Land and Water Claim Settlements and Miscellaneous Payments to Indians
- Indian Guaranteed Loan Program Account.

The permanent appropriations include:

- Miscellaneous Permanent
- Quarters Operation and Maintenance
- White Earth Settlement Fund
- The appropriation for Indian Guaranty and Insurance Fund, Liquidating Account ; Revolving Fund for Loans, Liquidating Account; Indian Direct Loan Program Account; and the Indian Guaranteed Loan Program Account.

The OIP and Construction appropriations are specifically designated as Major Budget Accounts. The other appropriations are combined for presentation on the Statements of Budgetary Resources (SBR). The following describes the BIA Major Budget Accounts on OIP and Construction.

Operation of Indian Programs

The BIA is primarily funded by the OIP appropriation, which is for expenses necessary for the operation of Indian programs, as authorized by law, including the Snyder Act of November 2, 1921; the Indian Self-Determination and Education Assistance Act of 1975, as amended; the Education Amendments of 1978; and the Tribally Controlled Schools Act of 1988, as amended.

The following activities are funded by the OIP appropriation:

- Tribal Government
- Human Services
- Education
- Public Safety and Justice
- Community Development
- Resources Management
- Trust Services
- General Administration

The activities within the OIP program are numerous and have a wide scope of performance. Listed below are some of the primary functions BIA performs within the OIP programs:

- Provides technical assistance to Tribal governments and Tribal organizations to improve their ability to contract BIA programs
- Promotes Indian self-determination and allows Tribes to combine various contracted programs into one agreement
- Supports new Federally acknowledged Tribes and Tribal governments
- Provides Tribes with resources to foster strong and stable Tribal governments and exercise their authority as sovereign Nations
- Strengthens and stabilizes the administrative structures of Tribes and Tribal organizations currently contracting and/or compacting under the authority of Public Law 93-638
- Enables Tribes to exercise their rights as sovereign Nations by establishing and maintaining their own civil and criminal codes in accordance with local Tribal customs and traditions
- Protects and preserves Tribal and individual treaty rights
- Improves welfare systems for Indian Tribes and Alaska Natives
- Provides resources to protect Indian children and prevent the separation of Indian families
- Improves the quality of life of needy Indians by eliminating substandard housing and homelessness on or near Federally recognized reservation communities
- Allows Tribes the flexibility to design human service programs that better meet the needs of their communities
- Provides scholarships that improve local economies
- Improves the success of students at each educational level by providing financial assistance for eligible students
- Enables students to obtain a GED or the basic skills needed to transition to a community college or job placement
- Provides supplementary assistance to meet the unique and specialized needs of Indian children in public school systems
- Provides funds for policy development, curriculum additions, and general program operations at Tribal colleges and universities
- Provides economic growth in Tribal communities through job placement and training
- Provides maintenance of roads and bridges
- Provides technical assistance to Indian Tribes where land and natural resources are Trust assets
- Assists Tribes in developing conservation and management plans to protect and preserve their natural resources on Trust land and off-reservation resources
- Manages or assists Tribes with the management of their forests consistent with Tribal goals
- Restores Indian lands infested with invasive species to productive agronomic uses
- Provides funds to meet Tribal needs for management of fisheries, wildlife, outdoor recreation, public use, and conservation enforcement
- Provides access to energy and non-energy mineral leasing and ensures the responsible use of lands that are developed
- Provides expert geo-technical services to Tribes involved in oil and gas exploration and drilling, field operations and sales, and liaison with other Federal agencies, Tribal governments, and individual Indian mineral owners to ensure effective communication in royalty management activities

- Provides overall management responsibility for the operation of Trust functions at the agency and Tribal level
- Provides assistance to Tribes and other agency personnel in various rights protection issues
- Improves ownership information and administers and manages all land held in Trust for the benefit of individual Indians and Tribes
- Prepares probate cases for submission to responsible decision makers for the distribution of estates
- Protects and preserves Trust lands and resources
- Provides security personnel and other physical protection
- Develops policy guidelines on land acquisition requests for gaming, Tribal/state compacts, per capita distribution plans, Secretarial approval of trust asset and gaming-related contracts, and Secretarial procedures for class III gaming
- Provides core funding for management and administrative services
- Develops, implements, and reviews agency-level safety programs for compliance with Federal laws and regulations to ensure safe and healthful workplaces
- Protects cultural and natural resources.

Construction

The BIA is also funded with a Construction appropriation. This appropriation is for expenses necessary for construction, repair, improvement, and maintenance of irrigation and power systems, buildings, utilities, and other facilities, to include: architectural and engineering services by contract; acquisition of lands, and interests in lands; and preparation of land for farming; and for construction of the Navajo Indian Irrigation Project.

The Construction appropriation funds the following activities:

- Education construction
- Public safety and justice construction
- Resources management construction
- Tribal government construction
- Emergency response
- Reimbursable programs
- General administration.

Hopi Public Library

The BIA owns or provides funding for a broad variety of buildings and other facilities across the Nation including buildings with historical and architectural significance. Clearly, BIA's construction and maintenance program is a multifaceted operation challenged with meeting it's broad facility needs.

The construction program is responsible for correcting identified code and standard deficiencies at BIA facilities. The BIA program staff receives continuous training on the BIA's Facilities Management Information System, which is used to regularly update the BIA's multi-phased inventory and deferred maintenance backlog.

U.S. Department of the Interior

Bureau of Indian Affairs

Combining Statement of Budgetary Resources by Major Program

For the Year Ended September 30, 2005

(in thousands)

	Total	Operation of Indian Programs	Construction	Other
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 2,428,873	$ 1,958,347	$ 323,626	$ 146,900
Net Transfers, Current Year Authority	3,898	3,898	-	-
Unobligated Balance:				
Beginning of Fiscal Year	700,581	375,186	240,880	84,515
Net Transfers, Unobligated Balance, Actual	(7,963)	665	(7,342)	(1,286)
Spending Authority From Offsetting Collections:				
Earned				
Collected	340,434	327,727	10,361	2,346
Receivable From Federal Sources	3,483	3,072	411	-
Change in Unfilled Customer Orders				
Advance Received	(55,001)	(54,286)	(715)	-
Without Advance From Federal Sources	19,959	17,898	2,060	-
Subtotal: Spending Authority from Offsetting Collections	308,875	294,412	12,117	2,346
Recoveries of Prior Year Obligations	80,562	44,815	33,313	2,434
Permanently Not Available	(42,024)	(31,065)	(4,497)	(6,462)
Total Budgetary Resources	3,472,802	2,646,257	598,098	228,447
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	2,480,165	1,947,344	374,819	158,002
Reimbursable	348,742	336,681	12,061	-
Total Obligations Incurred	2,828,907	2,284,025	386,880	158,002
Unobligated Balance:				
Apportioned	602,303	321,674	211,218	69,411
Unobligated Balance not Available	41,592	40,558	-	1,034
Total Status of Budgetary Resources	3,472,802	2,646,257	598,098	228,447
Relationship of Obligations to Outlays:				
Obligations Incurred	2,828,907	2,284,025	386,880	158,002
Obligated Balance, Net, Beginning of Fiscal Year	650,114	281,108	346,269	22,737
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	11,017	9,207	1,810	-
Unfilled Customer Orders From Federal Sources	23,053	20,992	2,061	-
Undelivered Orders	(643,898)	(199,015)	(421,317)	(23,566)
Accounts Payable	(136,684)	(63,386)	(64,518)	(8,780)
Total Obligated Balance, Net, End of Fiscal Year	(746,512)	(232,202)	(481,964)	(32,346)
Less: Spending Authority Adjustments	(104,004)	(65,785)	(35,785)	(2,434)
Outlays:				
Disbursements	2,628,505	2,267,146	215,400	145,959
Collections	(285,433)	(273,442)	(9,646)	(2,346)
Net Outlays Before Offsetting Receipts	2,343,072	1,993,704	205,754	143,613
Less: Offsetting Receipts	(93,383)	-	-	(93,383)
Net Outlays (Receipts)	$ 2,249,689	$ 1,993,704	$ 205,754	$ 50,230

NOTE: Due to a change in reporting requirements, beginning in FY 2005, the SBR is no longer presented on a combined basis in the RSI. Rather, only budget accounts are now presented. As a result, the FY 2005 SBR shown here is not comparable to the FY 2004 SBR shown on the next page, as the latter is presented in its original, combined format.

U.S. Department of the Interior

Bureau of Indian Affairs

Combining Statement of Budgetary Resources by Major Program

For the Year Ended September 30, 2004

(in thousands)

	Total	Operation of Indian Programs	Construction	Other
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 2,418,800	$ 1,916,317	$ 351,154	$ 151,329
Borrowing Authority	4,500	-	-	4,500
Net Transfers, Current Year Authority	40,431	-	35,463	4,968
Unobligated Balance:				
Beginning of Fiscal Year	859,540	484,473	225,694	149,373
Net Transfers, Unobligated Balance, Actual	(7)	6,488	(3,089)	(3,406)
Spending Authority From Offsetting Collections:				
Earned				
Collected	269,083	229,269	16,991	22,823
Receivable From Federal Sources	(9,066)	(6,868)	(2,198)	-
Change in Unfilled Customer Orders				
Advance Received	3,490	3,074	416	-
Without Advance From Federal Sources	(17,461)	(16,265)	(1,196)	-
Subtotal: Spending Authority from Offsetting Collections	246,046	209,210	14,013	22,823
Recoveries of Prior Year Obligations	79,265	63,232	8,919	7,114
Permanently Not Available	(34,334)	(23,612)	(4,328)	(6,394)
Total Budgetary Resources	3,614,241	2,656,108	627,826	330,307
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	2,583,788	2,038,658	376,174	168,956
Reimbursable	253,036	242,264	10,772	-
Total Obligations Incurred	2,836,824	2,280,922	386,946	168,956
Unobligated Balance:				
Apportioned	743,719	349,285	218,926	175,508
Unobligated Balance not Available	33,698	25,901	21,954	(14,157)
Total Status of Budgetary Resources	3,614,241	2,656,108	627,826	330,307
Relationship of Obligations to Outlays:				
Obligations Incurred	2,836,824	2,280,921	386,946	168,956
Obligated Balance, Net, Beginning of Fiscal Year	479,106	218,728	238,525	21,853
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	7,534	6,136	1,398	-
Unfilled Customer Orders From Federal Sources	3,094	3,094	-	-
Undelivered Orders	(531,978)	(214,996)	(303,712)	(13,270)
Accounts Payable	(132,589)	(75,342)	(43,957)	(13,290)
Total Obligated Balance, Net, End of Fiscal Year	(653,939)	(281,108)	(346,270)	(26,560)
Less: Spending Authority Adjustments	(52,739)	(40,100)	(5,525)	(7,114)
Outlays:				
Disbursements	2,609,253	2,178,441	273,677	157,135
Collections	(272,572)	(232,343)	(17,407)	(22,822)
Net Outlays Before Offsetting Receipts	2,336,681	1,946,098	256,270	134,313
Less: Offsetting Receipts	(92,805)	-	-	(92,805)
Net Outlays (Receipts)	$ 2,243,876	$ 1,946,098	$ 256,270	$ 41,508

See Note on page 89.

Required Supplementary Stewardship Information

(Unaudited; see Auditors' Report)

This part of the Section II Financial Information contains our required supplementary stewardship information disclosures.

Contents Include:

General Stewardship Information

The BIA stewardship reporting is in accordance with the regulations of the Federal government. The regulations require the Federal agencies to report on their stewardship over certain resources entrusted to them and certain responsibilities they assume that cannot be measured in traditional financial reports.

Although these resources and responsibilities do not meet the criteria for assets and liabilities that are required to be reported within the financial statements, they are important to understanding both the operation and financial condition of the BIA at the date of the financial statements and in subsequent periods.

Stewardship resources involve substantial investment by the BIA for the benefit of the Nation. Costs of stewardship-type resources are treated as expenses in the financial statements in the year the costs are incurred. These costs and the resultant resources are intended, however, to provide long-term benefits to the public and are included as Required Supplementary Stewardship Information (RSSI) reporting to highlight for the user their long-term benefit nature and to demonstrate accountability over them. Depending on the nature of the resources, stewardship reporting may consist of financial and non-financial data.

To achieve the objective of RSSI reporting, the resources and responsibilities for which the BIA is accountable have been categorized into two distinct groups. Measures of accountability were established for each group. The two major groups are "Stewardship Assets" and "Stewardship Investments".

Furthermore, the BIA administers Federal Indian policy and performs trust responsibility for Federally recognized American Indian Tribes and Alaska Natives. The policies and responsibilities emanate from treaties, the U.S. Constitution, laws, court decisions, and other agreements. The BIA provides services directly or through self-determination, contracts, grants, and compact agreements with Tribes. The range of services is similar to that provided by State and Local governments. The BIA's responsibilities extend to its stewardship of museum property, archaeological and historical sites, roads, bridges, land, and Indian education.

Stewardship Assets:

1) Heritage Assets – Museum Property Collections
2) Heritage Assets – Non-collectibles
3) Stewardship Lands

Stewardship Investments:

1) Human Capital – Indian Education
2) Non-Federal Physical Property

Heritage Assets - Museum Property Collections

The BIA is responsible for significant museum property collections to include: art work, archeological materials, historical objects, and associated records that are managed in 172 facilities nation-wide. This museum property is considered a "collectible heritage asset" valued for cultural, artistic, educational, historical, or natural significance to be preserved indefinitely.

Each year, the BIA reports on the museum property and collections in accordance with the Office of Management and Budget (OMB) Bulletin A-136, Form and Content of Agency Financial Statements, Section 10 – Required Supplementary Stewardship Information (RSSI). In anticipation of a revised reporting standard to be issued by the Federal Accounting Standards Advisory Board (FASAB), the Department of the Interior issued new guidance for reporting heritage assets in FY 2005. Therefore, the FY 2005 data on BIA museum property is displayed slightly different than in previous reports, but in consonance with the new Departmental guidance, coupled with two new disclosures concerning agency stewardship policies and a discussion of agency mission and compliance activities relating to heritage assets.

Museum Collections

For heritage asset reporting purposes, the Department defined museum property reporting units as "collections". The museum "collections" are defined as "assemblages of objects, works of art, and/or historic documents representing archeology, art, ethnography, biology, geology, paleontology, and history, collected according to a rational scheme and maintained so they can be preserved, studied, and interpreted for public benefit. A collection includes cataloged and/or uncataloged objects under the control of an administrative unit/location, which may have multiple facilities/spaces that house the collection."

Furthermore, the museum "collections" are reported as either facilities operated by a BIA facility, or a not operated by BIA. The BIA manages museum property in 172 facilities nationwide, to include 100 collections in BIA-operated facilities and 72 collections in non-BIA-operated facilities.

Museum Collections

					Condition of Facility Housing Collection (%) 1/			
Interior Museum Collections	Beginning Collections	Additions	Withdrawals	Ending Collections	Good (Meet > 70%)	Fair (Meet 50-70%)	Poor (Meet < 50%)	Not Yet Assessed
Held at BIA Facility	100	3	3	100	22	24	37	17
Held at Non-BIA Facility	75	1	4	72	16	17	2	37
Total	175	4	7	172	38	41	39	54

1 Good condition means meeting more than 70% of standards in Departmental Manual Chapter 411, Museum Property; Fair means meeting 50-70% of Departmental standards; Poor means meeting less than 50% of Departmental standards.

The museum collection "additions" and "withdrawals" include one collection of materials being transferred from a BIA facility to a non-BIA tribal museum on long-term loan; and three BIA facilities that found museum items in FY 2005, but previously had not had any museum property. Withdrawals include one BIA facility that transferred museum property to another BIA facility that already held museum collections, a non-BIA museum closure, where objects were transferred to another non-BIA repository that manages other BIA museum collections, a repatriation of human remains from a BIA facility to affiliated tribal representatives under the Native American Graves Protection and Repatriation Act of 1990 (NAGPRA), and three facilities withdrawn for NAGPRA repatriation that had occurred prior to FY 2005.

The museum collection "condition" is assessed based on the level of facility compliance with Departmental policy (411DM), with a rating of "Good" determined as meeting 70% of the Department's policy requirements. Facilities are assessed using the Department of the Interior Museum Checklist, reviewing American Associations of Museums accreditation, and adopting the US Army Corps of Engineers Mandatory Center of Expertise (MCX-CMAC) scores for compliance with 36 C.F.R Part 79, Curation of Federally-Owned and Administered Archeological Collections, which is similar to 411DM, in collaboration with other Interior bureaus. In FY 2005, the BIA completed 26 facility assessments, including evaluations of 9 facilities not previously assessed and re-evaluation of 17 facilities to assess changes in space utilization and management activities.

American Indian Museum Exhibit

Stewardship Policies, Mission Activities, and Mandated Compliance Related to Museum Collections

The BIA stewardship policy for managing museum property is to provide for the protection and conservation of museum property collections; to preserve their important historic, scientific, or artistic qualities; and to provide for the accountability of management activities associated with museum property consistent with Department of the Interior standards (i.e., the 2001 BIA Policy for Managing Museum Property).

The BIA's responsibility for museum property was established under several cultural resource and property management authorities, to include the Antiquities Act of 1906 (16 U.S.C. 431-433); the Reservoir Salvage Act of 1960, as amended (16 U.S.C. 469-469c); the Archaeological Resources Protection Act of 1979, as amended (16 U.S.C. 470aa-mm); Archaeological Resources Protection Act of 1979 (ARPA); Curation of Federally-Owned and Administered Archeological Collections (36 C.F.R. Part 79); the Native American Graves Protection and Repatriation Act of 1990 (NAGPRA); Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 483 (b); Interior Property Management Directives, 410 Departmental Manual (410 DM); and Interior Property Management: Managing Museum Property, 411 Departmental Manual (411 DM).

The BIA museum property collections are collected and preserved to further the BIA mission by documenting bureau activities, such as the history of Indian schools and celebrating government-to-government relations between the Federal Government and tribal governments. The collections are exhibited in Indian schools and displayed in the BIA administrative offices by illustrating the history, mission and activities of the bureau, as well as highlighting traditional and contemporary American Indian material culture. Collections are also managed in museums, universities and other repositories and made available to tribes and the public through research, exhibitions, and publications that document and highlight tribal histories and traditions.

In addition, the BIA manages museum collections in support of the Departmental Strategic Plan in "Serving Communities: Preserving Indian Trust Cultural and Natural Heritage Resources." A significant area of BIA museum collections responsibility is the management of archeological collections removed from Indian reservation lands under permits issued under the authority of Antiquities Act of 1906, and the associated documentation, before the enactment of the Archaeological Resources Protection Act of 1979. ARPA specifically identifies Indian lands separately from Federal lands, and thus collections removed from Indian lands under ARPA permits are the property of a tribe or individual landowner. The BIA assumes responsibility for the Antiquities Act collections in accordance with Departmental policy stated in the April 22, 1988 letter from the Assistant Secretary for Fish, Wildlife, and Parks regarding the "Disposition of Archeological Collections Recovered Pursuant to the Antiquities Act of 1906." Although the archeological collections were not defined as Trust assets, the BIA strives to provide accountability with continuing efforts to locate and assess archeological collections for compliance with 36 C.F.R. Part 79 and account for items through cataloging activities, as required by 411DM.

FY 2005 Museum Collections Activities

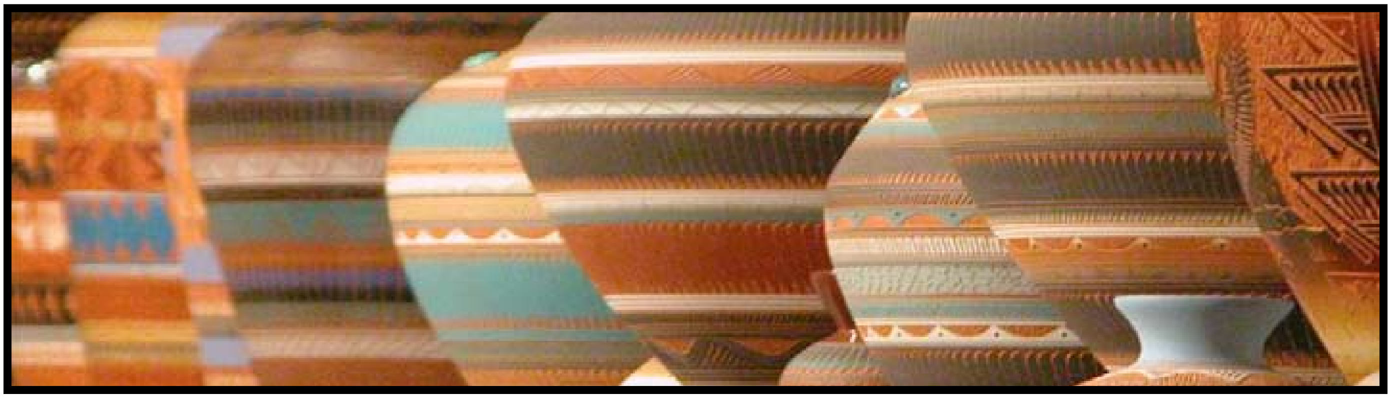
The BIA's priorities for museum collections are to identify and document museum property items, assess preservation needs and implement appropriate corrective actions for improved accountability and access.

In FY 2005, the BIA exceeded its annual target for "Preserving Cultural and Natural Heritage Resources," which measures the percent of museum collections managed in "Good" condition. The BIA aimed for a 1% increase over FY 2004, or 19% in "Good" condition. For FY 2005, the BIA reported collections in "Good" condition at 22%, which is a 3% improvement over FY 2004.

In FY 2005, efforts to increase the BIA knowledge-base about museum property management included several training activities presented at Departmental events on exhibition, access, accountability, inventory, and management plans. In addition, the BIA collaborated with the Department and other Interior bureaus on the development of a Department-wide distance-learning training module on museum property management. This module is now scheduled for release in FY 2006. Furthermore, extensive technical assistance was also provided to the BIA field offices without curatorial staff on projects ranging from the identification of museum property, exhibit installation, hands-on collections management activities, conducting inventories, and assessing facility conditions. Moreover, the BIA drafted a heritage asset reporting manual, which provides guidance for addressing the required cultural resource reports. To address the Activity-Based Costing (ABC) initiative, the BIA established museum property management activity definitions that cross-walk to Departmental definitions and relate museum property accountability to the Department's strategic plan, which will serve as an important tool for evaluating museum activities and management planning.

Lastly, the BIA continues to partner with non-BIA repositories housing BIA museum property to provide for accountability, preservation, and access to these collections. In FY 2005, the BIA coordinated the transfer of a collection of culturally significant archeological materials from a State museum to a tribal cultural center. To facilitate the transfer and ensure accountability, the BIA supported the activities to complete cataloging and rehousing of the materials prior to transfer, while simultaneously providing the tribal facility accurate and complete catalog data for the collections. The BIA has also initiated three additional contracts for cataloging BIA archeological collections and associated documentation, as well as rehousing materials in archival materials for long-term preservation.

In compliance with the NAGPRA, the BIA completed during FY 2005, two repatriations of human remains and associated funerary objects, which represented 366 funerary objects and 1 set of human remains to affiliated tribal representatives. The BIA also published two notices of Inventory Completion in the Federal Register, which represented seven sets of human remains and eight associated funerary objects.



American Indian Pottery

Heritage Assets - Non-collectibles

Coolidge Dam, Gila River, Arizona

The BIA is steward for a number of non-collectible heritage assets, including archeological sites and National Register of Historic Places. Many of these non-collectible heritage assets are listed on the National Register of Historic Places (the Register acknowledges their importance to American history.)

Archeological Sites

The archeological sites are locations that contain material remains, or physical evidence, of past human activity of various sorts. The sites include prehistoric lithic and artifact scatter, habitation areas, and burial grounds. The BIA reports the known archeological sites on BIA property, regardless of the listing or the eligibility for listing on the Register. In FY 2005, BIA verified that it had 33 archeological sites on BIA property. Thirty are located at the San Carlos Reservoir, (8 of which are eligible for listing on the Registry) and 3 sites are located at the Indian School Village at Pierre Indian Learning Center.

The BIA assesses the "condition" of the archeological sites by monitoring both human and natural occurrences, and determining whether management actions are needed to change the conditions at the sites. Management actions were proposed for all 33 archeological sites at both locations. Many of the sites, however, are deteriorating due to erosion, looting, cattle trampling, and the development within the surrounding area. Proposed plans range from developing site-specific protection and closer monitoring to preclude development in the area. The condition of the sites is classified as "Good."

National Register of Historic Places

The non-collectible heritage assets serve two primary purposes. It reminds ourselves of our American heritage and allows its use in day-to-day government operations unrelated to the assets themselves. Any carrying value is reflected on the Consolidated Balance Sheet, and any deferred maintenance is included in the RSI.

The BIA non-collectible heritage assets include historic properties ranging from the Coolidge Dam to buildings on the campus of Haskell Indian Nations University in Lawrence, Kansas. The BIA only reports as non-collectible heritage assets those historic structures owned by the BIA that are listed on the Register, or are eligible for the listing.

In FY 2005, the BIA obtained a list from the National Register of Structures that identified the BIA structures; however, some of the listed buildings were never owned by the BIA, or were listed as BIA-owned but were in fact transferred to the Tribes. Accordingly, the BIA reviewed the prior year Performance and Accountability Reports and National Register listings to assess and determine whether the properties were eligible for the National Register and owned by the BIA. The review concluded that the total multi-use heritage assets amounted to 179 units.

In addition, condition assessments are still being performed for all BIA non-collectible heritage asset. Please refer to the following table "FY 2005 Non-Collectible Cultural and Natural Heritage Assets."

FY 2005 Non-Collectible Cultural and Natural Heritage Assets

Category by Type	Beginning balance (units)	Additions (units)	Withdrawals (units)	2005 Ending balance (units)	Condition (%) 1/ Good	Fair	Poor	Unknown
Archeological and Historic Sites	30	3		33	100			
National Historic Landmarks								
Natural Heritage Special Management Areas								
Historic and Prehistoric Structures								
Paleontological Sites								
Cultural Landscapes								
National Register of Historic Places	17	130	1	146		0.6	1.4	98
National Park System								
National Wildlife Refuge System								
World Heritage Properties								
Total Items	47	133	1	179	100	0.6	1.4	98

1/ "Good" condition means a site shows no clear evidence of negative disturbance or deterioration by natural forces or human activities.
"Fair" condition means that a site shows clear evidence of negative disturbances or deterioration by natural forces and/or human activities.
"Poor" condition means that a site shows clear evidence of human activities and no preserve the integrity of the site.
"Unknown" condition means that due to the nature of the site, either corrective actions were taken to protect, but the condition cannot be determined, or due to financial constraints, the condition of the site cannot be determined.

Stewardship Lands

The BIA has approximately 205,521 acres of stewardship land that it administers. The land encompasses a wide range of activities, to include recreation, conservation, and functions vital to the culture and livelihood of the American Indians and Alaska Natives. The stewardship land does not include approximately 56 million acres of tribally and individually owned land held in Trust by the BIA.

The following is a list of categories used by the BIA:

- C**ultural, School and Housing** –– consists primarily of home sites, both tribal and non-tribal. Includes the Sherman Institute Cemetery located in Riverside, California and land associated with several Indian schools, including 10 acres at the Turtle Mountain Community School in Belcourt, North Dakota.
- **Other Recreation Areas** -– consists primarily of fishing sites where only tribal members are provided with access to rivers for fishing.
- R**eclamation and Irrigation** -- used for numerous irrigation projects. Includes any buildings and water plants specifically associated with the project, as well as the irrigated land itself. In addition, it includes water reservoirs and their surrounding land, including the Weber Reservoir in Carson City, Nevada.
- **Other Stewardship Lands -- u**sed primarily for farming and grazing, but includes forest and wildlife areas in Montana and Wisconsin. Includes office space.

Lastly, the BIA is required to report on the condition of stewardship land. The Department classifies stewardship land as being "acceptable" or "needs intervention." Land is classified as "acceptable" when it is adequate for operating needs. If the land needs improvement, however, to meet operating needs, it is classified as "needs intervention." The overall condition of the BIA stewardship land is "acceptable." The number of units is defined as the number of parcels that relate to the acres. Please refer to the following table "Stewardship Lands".

Stewardship Lands

Category by Type	Federal Acres 2004 Beginning Balance	Additions	Withdrawals	2005 Ending Balance	Total Non-Federal Acres	Combined Total Acres	Condition - Acceptable or Needs Intervention 1/	Number of Units
Other Recreation Areas	0	170	0	170	0	170	Acceptable	15
Cultural, Schools, and Housing 2/	46,529	0	90	46,439	0	46,439	Acceptable	79
Reclamation and Irrigation Areas	150,945	0	0	150,945	0	150,945	Acceptable	75
Other Stewardship Lands 3/	8,047	0	80	7,967	0	7,967	Acceptable	51
Total	205,521	170	170	205,521	0	205,521		220

1 Land is categorized as "acceptable" when it is adequate for operating needs and the Department has not identified any improvements that are necessary to prepare and/or sustain the land for its intended use. Land is categorized as "needs intervention" when the Department has identified improvements that are necessary to prepare and/or sustain the land for its intended use.

2 Combined FY 2004 Cultural and School & Housing; however BIA recategorized 90 acres as other recreation areas.

3 Combined FY 2004 Office/Industrial and Agriculture; however BIA recategorized 80 acres as other recreation areas.

Human Capital

Indian Education

Taking the lead in the BIA in the area of education is the Office of Indian Education Programs (OIEP). The OIEP vision and long-range goal is to unite and promote healthy Indian communities through lifelong learning. This is implemented through its dedicated commitment to its mission, which is to provide quality education opportunities from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual and cultural aspects of the individual being served.

Since 1995, the BIA grants and contracts have allowed the tribes, rather than the BIA, to operate many of the schools. In School Year (SY) 2004-2005, 122 of the 184 schools/dorms were administered by tribes and tribal organizations, which is equivalent to 66 % of the total schools.

Through various education programs, a significant human capital investment in Indian education was made towards improving American Indians and Alaska Natives. In FY 2005, $ 549.0 million was expended for Indian education programs, excluding the construction and facilities maintenance, which will benefit American Indians and Alaska Natives from childhood throughout adulthood.

The FY 2001 – 2005 expenses that relate to the Investment in Human Capital are detailed in the following table.

School Operations Program

FY 2001 - 2005 Investment in Human Capital

(dollars in millions)

Category	FY 2001 2/	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Educational Programs 1/	$ 526.7	$ 606.8	$ 559.6	$ 570.2	$ 549.0	$ 2,812.3
Job Corps Program						
Other	-	15.0	11.8	11.9	12.1	50.8
TOTAL	$ 526.7	$ 621.8	$ 571.4	$ 582.1	$ 561.1	$ 2,863.1

1 Educational Programs include School Operations, Adult Education, Post Secondary Education, Scholarship Programs, and the Indian Employment, Training, and Related Services Act.

2 Based on obligations, rather than actual expenses.

The Indian School Equalization Program (ISEP) provides formula-based funding for BIA-operated, grant, and contract elementary and secondary schools.

The funds are distributed using the ISEP formula, which considers Weighted Student Units (WSU) in order to provide basic educational programs for Indian children in grades K through 12. This funding is for operating the BIA-funded schools, i.e. funding for school staff, school programs, textbooks and general supplies that are used by the school to educate Indian children.

The School Operations Program consists of ISEP, transportation, Family and Child Education (FACE) and administrative cost funds.

Parent Appreciation at Wingate High Graduation Ceremony

Significant Output/Accomplishment

The most significant accomplishment in school operations was illustrated in a recent Family and Child Education (FACE) impact study. This study, which was conducted by an independent research firm, concluded that in SY 2004-2005:

a. FACE Program was successful in encouraging parents to enroll their child in preschool programs

b. FACE Program was successful in preparing children for school.

In addition, in March 2005, the Acting Assistant Secretary - Indian Affairs awarded the First Mesa Elementary School with a "Star Award." This award was presented in recognition for building and maintaining a successful school team that involved students, staff, school board and local community members. The award exemplifies the "true teamwork" needed in order to provide high quality education programs, while enhancing the academic achievement by 230 Hopi students. First Mesa is a high achieving Bureau-operated school that continues to make adequate yearly progress while simultaneously providing an effective model system for other Bureau entities striving to achieve similar success.

The total number of schools and students for SY 2004-2005 and 2003-2004 are summarized as follows:

Adult Education

School Operations

	SY 2004-2005		SY 2003-2004	
School Operations	Schools	Students	Schools	Students
Contract/Grant Schools	122	29,370	120	28,976
Bureau-operated Schools	62	18,218	64	18,695
Totals	184	47,588	184	47,671

The Adult Education Program provides opportunities for adult Indians and Alaskan Natives to obtain the General Equivalency Diploma (GED). It also provides basic skills for transition to community college or job placement. In addition, this program specifically improves the Native Americans educational opportunities, employment skills and abilities while enhancing the local economy and their economic competitiveness on reservations. It also reduces their economic dependence on welfare programs. In sum, the tribes support the continuing Adult Education Program with several education programs under Tribal Priority Allocations (TPA) funding process.

SIGNIFICANT OUTPUT/ACCOMPLISHMENT

During SY 2003-2004 (last full year data available), the Sinte Gleska University's Adult Basic Education Program reported that all goals were met or surpassed. In fact, forty-nine students attained their GED, which is the largest number to date. The program, which is currently the fourth largest Adult Education Program in South Dakota, expects to continue growing to meet "No Child Left Behind" standards.

Post-Secondary Education Programs

The Post-Secondary Education Programs are an important component in the economic development of tribal communities. It also supports the Department's goal on "Improving Communities" by promoting growth within Indian communities. These programs primarily consist of operating grants and supplemental funds for Tribal Colleges and Universities (TCU). They also include the Undergraduate and Graduate Scholarship Programs, Haskell Indian Nations University and Southwestern Indian Polytechnic Institute.


Haskell University Graduation

The operating funds for TCUs are provided through the TCU Program, which provides grants to defray expenditures for academic, educational and administrative purposes and for the operation and maintenance of 25 TCUs. Six tribes supplement the operation of their TCUs by providing additional TPA funds for policy development, curriculum additions and general program operations.

The Undergraduate and Graduate Scholarship Program is administered by the Bureau and by tribes under self-determination contracts, grants, or self-governance compacts. The Undergraduate Scholarship Program provides financial assistance for eligible American Indian and Alaska Native students attending accredited post-secondary institutions. Each scholarship award is based on the student's certified financial aid requirements for Title IV Federal Assistance, such as the Pell Grant.

The BIA funds operating costs for two post-secondary schools to assist Indian students from all tribes in preparing the students for job placement in a variety of occupations. The Haskell Indian Nations University in Lawrence, Kansas and the Southwestern Indian Polytechnic Institute in Albuquerque, New Mexico offer their students skill certificates, and associate and bachelor degrees in a variety of studies, sciences and technologies. Two other post-secondary institutions that provide Indian education are Crownpoint Institute of Technology and United Tribes Technology College.

SIGNIFICANT OUTPUT/ACCOMPLISHMENT

The number of students decreased 13.5% from SY 2003-2004 to SY 2004-2005 , however the number of graduates increased slightly. This clearly demonstrates the continued success of Indian schools.

Other Education Programs

Other TPA programs that benefit Indian communities include the Tribal Design Program and Johnson O'Malley (JOM) Program. The Tribal Design Programs allow tribes to design programs that meet the needs of their local communities and support the goals outlined in the Bureau's Annual Performance Plan. Several tribes use this program to upgrade and improve tribal employee skills in the use of computer technology.

The Johnson O'Malley (JOM) Program provides supplemental financial assistance to meet the unique and specialized education needs of eligible Indian students (Age 3 through Grade 12) attending public schools. JOM is the only BIA program that provides for the culturally-related and supplementary academic needs of Indian children attending public schools.

These programs support the BIA's Annual Performance Plan goal that seeks to improve the succession of students to each educational level.

Significant Output/Accomplishment

During School Year 2004-2005, the Navajo Nation's JOM Program (through 37 schools, school districts and tribal subcontracts) provided assistance to more than 51,000 students in Arizona, New Mexico and Utah.

477 Program

The Indian Employment, Training and Related Services Act (P.L. 102-477) allows Federally recognized Tribes to apply funding by the Department of Labor, Health and Human Services, and DOI to employ, train, and provide child care, welfare reform, and related services. The tribal governments are allowed to integrate the employment, training and related services in order to effect improved services. In essence, the services reduce joblessness in Indian communities and foster economic development on Indian lands, while serving tribally determined goals that are consistent with policies of self-determination and self-governance.

Significant Output/Accomplishment

Most noteworthy, the tribes now spend fewer funds on administration, while simultaneously improving increased client services through the reduction of administrative burdens. For instance, annual tribal reporting on various forms and instructions was reduced from several hundred pages to only a few pages per year. As a result, the program now requires only one set of client files and applications, instead of several different application forms, eligibility documentation and other related administrative burdens.

Fire Lake Discount Foods Store, Citizen Potawatomi Nation Economic Development Project

In addition, 48 tribal grantees under the 477 Program, and amendments to the 477 Program (P.L. 106-568) strengthened the 477 initiative by providing tribes with the flexibility to use a certain percent of their existing funds for job creation. Several tribes have taken a leadership role in this particular initiative. As a result they are implementing economic development projects that now assist other tribes in creating jobs. For instance, the Citizen Potawatomi Nation redesigned their 477 plan to create jobs and assist clients, as well as employers.

Fire Lake Farm, Citizen Potawatomi Nation Economic Development Project

In another economic development project, the Citizen Potawatomi Nation created 280 jobs for the local community and 105 of the jobs were obtained for American Indians. As a result, the BIA was able to successfully meet its performance goal for the 477 Program and maintain a 92% success rate which is defined by 90 day job retention.

In addition, by implementing the P.L. 102-477, 676 new jobs were created by tribes and 1,141 businesses were assisted. Moreover, 10,548 children were provided childcare services. The average per hour wage gain for persons placed in unsubsidized employment was $5.31 per hour, which includes persons previously on Federal cash assistance programs. Lastly, this program served 395 veterans with education, employment, training or related services.

Non-Federal Physical Property

The BIA's investment in Non-Federal Physical Property includes schools, dormitories and other infrastructures, the Indian Reservation and Roads (IRR) Program and the Indian Reservation Roads Bridge Program (IRRBP).

The Office of Facility Management and Construction (OFMC), in conjunction with the BIA, owns or provides funds for a considerable number and broad variety of buildings and other associated facilities across the nation, including buildings with historic and architectural significance. The BIA construction program is a multifaceted, intricate operation that encompasses the areas of Education, Public Safety and Justice, Resource Management and General Administration.

The education facilities serve a number of schools that provide educational opportunities for approximately 48,000 students. The BIA also provides funding for administrative buildings at a number of tribal locations. Other facilities include dormitories, road forestry and detention centers, numerous irrigation facilities and significantly hazardous dams. Additionally, program sub-activities have elements that include minor improvements, repair and replacement, portable classrooms, emergency repairs, demolition and reduction of excess space, environmental projects, telecommunication improvements and repair, seismic safety, and emergency management systems. Finally, the BIA is continually striving to correct code and standard deficiencies.

Funding for school projects is provided to the tribes through P.L. 93-638 contracts or through P.L. 297 grants. Once the funds are awarded, the BIA has the option of giving the tribe the entire amount, portioning the funds over time, or holding the funds until the tribe demonstrates they can begin the project.

The BIA Division of Transportation jointly administers the Indian Reservation Roads (IRR) Program and the Indian Reservation Roads Bridge Program (IRRBP) with the Federal Highway Administrations' (FHWA) Federal Lands Highway (FLH). The purpose of the IRR Program is to provide safe and adequate transportation and public road access to and within Indian reservations, Indian lands, and communities for Indians and Alaska Natives, visitors, recreational users, resource users, and others, while contributing to economic development, self-determination, and employment of Indians and Alaska Natives. As of October 2004, the IRR system consisted of approximately 27,749 miles of BIA and tribally-owned public roads and 31,345 miles of state, county, and local government public roads, as well as an inventory of over 1,020 BIA-owned bridges.

A significant portion of the FY 2005 funding was not made available until after June 30, 2005. As such, the funds were obligated late in the fiscal year and resulted in significantly few expenses by September 30, 2005. The expenses for all investments in non-Federal physical property for FY 2001 through September 30, 2005 are as follows:

Investment in Non Federal Physical Property - September 30, 2005

(dollars in millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Dams and Other Water Structures	$ -	$ -	$ -	$ -	$ 3.9	$ 3.9
Land						
Roads and Bridges	246.4	254.5	238.3	213.7	96.5	1,049.4
Schools and Public Buildings /1	26.2	47.5	19.0	45.3	36.4	174.4
Other						
Total	$ 272.6	$ 302.0	$ 257.3	$ 259.0	$ 136.8	$ 1,227.7

1 In prior years one of the categories was "Dams and Other Structures" and BIA had dollars that related to "Other Structures." In FY 2005, a new category was created: " Dams and Other Water Structures"; therefore BIA recategorized the prior year dollars into the "Schools and Public Buildings," since the dollars were not related to the new category.

Section III
Independent Auditors' Report

Indian Ceremonial Grounds and ancient drawings on stone

Contents

Inspector General Transmittal Letter

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

December 20, 2005

Memorandum

To: Assistant Secretary for Indian Affairs

From: Anne L. Richards Anne L. Richards
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Indian Affairs' Financial Statements for Fiscal Years 2005 and 2004 (Report No. X-IN-BIA-0006-2005)

Attached is the subject auditors' report prepared by KPMG LLP. It contains an unqualified opinion on the Bureau of Indian Affairs' (BIA) financial statements. However, KPMG identified nine reportable conditions on BIA's internal controls over financial reporting, three of which were considered to be material weaknesses. KPMG also found significant deficiencies in internal control over Required Supplementary Information, Required Supplementary Stewardship Information, and Performance Measures that, in its judgment, could adversely affect BIA's ability to collect, process, record and summarize this information. In addition, KPMG found instances where BIA did not comply with OMB Circular A-133, the Debt Collection Improvement Act of 1996, OMB Circular A-25, and the Federal Financial Management Improvement Act of 1996 (FFMIA).

In its December 1, 2005 response to the draft auditors' report (which follows the attached report), BIA concurred with the findings and recommendations, except for Finding K on controls over Required Supplementary Stewardship Information and Recommendation K.1 that recommended BIA disclose the condition of museum collections instead of the condition of the facilities housing the collections. Based on the response, we consider all findings except Finding K resolved but not implemented, and we will refer them to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. We will refer Finding K to the Assistant Secretary for Policy, Management and Budget for resolution.

The Department of the Interior contracted with KPMG, an independent certified public accounting firm, to audit BIA'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; Office of Management and Budget's Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/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 BIA's financial statements, KPMG's conclusions on the effectiveness of internal controls, conclusions on whether BIA's financial management systems substantially complied with FFMIA, or conclusions 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 BIA personnel during the audit. If you have any questions regarding the report, please call me at (202) 208-5512.

Attachments (2)

cc: Chief Financial Officer, Assistant Secretary for Indian Affairs
Finance Officer, Bureau of Indian Affairs
Director, Office of Financial Management,
Director, Office of Audits and Evaluations, Assistant Secretary for Indian Affairs
Audit Liaison Officer, Assistant Secretary for Policy, Management and Budget
Audit Liaison Officer, Office of Financial Management
Audit Liaison Officer, Bureau of Indian Affairs
Focus Leader for Financial Reporting, Office of Financial Management
Focus Leader for Management Control and Audit Follow-up,
Office of Financial Management

Independent Auditors' Report

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the Bureau of Indian Affairs (BIA) as of September 30, 2005 and 2004, and the related 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 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 BIA's internal control over financial reporting and tested BIA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that BIA'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. We also noted that BIA implemented a new accounting standard effective October 1, 2004.

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

Reportable Conditions Considered to be Material Weaknesses

A. Controls over Indian Trust Funds
B. Controls over Property, Plant and Equipment
C. Controls over Accounts Receivable and Deferred Revenue

Other Reportable Conditions

D. Controls over Accounting for Intradepartmental Transactions
E. Controls over Charge Cards
F. Controls over Clearing of Suspense Balances
G. Controls over Environmental Contingent Liabilities
H. Controls over Financial Management
I. Controls over Loans

We also noted certain significant deficiencies in internal control over Required Supplementary Information, Required Supplementary Stewardship Information, and Performance Measures that, in our judgment, could adversely affect BIA's ability to collect, process, record and summarize this information.

J. Controls over Required Supplementary Information – Deferred Maintenance Reporting
K. Controls over Required Supplementary Stewardship Information
L. Controls over Performance Measures

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported 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*.

M. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*
N. *Debt Collection Improvement Act of 1996*
O. OMB Circular A-25, *User Charges*
P. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

The following sections discuss our opinion on BIA's financial statements, our consideration of BIA's internal control over financial reporting, our tests of BIA'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 Indian Affairs (BIA) as of September 30, 2005 and 2004, and the related 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 then ended (hereinafter referred to as the financial statements).

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

As discussed in Note 1 to the financial statements, BIA adopted the provisions of Federal Accounting Standards Advisory Board Interpretation No. 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4,* effective October 1, 2004.

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 Circular A-136, *Financial Reporting Requirements,* Part A, *Form and Content of the Performance and Accountability Report.* 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. As a result of such limited procedures, we believe that the Required Supplementary Information for deferred maintenance is not presented in conformity with accounting principles generally accepted in the United States of America because BIA does not have adequate internal controls surrounding the compilation of deferred maintenance estimates and also is not computing deferred maintenance consistently for all heritage assets and stewardship land. Also, we believe that the Required Supplementary Stewardship Information for heritage assets is not presented in conformity with accounting principles generally accepted in the United States of America because BIA has not completed its identification and condition assessment of heritage assets. Finally, we noted certain significant deficiencies in internal controls over reported performance measures that, in our judgment, could adversely affect BIA's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other accompanying information included in the Introduction and Appendices, as reflected in the accompanying table of contents, are an integral part of BIA's *Performance and Accountability Report: Fiscal Year 2005*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. This information has not been subjected to the same auditing procedures 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 BIA'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 2005 audit, we noted certain matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions A through C are material weaknesses.

A. Controls over Indian Trust Funds

The United States Congress has designated the Secretary of the Interior as the primary fiduciary with responsibility for the monetary and non-monetary resources held in trust on behalf of American Indian Tribes, individual Indians, and other trust funds (hereafter collectively referred to as the Indian Trust Funds). The Secretary carries out this fiduciary responsibility through the Office of the Special Trustee for American Indians (OST), the Bureau of Indian Affairs (BIA), other Interior bureaus, and agreements with American Indian Tribes. OST is a component of Departmental Offices.

The Indian Trust Funds' balances include appropriated accounts that are considered Federal funds and non-Federal accounts that belong to beneficiaries of the Indian Trust Funds. The Federal accounts are reflected in Departmental Offices' financial statements, while the non-Federal accounts, which represent the majority of the Indian Trust Funds, are not reflected in Departmental Offices' financial statements. However, the Indian Trust Funds' transactions and balances are disclosed in a footnote to Departmental Offices' financial statements, in accordance with Federal accounting standards.

The regional and agency offices of BIA perform a critical role in the initial input and subsequent changes to the Indian Trust Funds' information disclosed by Departmental Offices. We noted the following weaknesses related to the internal controls performed by regional and agency offices:

I. Indian Trust Funds' Systems

BIA had not consistently implemented automated systems for tracking and processing activities of the Indian Trust Funds. Agency offices use "off-the-shelf" software, internally developed software, in-house databases, and manual processes to manage ownership records, track lease activity, account

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for receivables/revenue, and determine disbursement amounts. BIA had developed an automated system for certain activities; however, BIA had not yet fully implemented this new system in all agency offices. This situation increases the risk that transactions are recorded inaccurately and untimely.

2. ***Segregation of Duties***

The responsibilities for Indian Trust Funds processing are not properly segregated to prevent or detect errors. BIA did not segregate realty and land management activities (i.e., lease compliance) from accounting activities (i.e., collecting, depositing, and sending instructions to OST to create, record, and distribute receipts). Also, in limited cases, the same employee was responsible for all activities associated with trust transactions, including initiating lease agreements, generating bills, collecting funds, making deposits, and sending instructions to OST to create accounts and distribute funds.

3. ***Accounts Receivable***

BIA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing accounts receivable for the Indian Trust Funds. This results in inconsistent processes and increases the risk that amounts due to Indian Trust Funds are not identified and ultimately collected. Several agency offices prepared bills after receiving payments rather than sending bills in advance of the payment due date. In addition, certain agency offices did not identify or pursue past due receivables and instead relied on landowners/lessors to inquire of overdue payments before pursuing the receivable. Furthermore, several agency offices did not maintain a listing of leases and permits against which receivables could be established.

4. ***Probate Backlog***

BIA did not consistently enter probate orders for land title into the trust management systems timely. Although BIA made progress in reducing the backlog, as of September 30, 2005, BIA indicated that it had probate orders that had not been recorded. This increases the potential for untimely distributions of income to the account holders of the Indian Trust Funds.

5. ***Untimely Deposits***

Several BIA agency offices did not consistently forward trust receipts in a timely manner to OST to be deposited. As a result, in certain instances, deposits of trust receipts were delayed for up to five business days and in others, delays were up to twelve days. In one instance, we noted a delay of thirty-eight days.

6. ***Supervised and Restricted Accounts***

BIA did not consistently maintain documentation for supervised accounts, including social service assessment and evaluation forms, disbursement documentation, annual review documentation, court orders, and notification of restriction letters. Furthermore, BIA did not consistently perform annual reviews of active accounts.

7. ***Appraisal Review***

One of the key elements in performing realty trust transactions is the requirement to obtain appraisals for realty transactions. Current laws allow the appraisal function to be carried out by tribes, who are often the named parties involved in realty transactions. BIA is responsible for assisting trust beneficiaries in the negotiation and execution of realty transactions. Office of Appraisal Services (OAS) is responsible for conducting reviews of appraisals that are completed by tribes for the benefit of trust beneficiaries. BIA controls were not in place to ensure that all appraisals, conducted under compacts or contracts, completed by tribes for the benefit of trust beneficiaries had been approved by OAS.

Recommendation

We recommend that BIA develop and implement procedures and internal controls to address the deficiencies in controls related to Indian Trust Funds.

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. Controls over Property, Plant and Equipment

BIA did not consistently follow or implement policies and procedures designed to ensure that property, plant and equipment (PPE) balances, including construction-in-progress and advances to others, are stated in accordance with Federal accounting standards. Specifically, we noted the following:

1. Construction-in-Progress (CIP) and Advances to Others

BIA did not consistently monitor the status of CIP projects to ensure that BIA transferred completed projects to depreciable PPE timely and that all amounts included in CIP qualified as capitalizable costs as outlined in BIA's *Construction-in-Progress (CIP) Accounting Management Handbook* and Federal accounting standards. Specifically, during our June 30, 2005 testwork over CIP, we noted that BIA was unable to provide documentation to support all significant balances included within CIP. As a result, we did not complete our planned interim testwork procedures, and instead deferred our substantive testwork procedures over CIP to year end in an effort to give BIA management time to perform a thorough reexamination of the balances in CIP as of September 30, 2005. During our September 30, 2005 testwork, we noted that BIA: improperly classified $7.3 million of Advances to Others in CIP; failed to transfer approximately $9.4 million in CIP project costs related to projects completed in various fiscal years from CIP into depreciable fixed assets on a timely basis; and improperly recognized $5.4 million in operating and maintenance disbursements as CIP when, in fact, they should have been expensed as incurred. As a result of our observations, BIA adjusted the CIP balance as of September 30, 2005.

In addition, we noted BIA transferred $29 million related to other completed projects to real property in the incorrect period. The projects were all completed in prior fiscal years, but were not transferred into depreciable fixed assets until fiscal year 2005. As a result, depreciation expense related to these assets was not calculated until this fiscal year and depreciation expense was overstated in the current year and understated in prior periods by $863 thousand.

2. Capitalized Asset Donations

BIA occasionally receives donations of capitalized assets from Indian Tribes. During our September 30, 2005 testwork over capitalized asset donations, we noted that the posting model being utilized by BIA was not in accordance with Federal accounting standards. BIA's use of the incorrect

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posting model resulted in a misstatement of approximately $16 million in the preliminary draft Consolidated Statements of Net Position and Net Cost for the year ended September 30, 2005 which was subsequently corrected in the final consolidated financial statements.

3. *Fixed Asset Additions*

During our September 30, 2005 testwork over a statistical sample of fixed asset additions, we noted the following:

a. Three instances where items were being capitalized even though they failed to meet BIA's capitalization threshold.

b. When an asset is acquired, the asset's acquisition information, including fixed asset number, fixed asset type, acquisition cost, and catalog code/budget object code is entered into the Fixed Asset System (FAS). Currently, BIA property personnel have the ability to both initiate and approve an adjustment of the useful life of a capital asset. There is no review process for assets not using the useful life associated with the assigned catalog code in FAS.

Additionally, in performing procedures to test the completeness of BIA's property inventory, we noted one instance out of 78 items tested, where the depreciable property observed in the field was not listed in FAS.

4. *Property, Plant and Equipment Account Reconciliations*

In performing our procedures over the monthly FAS to Federal Financial System (FFS), BIA's general ledger, reconciliation, we noted a material reconciling difference of $15 million. This difference was the result of two FFS manual journal vouchers transferring capitalized costs related to the Facilities Management Information System (FMIS) and Trust Asset Accounting Management System (TAAMS) from software in development into the internal use software, which were not subsequently entered into FAS. As a result of this oversight, no depreciation expense was calculated by FAS for the FMIS and TAAMS as of June 30, 2005. Prior to September 30, 2005, BIA posted the TAAMS and FMIS journal vouchers to FAS. As a result, accumulated depreciation and depreciation expense is correctly stated as of and for the year ended September 30, 2005.

In addition, we noted that BIA did not consistently monitor their software in development account. BIA improperly capitalized costs in software in development for amounts that should have been expensed. Additionally, BIA did not utilize the appropriate posting model to ensure that all costs incurred for development of software in development post directly to the correct account. As a result, as of September 30, 2005, the software in development account was misstated by approximately $7 thousand.

Recommendations

We recommend that BIA implement the following recommendations to improve controls over its property, plant and equipment, CIP and advances to others:

1. *Construction-in-Progress (CIP)*

a. Fully implement its current CIP policies and procedures.

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b. Perform reviews of CIP detail, at least monthly, to ensure that: completed projects (or completed portions of on-going projects) are properly transferred from CIP to the appropriate PPE accounts in a timely manner; and amounts in CIP qualify as capitalizable costs as outlined in the *CIP Accounting Management Handbook.*

2. ***Capitalized Asset Donations***

a. Review its policies and procedures to ensure that capitalized asset donations are recorded in accordance with Federal accounting standards.

3. ***Fixed Asset Additions***

a. Implement policies and procedures to ensure BIA adheres to its capitalization threshold.

b. Implement policies that would prohibit the same person from both initiating and approving an adjustment of the useful life field when a capital fixed asset is recorded into FAS. BIA should also periodically perform an analysis of assets with useful lives that vary from the useful life associated with the assigned catalog code to ensure that the appropriate useful lives are being used.

c. Complete a more thorough review of "floor-to-book" inventory counts to ensure that all property, plant and equipment are input into FAS on a timely basis.

4. ***Property, Plant and Equipment Account Reconciliations***

a. Implement the appropriate FAS to FFS reconciliation and related management review procedures to ensure that reconciling differences are properly resolved in a timely manner.

b. Perform periodic management review/analysis procedures over software in development balances.

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.

C. Controls over Accounts Receivable and Deferred Revenue

BIA needs to improve its policies and procedures over accounts receivable and deferred revenue, including unbilled accounts receivable and allowance for loss on accounts receivable, in order to ensure that they are recorded in accordance with Federal accounting standards. Specifically,

1. ***Reconciliations between Subsidiary Ledger and General Ledger***

a. The majority of BIA's accounts receivable transactions are recorded into subsidiary systems that do not interface with FFS. The billing system at Carlos Irrigation Project (SCIP) is an example of one of these subsidiary systems. BIA records transactions for these subsidiary ledgers into the general ledger at a summary level on a periodic basis. To ensure these items are properly recorded, BIA performs a monthly reconciliation of revenue and receivables between the SCIP billing system and the summary level journal entry recorded in FFS. There is no effective reconciliation of the billing system receivables in the billing system and FFS.

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As of September 30, 2005, there were unreconciled differences of $177 thousand, dating back to November 2001, between the billing system and FFS that were not resolved.

b. BIA has no effective process in place to reconcile the receivable balance in the billing system to the sub ledger and general ledger in FFS. SCIP performs a weekly reconciliation of the billing system balances to the general ledger but this reconciliation only reconciles the current week's activity in the billing system and FFS within SCIP's specific organization code. At our request, BIA performed a cumulative reconciliation between the billing system and the sub ledger as of September 30, 2005 and found an unexplained variance of $180 thousand.

c. Although a quarterly reconciliation of the sub ledger to the general ledger is performed, it is not being performed on the organizational code level. At our request, BIA performed a reconciliation between the sub ledger and the general ledger for power receivables and found multiple journal entries had been recorded to the wrong organizational codes. For example, the general ledger balance for SCIP was overstated by $1.8 million. Although the net receivable balance for power receivables was correct, an entry correcting the balances at the organization code level was necessary to allow management to properly analyze receivable balances.

2. *Review of Unbilled Accounts Receivable and Deferred Revenue*

BIA did not appropriately review unbilled accounts receivable and deferred revenue related to reimbursable agreements that are reported on the consolidated balance sheet as of September 30, 2005. This lack of review resulted in:

a. the inconsistent application of posting models resulting in both the deferred revenue account being improperly drawn down and the unbilled receivable account being improperly increased;

b. balances in the unbilled accounts receivable account not being billed in a timely manner;

c. instances of agreement numbers within FFS that appeared to be duplicative; and

d. instances where the lack of agreement numbers in FFS being applied to transactions inhibited the tracking of progress on a particular agreement.

As a result of the deficiencies noted above, we proposed an unrecorded audit adjustment amounting to approximately $10.6 million relating to deferred revenue. Additionally, based on the testwork completed, we noted $6.6 million (43%) of the unbilled accounts receivable was over one year old and had not been billed on a timely basis.

3. *Review of Reimbursable Agreements*

In performing control testwork over reimbursable agreements, we noted that for 5 of the 45 reimbursable agreements selected for control testing, the agreement had not been approved by an authorized BIA official, or documentation of the approval had not been properly retained.

Additionally, while performing our substantive testwork over balances related to reimbursable agreements including: revenue, expenses, receivables, and deferred revenue, we noted that BIA has not been monitoring the use of deferred revenue or recognizing revenue equal to expenditures at the reimbursable agreement program and job level.

In performing our initial analysis, we noted that revenues equal expenses at the fund level, which is appropriate as the Education Fund is a reimbursable fund. However, revenues do not equal expenses at the reimbursable agreement program and job levels. We did, however, note that expenses appear

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to be applied appropriately at the reimbursable agreement program and job level. As such, advances are not being appropriately liquidated or unbilled receivables are being inappropriately recorded. Upon further discussion with management, we noted that BIA has a manual process to recognize revenue, and it has been performed incorrectly at the reimbursable agreement program and job level. Further, we noted that accounting personnel inappropriately liquidated existing deferred revenue agreements in lieu of billing for reimbursement of expenditures incurred as a result of the misclassifications noted above.

As a result of the conditions noted above, we requested that management prepare a reconciliation of the deferred revenue account for the Education Fund. In performing auditing procedures over this reconciliation, we noted an understatement of deferred revenue of approximately $14.9 million, of which $5.6 million should have been recorded as unbilled receivables. We proposed adjustments to correct these differences that were not recorded in the financial statements.

4. Review of Allowance for Loss on Accounts Receivable

BIA management did not perform a review over the fourth quarter allowance calculation that had been prepared by third-party contractors.

Recommendations

We recommend that BIA improve its policies and procedures over accounts receivable, including unbilled accounts receivable, and the allowance for loss on accounts receivable by:

1. Resolving all differences between the accounts receivable subsidiary ledgers and the general ledger in a timely manner;
2. Developing consistent billing practices that permit recovery of unbilled accounts and application of deferred revenue balances. Billing practices should be more in line with BIA's normal vendor payment cycle, which is currently 30 days as required under the *Prompt Payment Act*. Additionally, BIA should reconcile deferred revenue and unbilled accounts receivable balances timely to ensure amounts are properly drawn down.
3. Developing policies and procedures to ensure that reimbursable agreements are appropriately authorized and that the related revenues, receivables, and deferred revenue balances are appropriately recorded in the general ledger.
4. Reviewing and approving the allowance for loss on accounts receivable calculation prepared by the third-party contractor.

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.

KPMG

D. Controls over Accounting for Intradepartmental Transactions

As part of the reporting process, BIA is required to reconcile intradepartmental transactions between other bureaus within the DOI (referred to as "trading partners"). Differences with trading partners indicate misstatements in financial reporting at both the bureau and DOI levels. Differences between trading partners are currently identified through a manual process, which includes entering transaction data into the DOI's financial reporting system (Hyperion), which is accessible by all the bureaus within the DOI. As of June 30, 2005, BIA was a party to 11 of the 12 highest dollar variances. As of September 30, 2005, we noted that BIA was a party to 6 of the top 10 out-of-balance conditions. Therefore, BIA's financial statements as of and for the year ended September 30, 2005 could be misstated by the following amounts: Assets–$2.2 million; Liabilities–$2.2 million; Expenses–$2.2 million; Revenue–$2.2 million; Transfers in-$251 thousand; and Transfers out–$251 thousand.

As more reliance is placed on quarterly financial reporting, manual process, and lack of accurate and timely trading partner data may impact BIA's ability to prepare reliable interim and year-end financial statements in a timely manner.

Recommendations

We recommend that BIA:

1. Improve its manual process to identify and reconcile the intradepartmental transactions in a timely manner.
2. Perform the reconciliation process at least quarterly and include procedures to resolve all material differences identified in a timely manner.
3. Add a date field to the reconciliation spreadsheet to give management the ability to age the variances.
4. Complete the supervisory review of these reconciliation procedures in a more thorough and timely manner.

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.

E. Controls over Charge Cards

In 2005, BIA charge cards were used in transactions totaling approximately $79 million. By not ensuring that controls are operating effectively, BIA increases its risk that charge cards may be used for purposes other than official government related business which could lead to poor public perception of BIA's ability to manage its financial resources. BIA issues charge cards to its employees to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional and emergency purchasing of travel items, supplies, and services. In conjunction with the issuance of these cards, the DOI published guidance and instructions on the card's utilization through the *Integrated Charge Card Program Guide*. This guidance sets forth policy regarding the restrictions of use of the cards as well as certain internal control procedures such as timely and complete reconciliation of billing statements by cardholders and approving officials and surrender and destruction of charge cards and convenience checks upon a cardholder's resignation, transfer or termination. However, BIA does not consistently follow these internal control procedures due to the need for additional training on charge card procedures and the need for more diligent management oversight at the field level.

Specifically, during our testwork, we noted that out of 179 cardholder statements examined, 52 (29%) had not been properly reviewed and approved in a timely manner. While performing year end testwork procedures over terminated employees, we noted that 99 terminated employees, with the earliest termination date being August 23, 2004, still had active charge cards. Upon noting this anomaly, we confirmed that no unauthorized transactions were entered into after the termination date.

Recommendations

We recommend that BIA:

1. Provide users and approving official's additional training on DOI's charge card policies.

2. Approving officials be more diligent in monitoring and enforcing compliance with DOI's charge card policies.

3. Select a statistical sample of charge card purchases, on a quarterly basis, and obtain and review supporting documentation for the expenditures to ensure the validity of the purchases and to ensure BIA's compliance with established internal control policies and procedures.

4. Perform periodic (e.g. monthly) reviews of terminated employees and active charge card holders to ensure that terminated employees' charge cards are de-activated on a timely basis.

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.

F. Controls over Clearing of Suspense Balances

1. In some instances, BIA does not receive sufficient information to reference payments made to a vendor or receipts from a customer to the appropriate fund and general ledger account. In these cases, BIA records the disbursement or receipts of funds to one of its two suspense funds. Upon recording the transaction, BIA personnel should obtain additional documentation and/or communicate with the vendor or customer to determine the appropriate fund and general ledger account. BIA should then charge or credit the appropriate fund and general ledger account and clear the item from the suspense funds.

   In performing procedures over an aging of the balance in the suspense funds as of June 30, 2005, we noted significant amounts older than 180 days amounting to approximately $1 million and amounts relating to prior years of approximately $4 million that had not been transferred to the correct fund and general ledger account. In leaving balances in the suspense funds and not clearing them in a timely manner, BIA misstates various general ledger accounts. As of September 30, 2005, the balance in the suspense funds amounted to approximately $59 thousand and has been included in Other Miscellaneous Liabilities in the consolidated balance sheet.

2. In addition, we noted a lack of controls surrounding the receipts and subsequent disbursements, if applicable, of deposit-related suspense accounts, totaling $7.2 million, including the performance of reconciliations and maintenance of adequate supporting documentation.

Recommendations

We recommend that BIA:

1. Establish an effective management review process over the balances in its suspense funds to ensure that items are cleared in a timely basis. This review should be designed to ensure that bureau-wide guidance applicable to all personnel responsible for the posting of suspense items and the clearing of items posted to its suspense funds is implemented.

2. Establish a monthly reconciliation at the transaction level and management review process over all suspense funds related to deposits. This reconciliation should include an aging of transactions in order to track their flow in and out of suspense.

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.

G. Controls over Environmental Contingent Liabilities

In order to address issues noted in prior audits regarding environmental contingent liabilities (ECL), BIA developed the Environmental Contingent Liability Guidance Handbook (the ECL Handbook). This handbook was designed to provide consistent processes and financial guidance to the Regional Scientists (the Scientists) and other BIA personnel responsible for ECL data management, and to improve the completeness and accuracy of financial data related to ECL. During our 2005 audit, we noted improvement by BIA in addressing ECL weaknesses, however, additional improvements still need to be made in the internal controls over ECL. In performing our testwork over BIA's estimated ECL balance at June 30, 2005 and September 30, 2005, we noted the following:

1. Implementation of Policies and Procedures

The ECL Handbook was inconsistently applied and interpreted by the Scientists. Specifically, we noted:

a. Environmental liability sites (sites) related to Indian lands were still being included in the BIA ECL rollforward for some regions. In prior years, BIA determined that it does not have statutory or regulatory responsibility to clean up non-BIA caused environmental contamination on Indian lands. Consequently, these sites should no longer be included in the ECL rollforward.

b. The Scientists completed the ECL site documentation required by the ECL Handbook; however, there were inconsistencies between how each of the Scientists completed them.

c. The Scientists inconsistently accounted for advances provided to Indian Tribes to remediate sites. Some Scientists incorrectly removed the sites prior to the remediation being performed by the Indian Tribe.

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2. Availability of Resources

Although supplemented by contractors, there is lack of sufficient qualified personnel in the Regional Offices. One regional office covering approximately 27,000 square miles with over 70 ECL sites had only one acting Scientist for a significant part of the year. This condition contributes to the inability of the Scientists to complete annual inspections/reviews for all of the sites in their region.

3. Communication

BIA currently has a decentralized organizational structure that contributes to breakdowns in communication. For example:

a. The Scientists report directly to Regional Directors and not the Division of Environmental and Cultural Resources Management (DECRM), who has overall responsibility for ensuring that all BIA ECL's are identified and reported in BIA's *Performance and Accountability Report* (PAR) in accordance with accounting standards generally accepted in the United States of America. Therefore, DECRM cannot allocate Scientists to assist in other regions where there may be a need without first going through Regional Directors. This inevitably leads to conflicts between bureau–level and regional initiatives.

b. There were breakdowns in communication between Scientists and other regional personnel. In one instance, Office of Facility Management (OFMC) personnel removed a potential environmental hazard without consulting the appropriate Scientist, resulting in the need for soil analysis to be performed and additional funds to be expended.

4. Site Remediation and Prioritization

BIA currently provides for site prioritization at the regional level, however, there is no clear bureau-level ECL site prioritization plan. Although Scientists evaluate their individual regions on an annual basis, there is no global ranking to identify the most critical areas on a bureau-wide basis.

In addition, the ECL budget is currently developed on a regional basis, rather than based on a global site prioritization plan or other global framework. In order for BIA to reduce its overall ECL risk on an annual basis, a more appropriate methodology would be to review BIA's overall environmental risks at a bureau-level to identify the most critical ECL needs.

As a result of these weaknesses, BIA reassessed all ECL estimates prior to September 30, 2005 and increased their estimate of the environmental contingent liabilities by approximately $7 million and their upper and lower range estimates to remediate the reasonably possible sites by approximately $3 million at September 30, 2005.

Recommendations

We recommend that BIA:

1. Implementation of Policies and Procedures

Provide training for Scientists to ensure that the ECL Handbook is completely and accurately implemented. This training should also provide guidance to ensure that the Scientists are prepared to implement the Department of Interior (DOI) ECL guidance scheduled for distribution in fiscal year.

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2. *Resource Constraints*

Develop a human resources plan to ensure that the regions obtain sufficient qualified personnel to properly implement the policies and procedures in the ECL Handbook, including the completion of annual inspections/reviews for all of the sites in their region.

3. *Communication*

Implement an organizational structure that fosters communication between Scientists, DECRM, the CFO's office, and other regional personnel (e.g. OFMC personnel).

4. *Site Remediation and Prioritization*

a. Develop a comprehensive bureau-wide site prioritization and remediation plan; and

b. Develop a comprehensive ECL budget with targeted remediation dates and other annual objectives/goals.

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.

H. Controls over Financial Management

BIA needs to improve its financial management organization and processes. BIA does not have enough sufficiently trained financial management staff to manage accounting operations and ensure financial transactions are properly recorded. BIA has attempted to compensate for staff departures by assigning additional responsibilities to the remaining personnel and through an increased use of subcontractors. While these short-term measures have resulted in BIA being able to issue its PAR, it has not resulted in a financial management environment that will provide efficient and effective results on a long-term basis.

We also found that BIA financial management policies and procedures are not fully developed or consistently applied throughout BIA. Specifically, we noted that the policies and procedures related to construction in progress and environmental contingent liabilities were developed but not consistently implemented during fiscal year 2005. Additionally, we noted numerous other instances where procedures need to be developed including: suspense and deposit accounts; accounts receivables and deferred revenue related to reimbursable agreements; compliance with *Debt Collection Improvement Act;* and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. In addition, BIA does not always perform the necessary management review procedures timely throughout the year including analysis over select financial statement accounts, reconciling items with its trading partners, or differences between the general ledger and subsidiary ledgers. BIA also does not effectively review journal vouchers as we noted that BIA recorded adjustments to the incorrect accounts.

Additionally, during our review of BIA's performance measures, we noted issues that were a result of inadequate oversight of BIA staff who were responsible for compiling and preparing the disclosures related to the key performance measures that were included in BIA's PAR.

As a result, BIA expended a significant amount of time and resources reconciling its financial accounts, resolving differences between the general ledger and subsidiary ledgers, adjusting the general ledger, and finalizing the PAR at fiscal year end.

Recommendations

We recommend that BIA work with DOI's Office of Financial Management to perform the following:

1. Recruit additional accounting staff and continue to train existing staff to ensure that BIA has sufficiently trained resources to account for and report financial transactions.

2. Develop and communicate financial management policies and procedures to financial and program staff.

3. Enforce consistent application of financial management policies and procedures through internal control reviews.

4. Develop and implement formal month-end financial reporting processes to reconcile all subsidiary ledgers to general ledgers, reconcile balances and transactions with trading partners, and resolve differences. This should include having a supervisor review and approve the reconciliations.

5. Evaluate and implement best practices of other DOI components and consider outsourcing certain functions.

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.

I. Controls over Loans and Loan Guarantees

BIA has disbursed direct loans to Indian individuals and businesses from 1975-1995 and currently guarantees loans for Indian individuals and businesses who may not qualify for financing with commercial banking institution without the backing of a Federal agency. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, all loans disbursed or guaranteed after 1991 (post-Credit Reform Act) must be accounted for on a present value basis. BIA uses the OMB Consolidated Credit Tool (the Tool) to make the calculations to comply with these requirements. In performing testing procedures over the loans process, we noted the following:

1. Loan Management and Accounting System (LOMAS) is the system used to manage and account for direct and guaranteed loans. BIA has not fully integrated LOMAS with FFS. Consequently, the financial data at the financial statement account level in the LOMAS and FFS differs by approximately $1 million.

2. LOMAS and FFS are not capable of tracking all necessary data for loans. As a result, a loan spreadsheet including financial and non-financial data is maintained outside of FFS. Specifically, the guaranteed loans outstanding portion of the loans footnote contains data maintained exclusively on spreadsheets and outside of BIA's accounting systems and there are no IT system controls over the spreadsheets. Consequently, there is an increased risk of loss of data or error in the subsidiary

spreadsheets that support certain information presented in BIA's financial statement note disclosures related to loans and loan guarantees.

3. Many loan related entries were booked through manual journal entries rather then through the use of posting models in FFS. Many posting models for loan entries have not been developed in FFS, despite their inclusion in guidance provided by Treasury. Although no materially incorrect journal entries were found during the audit, we noted that correcting journal entries had been booked, indicating the posting of incorrect entries during the year. The use of journal entries, rather than developed posting models in FFS, increases the risk of incorrect entries and misstated balances.

4. The Tool used to calculate the subsidy re-estimates uses data from FFS. Due to the amount of time required to populate the credit tool, the data from FFS is obtained during the final week of the fiscal year, although entries related to loans continue to be recorded. As such, the final data in FFS does not agree to the data used in the Tool. The total difference is immaterial as it is less than $1 million.

5. BIA management did not perform a documented management review for any of the following:

   a. Manual input of data into the Tool,

   b. Subsidy re-estimate, or

   c. All loan data maintained on spreadsheets outside of FFS and LOMAS.

6. Documented policies and procedures regarding subsidy re-estimates and the processing of loans are not available.

7. In the loan-related footnote disclosure in the draft PAR, we noted that BIA had misclassified the interest rate re-estimate portion of loan guarantee liability balance ($3.76 million) as interest accumulation on the liability balance.

Recommendations

We recommend that BIA implement policies and procedures to:

1. Reconcile FFS and the loan spreadsheet.

2. Develop posting models for recurring loan entries.

3. Limit the impact of using incomplete FFS data for the subsidy re-estimate calculation or at least a process to ensure that no material transactions have been excluded from the data used for the subsidy re-estimate.

4. Review the loan related supporting schedules.

5. Implement formal policies and procedures to ensure that loans are processed and reported correctly.

6. Review loan related footnote disclosures.

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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.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted certain additional matters that we reported to the management of BIA in a separate letter dated November 9, 2005.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION, REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

We also noted certain significant deficiencies in internal controls over Required Supplementary Information and Required Supplementary Stewardship Information (RSSI) discussed in the following paragraphs, that in our judgment, could adversely affect BIA's ability to collect, process, record and summarize this Required Supplementary Information and Required Supplementary Stewardship Information.

In addition, with respect to the design of internal controls relating to the existence and completeness assertions over performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we noted certain deficiencies, discussed in the following paragraphs that, in our judgment, could adversely affect BIA's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria.

J. Controls over Required Supplementary Information – Deferred Maintenance Reporting

BIA has not fully implemented the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6* and SFFAS No. 8, *Supplementary Stewardship Reporting*. SFFAS No. 6 requires BIA to estimate the deferred maintenance for its general, heritage, and stewardship assets using either the condition assessment survey or life cycle costing method. BIA has adopted the condition assessment survey method, which requires BIA to perform periodic inspections of assets to determine their current condition and estimate the cost to correct any deficiencies. Specifically, the deferred maintenance estimate and related condition of major classes of assets disclosed could be misstated due to the following:

1. Personnel responsible for obtaining the deferred maintenance estimates from the field do not have line authority over field personnel responsible for developing the estimates.

2. Limitations and lack of system controls over the systems used to manage BIA's deferred maintenance estimates. Specifically, deferred maintenance estimates associated with Roads, Bridges, and Trails and Irrigation, Dams, and Other Water Structures are accumulated using Excel spreadsheets while deferred maintenance estimates related to Buildings and Other Structures are accumulated using the Facilities Management Information System (FMIS).

3. BIA has not fully established policies and procedures to determine deferred maintenance for all assets. Specifically, BIA has not completed and disclosed estimated deferred maintenance for all heritage assets (e.g. museum property, archeological sites, and historic structures, etc.) and stewardship lands. Furthermore, BIA does not consistently update the condition assessments required under the condition assessment survey method for irrigation systems and power projects.

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Recommendations

We recommend that BIA:

1. Develop lines of authority to ensure that deferred maintenance estimates are submitted to proper personnel on a timely basis and that adequate effort and support is provided to personnel in the field developing the estimates.

2. Implement a management information system to track the deferred maintenance estimates associated with roads, bridges, equipment and power and irrigation projects to ensure those estimates are accurate.

3. Develop a process consistent with Federal accounting standards for estimating deferred maintenance costs on stewardship land and heritage assets.

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.

K. Controls over Required Supplementary Stewardship Information

BIA has not fully established internal controls to ensure that RSSI information is completely and accurately collected, processed, recorded and summarized as follows:

1. Museum Property Collections

During testwork performed on heritage assets as of September 30, 2005, we noted that less than 11% of individual museum property collections have been catalogued in the Re:discovery system. BIA utilizes the Re:discovery system (the system) to catalogue and maintain essential information related to the museum property collections. Additionally, BIA has not assessed the condition of all the individual museum property collections which have been catalogued.

BIA's method for disclosing the condition of museum property collections is not in accordance with Federal accounting standards. The RSSI section of the BIA PAR states, "The museum collection "condition" is assessed based on the level of facility compliance with Departmental policy (411DM), with a rating of "Good" determined as meeting 70% of the Department's policy requirements. Facilities are assessed using the Department of the Interior Museum Checklist, reviewing American Associations of Museums accreditation, and adopting the Army Corps of Engineers Mandatory Center of Expertise (MCX-CMAC) scores for compliance with 36 C.F.R Part 79, Curation of Federally-Owned and Administered Archeological Collections, which is similar to 411DM, in collaboration with other Interior bureaus."

In other words, BIA considers museum assets to be in stable condition if the facility is in stable condition. If a collection is housed in a poor facility, the condition of the collection would be considered "poor", regardless of the actual condition of the collection itself. If that same collection is moved to a new facility which is in good condition, the collection would then be considered in "good" condition because the surrounding environment is in "good" condition and any environmental problems contributing to the deterioration of the collection would improve because of the condition of the new facility.

2. *Heritage Assets – Non-Collectibles*

BIA is unable to ensure the completeness of the "Non-Collectible Cultural and Natural Heritage Assets" as of September 30, 2005. In 2005, we noted an effort to report all assets that are located on the National Register of Historic Assets, but there are still assets recorded within the fixed assets subsidiary ledger which have not been evaluated to determine if the respective asset meets the criteria of a heritage asset. In addition, approximately 98% of the National Register of Historic Assets have an unknown condition assessment.

3. *Stewardship Lands*

BIA's determination of condition assessments on its stewardship lands could not be substantiated by any documentation and was performed based solely on inquiry of the Program Managers and the Custodial Property Officers.

Recommendations

We recommend that BIA:

1. Disclose the condition of the collection (i.e., the condition of the asset) instead of the condition of the facility housing the collection in accordance with the Federal accounting standards.

2. Devote more resources to the recording of heritage assets.

3. Document the assessments performed on stewardship lands.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that they will continue to report the condition of the facility housing the collection of heritage assets and stewardship property in accordance with current Departmental guidance.

L. Controls over Performance Measures

With respect to the design of internal controls relating to the existence and completeness assertions over performance measures determined by management to be key and reported in the Management's Discussion and Analysis (MD&A) section of the fiscal year 2005 PAR, we noted certain significant deficiencies in internal controls over reported performance measures disclosed within the MD&A. Specifically, we noted during our testwork that the fiscal year 2005 BIA draft MD&A included performance measures that could not be substantiated, such as the "Probates Received during the Year for which Assets were Distributed", "The Encumbrances Filed within Two Days", and "Children that can Read Independently (By the End of Third Grade)" performance measures. These unsupported performance measures were subsequently removed from the MD&A section of the PAR by BIA based on our testwork results. We noted through inquiry of BIA personnel that one of the performance measures still documented within the MD&A, "Leased Acres Achieving Desired Condition (Percent)", is compiled using 50 year old data of grazing and agricultural land assessments with regards to these lands' desired conditions. We noted that this documentation is not sufficient to be relied upon in preparing the PAR.

We further noted that there is no process whereby management reviews the performance data collected to ensure that the verification and validation of the data were both sufficiently performed by the GPRA coordinators.

Recommendation

BIA should ensure controls are in place to validate the reliability of transactions and other data that support reported performance measures.

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.

A summary of the status of prior year significant deficiencies is included as Exhibit I. We also noted certain additional matters that we reported to the management of BIA in a separate letter dated November 9, 2005.

COMPLIANCE AND OTHER MATTERS

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

M. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*

OMB Circular No. A-133 subpart D – Federal Agencies and Pass-Through Entities and Appendix B – Circular A-133 Compliance Supplement requires Federal awarding agencies to perform the following procedures: 1) advise the recipients of the requirements imposed on them by Federal laws, regulations, and provisions of the contract or grant agreements; 2) ensure that the audits are completed and the reports are received in a timely manner and in accordance with the requirements; 3) provide technical advice and counsel to auditees and auditors as requested; 4) issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective actions; and 5) assign a person responsible for providing annual updates of the Compliance Supplement to OMB. We noted that BIA was not in compliance with OMB Circular No. A-133 because BIA had not received 368 audited financial reports within the required time. Of these 368 Single Audit reports, 263 were due during fiscal year 2005 and the remaining 105 were due in prior fiscal years.

Additionally, we noted that BIA was not analyzing the Single Audit Reports and responding to the tribes within six months regarding BIA's management response on the Single Audit Reports. We obtained and reviewed BIA's Audit Status Report for September 2005 and noted that BIA had identified 59 instances where management responses had not been issued within six months of receipt of the audit report. BIA personnel responsible for preparing this response do not have the necessary training and technical guidance to issue management decisions. Additionally, workloads for those individuals need to be reallocated to ensure timely disposition of management responses. Without this, BIA has no method to ensure that recipients take appropriate and timely corrective action to ensure the proper utilization of Federal funds.

Recommendations

We recommend that BIA management:

1. Document and communicate policies to ensure roles and responsibilities for BIA personnel responsible for drafting and issuing management decisions are consistently understood and applied within a timely manner; and

2. Utilize the Federal Clearinghouse website on an on-going basis to determine when an audit report has been submitted and to obtain the report on a timely basis.

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.

N. Debt Collection Improvement Act of 1996

BIA has not formalized policies and procedures sufficient to meet the requirements of the DCIA. As such, BIA did not identify all accounts receivable that were delinquent for more than 180 days as eligible for transfer to the U.S. Department of Treasury (Treasury) for collection or offset. Specifically, during our June 30, 2005 testwork over DCIA, we noted the following:

1. BIA receivables with collection dates that exceeded 180 days were suppressed and not referred to Treasury.

2. BIA receivables were not charged the correct interest rate per the Treasury Financial Management Service.

3. BIA could not provide support or evidence that $7.7 million in direct loans and $2.8 million in guaranteed loans written off during the year were referred to Treasury.

4. BIA has an interagency agreement with the National Business Center (NBC) to refer BIA debts to Treasury. In June 2005, BIA notified the NBC to refer 2,649 accounts amounting to $1 million to Treasury. However, NBC was unable to process all of these accounts to Treasury in a timely manner.

5. BIA had no policies and procedures in place to review receivables referred to Treasury.

Recommendation

We recommend that BIA improve the overall debt collection process by establishing, implementing, and monitoring policies and procedures addressing debt collection issues to ensure compliance with the DCIA.

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.

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O. OMB Circular A-25, *User Charges*

OMB Circular A-25, *User Charges*, establishes various policies and procedures for Federal entities related to user charges associated with the sale or use of Federal resources (e.g. through reimbursable agreements). Specifically, it provides requirements to ensure that user charges will be sufficient to recover the full cost of providing the service, resource, or good. We noted that BIA does not charge users at a level sufficient to recover the full costs they incur. Specifically, BIA does not include the overhead costs associated with the administration of reimbursable contracts and agreements with other federal agencies or nongovernmental entities in the amounts billed under these contracts and agreements. As of August 17, 2005, BIA had approximately 2,134 reimbursable agreements totaling approximately $310 million. Additionally, BIA financial management has estimated its overhead burden rate to be approximately 25% of direct costs. Therefore, BIA is absorbing approximately $78 million of overhead costs that should be charged to its reimbursable customers under OMB Circular A-25.

Recommendations

We recommend that BIA management:

1. Implement policies and procedures to ensure compliance with the requirements of OMB Circular A-25.
2. Develop a methodology for computing its overhead burden rate and updating it periodically ensure compliance with applicable Federal standards.
3. Implement policies and procedures to ensure that a burden rate is applied to all reimbursable contracts and agreements and that a provision to do so is incorporated into all future contracts and agreements.

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.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

P. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

The results of our tests of FFMIA disclosed no instances in which BIA's financial management systems did not substantially comply with Federal financial management systems requirements, however, as described below, we identified instances where BIA's financial management systems did not substantially comply with (1) applicable Federal accounting standards, and (2) the United States Government Standard General Ledger at the transaction level.

1. *Federal Accounting Standards*

   BIA 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 numerous reportable conditions that affected BIA's ability to prepare its financial statements and

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related disclosures in accordance with Federal accounting standards. Also, as discussed in the Internal Control over Required Supplementary Information, Required Supplementary Stewardship Information, and Performance Measures section of this report, BIA needs to improve its policies and procedures for determining and reporting deferred maintenance, cataloging and performing condition assessments related to museum collections, and preparing performance measures to comply with Federal accounting standards. As a result, BIA does not substantially comply with the accounting standard indicators of FFMIA.

2. *United States Government Standard General Ledger*

BIA is not in substantial compliance with the United States Government Standard General Ledger (USSGL) at the transaction level. We noted that a portion of BIA's accounts receivable and all loan transactions are recorded in subsidiary systems that do not interface with FFS. These transactions are then periodically recorded at a summary level into FFS. As these transactions are recorded at the summary level, no detailed information is available in FFS to analyze or query. Additionally, as described in the Internal Control Over Financial Reporting section of this report, we identified instances where transactions were not recorded correctly in compliance with the USSGL at the transaction level. For example, BIA utilized the incorrect account posting model to record capitalized asset donations resulting in a misstatement of approximately $16 million in the Statement of Net Position and Statement of Net Cost.

Recommendations

We recommend that BIA management:

1. Address the control weaknesses described in this report on "Internal Control Over Financial Reporting."

2. Investigate alternatives for recording and reviewing transactions that will enable BIA to process transactions more efficiently and maintain compliance with FFMIA.

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.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted certain additional matters that we reported to the management of BIA in a separate letter dated November 9, 2005.

RESPONSIBILITIES

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act, and Government Corporation Control Act* require agencies 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 U.S. Department of the Interior in meeting these reporting requirements, BIA prepares annual financial statements in accordance with Part A of OMB Circular A-136.

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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 Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments 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 BIA 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 BIA'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 BIA's internal control over financial reporting by obtaining an understanding of BIA'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 BIA'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 BIA's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of BIA's internal control, determining whether these internal controls had been placed in operation, assessing

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control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the 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, 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 the fiscal year 2005 financial statements are free of material misstatement, we performed tests of BIA'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 BIA. 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 BIA'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 BIA'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 9, 2005

Exhibit I

BUREAU OF INDIAN AFFAIRS

Summary of Status of Prior Year Findings

September 30, 2005

Ref	Condition	Status
A	Controls over Fund Balance with Treasury	Substantial progress has been made by BIA in addressing this issue and it is no longer considered a reportable condition.
B	Controls over Property, Plant and Equipment	This condition has not been corrected and is repeated in fiscal year 2005. See finding B.
C	Controls over Indian Trust Funds	This condition has not been corrected and is repeated in fiscal year 2005. See finding A.
D	Application and General Controls over Financial Management Systems	Substantial progress has been made by BIA in addressing this issue and it is no longer considered a reportable condition.
E	Controls over Accounting for Intradepartmental Transactions	This condition has not been corrected and is repeated in fiscal year 2005. See finding D.
F	Controls over Financial Management	This condition has not been corrected and is repeated in fiscal year 2005. See finding H.
G	Controls over Accounts Receivable	This condition has not been corrected and is repeated in fiscal year 2005. See finding C.
H	Controls over Contingent Liabilities	This condition has been partially corrected and is repeated in fiscal year 2005. See finding G.
I	Controls over Charge Cards	This condition has not been corrected and is repeated in fiscal year 2005. See finding E.
J	Controls over Deferred Maintenance	This condition has not been corrected and is repeated in fiscal year 2005. See finding J.
K	Controls over Heritage Assets	This condition has not been corrected and is repeated in fiscal year 2005. See finding K.
L	Debt Collection Improvement Act of 1996	This condition has not been corrected and is repeated in fiscal year 2005. See finding N.
M	OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*	This condition has not been corrected and is repeated in fiscal year 2005. See finding M.
N	*Federal Financial Management Improvement Act of 1996* (FFMIA)	This condition has not been corrected and is repeated in fiscal year 2005. See finding P.

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

TAKE PRIDE IN AMERICA

DEC 2005

Memorandum

To: Anne Richards, Assistant Inspector General for Audits
Office of Inspector General

Jeff Norris
KPMG LLP

From Associate Deputy Secretary James E Cason

Subject: Management Response to Draft Independent Auditors' Report on the Bureau of Indian Affairs' Financial Statements for Fiscal Year 2005 and 2004 (Assignment No. X-IN-BIA-0006-2005)

We appreciate the efforts of the Office of Inspector General, and its contractor KPMG LLP, in auditing the Bureau of Indian Affairs (BIA) consolidated financial statements. We are certainly pleased that the result of the audit is an "unqualified opinion" on our consolidated financial statements. In addition, we appreciate the acknowledgment and recognition noted within several findings of the continued progress we achieved during Fiscal Year 2005.

Although our challenges are many, we are determined to significantly improve our internal management control environment and our financial management and performance measurement activities in the coming years. We are confident that this will lead to more timely, meaningful and useful information for both programmatic and budgetary decision making.

We will work with the Department to develop and implement corrective action plans for the report recommendations that are responsive and measurable and demonstrate that BIA is moving forward in improving its financial and program management.

While we are pleased with the vast improvements we have made in Fiscal Year 2005, we recognize that more is still needed to achieve our planned goals, as well as enhance financial reporting that will allow for better-informed and timely decision-making, while simultaneously serving our Indian beneficiaries in the 21st century.

A. Controls over Indian Trust Funds

BIA concurs with the recommendation and will continue to develop and implement additional procedures and controls to address the issues identified in the audit report. As noted in the report, the management of Indian Trust Funds is a Department-wide process. BIA is working closely with the Office of the Special Trustee to develop processes, such as the lockbox initiative, to address the deficiencies.

B. Controls over Property, Plant and Equipment

BIA concurs with the recommendations. BIA plans to work with program offices to ensure proper monitoring of construction projects and the full implementation of current construction in progress policies and procedures. BIA also plans to broaden the scope of its existing reviews to include monthly reviews and certification of their accuracy and a more in-depth review and reconciliation process of the general ledger accounting.

In regards to software in development, BIA plans to create policies and procedures that will ensure the proper tracking of projects throughout the development phases and will implement the reconciling procedures used for other fixed asset general ledger accounts.

C. Controls over Accounts Receivable and Deferred Revenue

BIA concurs with the recommendations. BIA is aware of the current weaknesses and inefficiencies affecting its accounts receivable operations. During the coming fiscal year, BIA will take aggressive measures in resolving operational problems by assigning staff to address the issues and by hiring an accounts receivable supervisor to oversee the process.

D. Controls over Accounting for Intradepartmental Transactions

BIA concurs with the recommendations and is in the process of hiring staff whose sole responsibility will be the resolution of intradepartmental transactions. BIA has improved its reconciliation procedures and developed monthly milestones for the process that will result in management's review of the reconciliation prior to the Department's elimination due dates.

E. Controls over Charge Cards

BIA concurs with the recommendations. BIA will continue to educate and train cardholders and supervisors on charge card responsibilities and will hold program managers responsible for the proper use of charge cards by subordinates. BIA will perform quarterly reviews to ensure that approving officials and cardholders comply with BIA procedures.

F. Controls over Suspense Balances

BIA concurs with the recommendations. As noted in the report, BIA has made incredible progress in researching and correcting balances from prior years that have been aging in suspense accounts. BIA will continue to cleanup the remaining items and will implement Bureau-wide processes and procedures to ensure items entered into suspense accounts are then researched and moved to appropriate accounts in a timely manner. In addition, existing procedures will be reexamined to ensure the proper use of suspense funds related to deposits. Monitoring will be performed by trained staff and will be performed monthly in accordance with internally established procedures.

G. Controls over Environmental Contingent Liabilities (ECL)

BIA concurs with the recommendations. BIA continually evaluates the need for regional scientist training including the need for training based on the Department's revisions of its ECL guidance. BIA will also ensure that sufficient resources are available to complete the scheduled annual inspections/reviews. If necessary, BIA will supplement regional staff shortages with contract staff and "Tiger Teams" composed of regional scientists. In addition, BIA will revise its planning process to include Bureau-level prioritization of ECL sites.

H. Controls over Financial Management

BIA concurs with the recommendation that the hiring of permanent professional staff is necessary to take BIA through future years. Positions have been advertised and recruiting actions will continue until sufficiently qualified applicants are hired. In the meantime, BIA plans to continue contracting for professional private sector expertise to supplement the current workforce. In Fiscal Year 2005, BIA began developing the necessary policies and desk-level procedures to assure that financial management activities are conducted properly and reviewed timely. BIA will finalize and implement this guidance in Fiscal Year 2006.

I. Controls over Loans and Loan Guarantees

BIA concurs with the recommendations and will continue to assess and address the recommended improvements relating to the loan programs, especially in light of the non-integrated environment surrounding the Loan Management and Accounting System (LOMAS) and the Federal Financial System (FFS). Monthly reconciliations among the LOMAS, FFS and loan spreadsheets will continue to be performed and reconciled. Guidance addressing the overall business process and requisite management review will be implemented. Proper footnotes and posting models will be identified and developed.

J. Controls over Required Supplementary Information – Deferred Maintenance Reporting

BIA concurs with the recommendations and will develop written policies and procedures needed to document the deferred maintenance estimation processes to ensure adequate management reviews and proper disclosure in accordance with Federal accounting standards. BIA will require Regional Directors to certify that the submitted estimates are accurate and allow for proper disclosure. The Division of Transportation and Branch of Irrigation, Power and Safety of Dams are developing management information systems that will allow for the tracking of deferred maintenance estimates.

K. Controls over Required Supplementary Stewardship Information

BIA partially concurs with the recommendations. BIA will strive to improve its management of museum collections and other stewardship and heritage assets. However, BIA will continue to report the condition of the facility housing the collection of heritage assets and stewardship property in accordance with current Departmental guidance.

L. Controls over Performance Measures

BIA concurs with the recommendation and will take the appropriate actions in Fiscal Year 2006 to ensure that the performance measures data is accurate, consistent, and complete and provided in a timely manner. To ensure the timely completion and review, BIA will designate a coordinator to develop and track milestone dates and management review of its performance measures.

M. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*

BIA concurs with the recommendations and will continue to provide the requisite training and technical assistance to ensure awarding officials issue management decisions in a timely manner. The continued court ordered Internet shutdown continues to hinder BIA's use of the Federal Audit Clearinghouse to determine when single audit reports are submitted.

N. *Debt Collection Improvement Act of 1996.*

BIA concurs with the recommendation. Draft debt management policies and procedures will be finalized and implemented. As noted in BIA's response to Finding C, BIA plans on hiring an accounts receivable supervisor whose duties will include monitoring BIA's debt collection process.

O. OMB Circular A-25, *User Charges*

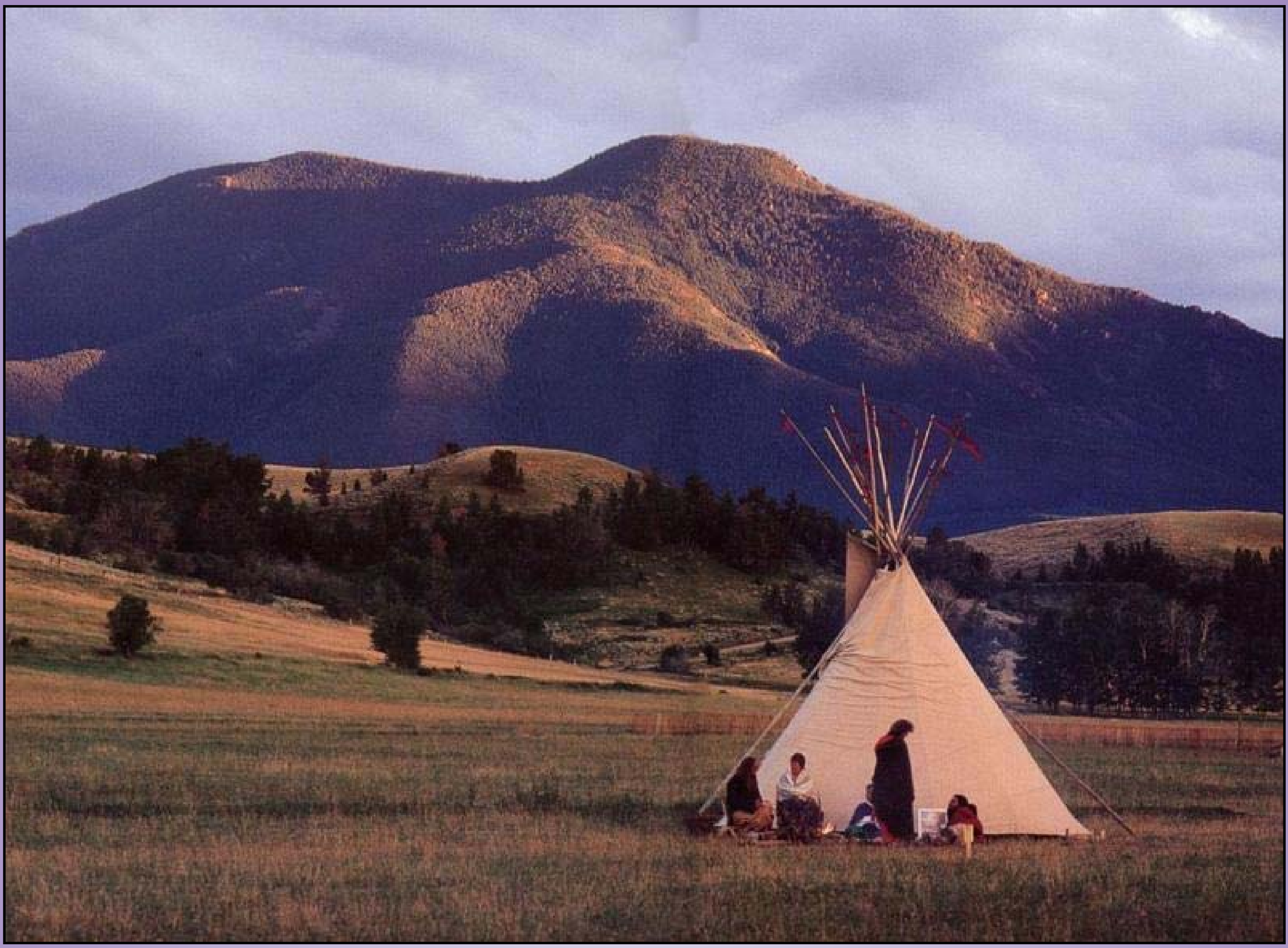
BIA concurs with the recommendations. BIA will assign staff to develop a methodology of its overhead burden rate. This staff will work in accordance with the accounts receivable project team to ensure proper application of its overhead burden rate against reimbursable agreements.

BIA believes the unabsorbed overhead costs computed by the auditors are inflated because the total amount of reimbursable agreements identified in the report includes the reimbursable agreements with the Department of Education to which BIA would not apply a burden rate.

P. ***Federal Financial Management Improvement Act of 1996 (FFMIA)***

BIA concurs with the recommendations and will continue its efforts to improve controls over the FFMIA components related to Federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, correcting the interface deficiency between the accounts receivable and loan receivable subsidiary systems and the FFS's general ledger will require the development of new accounts receivable and loans receivable systems.

Appendices



Contents

A. Glossary of Acronyms

ABC Activity-Based Costing

ABM Activity-Based Management

AHERA Asbestos Hazard Emergency Response Act

AMS Asset Management System

ANCSA Alaska Native Claims Settlement Act

ARPA Archaeological Resources Protection Act of 1979

AS – IA Assistant Secretary – Indian Affairs

BIA Bureau of Indian Affairs

BIANet BIA wide area network

BLM Bureau of Land Management

BOR Bureau of Reclamation

CAA Clean Air Act

CERCLA Comprehensive Environmental Response, Compensation, and Liability Act

CFO Chief Financial Officer

CFR Code of Federal Regulations

CIP Construction-In-Progress

CPM Corporate Performance Model

CSRS Civil Service Retirement System

CWA Clean Water Act

DAS Deputy Assistant Secretary

DM Departmental Manual

DOI Department of the Interior

DOJ Department of Justice

DOL Department of Labor

DOT Department of Transportation

ENAN 2 Indian Education wide area network

FACE Family and Child Education

FACTS II Federal Agencies Centralized Trial-Balance Systems

FAIR Federal Activities Inventory Reform

FASAB Federal Accounting Standards Advisory Board

FBWT Fund Balance With Treasury

FBMS Financial Business Management System

FCI Facilities Condition Index

FECA Federal Employee Compensation Act

FEGLI Federal Employees Group Life Insurance

FEHB Federal Employees Health Benefit

FERS Federal Employees Retirement System

FFMIA Federal Financial Management Improvement Act

FFS Federal Financial System

FHA Federal Highway Administration

FMFIA Federal Managers' Financial Integrity Act

FMIS Facilities Management Information System

FTE Full Time Employees

FWS Fish and Wildlife Service

FY Fiscal Year

GAAP Generally Accepted Accounting Principles

GAO Government Accountability Office

GED General Equivalency Diploma

GLAD Great Lakes Agency Database

GPRA Government Performance and Results Act

GSA General Services Administration

HHS Department of Health and Human Services

HIP Housing Improvement Program

IIM Individual Indian Money

ILCP Indian Land Consolidation Project

IRMS Integrated Information Management System

ISC Indian Student Count

ISEP Indian School Equalization Program

IT Information Technology

JOM Johnson O'Malley program

LEED Leadership in Energy and Environmental Design

LOMAS Loan Accounting Management System

LRIS Land Records Information System

MAD Management Accounting Database

MCX-CMAC Mandatory Center of Expertise for the Curation and Management of Archeological Collections

MPP Museum Property Program

NAGPRA Native American Graves Protection and Repatriation Act of 1990

NBC National Business Center

NIIMS	National Irrigation Information Management System
NIIP	Navajo Indian Irrigation Project
OCIO	Office of the Chief Information Officer
OCFO	Office of the Chief Financial Officer
OIEP	Office of Indian Education Programs
OIG	Office of the Inspector General
OLES	Office of Law Enforcement Services
OMB	Office of Management and Budget
OPA	Oil Pollution Act
OPM	Office of Personnel Management
OST	Office of the Special Trustee
OTFM	Office of Trust Funds Management
PART	Program Assessment Rating Tool
PBB	Performance-Based Budgeting
PCBs	Polychloronatedbiphenols
PL	Public Law
PMA	President's Management Agenda
PMCAT	Portfolio Management Capital Asset Tool
PNM	Public Service of New Mexico
PP&E	Property, Plant, and Equipment
RCRA	Resource Conservation and Recovery Act
RDRS	Royalty Distribution Resource System
REM	Real Estate Management
RSI	Required Supplemental Information
RSSI	Required Supplemental Stewardship Information
SDWA	Safe Drinking Water Act
SFFAS	Statement of Federal Financial Accounting Standards
SIPI	Southwestern Indian Polytechnic Institute
SOL	Office of the Solicitor
SY	School Year
TCCCs	Tribally Controlled Community Colleges
TPA	Tribal Priority Allocations
TSP	Thrift Savings Plan
USC	United States Code
WSU	Weighted Student Units

B. List of Federally Recognized Indian Tribes

Contiguous 48 States

-A-

Absentee-Shawnee Tribe of Indians of Oklahoma
Agua Caliente Band of Cahuilla Indians of the Agua Caliente Indian Reservation, California
Ak Chin Indian Community of the Maricopa (Ak Chin) Indian Reservation, Arizona
Alabama-Coushatta Tribes of Texas
Alabama-Quassarte Tribal Town, Oklahoma
Alturas Indian Rancheria, California
Apache Tribe of Oklahoma
Arapahoe Tribe of the Wind River Reservation, Wyoming
Aroostook Band of Micmac Indians of Maine
Assiniboine and Sioux Tribes of the Fort Peck Indian Reservation, Montana
Augustine Band of Cahuilla Mission Indians of the Augustine Reservation, California

-B-

Bad River Band of the Lake Superior Tribe of Chippewa Indians of the Bad River Reservation, Wisconsin
Bay Mills Indian Community of the Sault Ste. Marie Band of Chippewa Indians, Bay Mills Reservation, Michigan
Bear River Band of the Rohnerville Rancheria, California
Berry Creek Rancheria of Maidu Indians of California
Big Lagoon Rancheria, California
Big Pine Band of Owens Valley Paiute Shoshone Indians of the Big Pine Reservation, California
Big Sandy Rancheria of Mono Indians of California
Big Valley Band of Pomo Indians of the Big Valley Rancheria, California
Blackfeet Tribe of the Blackfeet Indian Reservation of Montana
Blue Lake Rancheria, California
Bridgeport Paiute Indian Colony of California
Buena Vista Rancheria of Me-Wuk Indians of California
Burns Paiute Tribe of the Burns Paiute Indian Colony of Oregon

-C-

Cabazon Band of Cahuilla Mission Indians of the Cabazon Reservation, California
Cachil DeHe Band of Wintun Indians of the Colusa Indian Community of the Colusa Rancheria, California
Caddo Indian Tribe of Oklahoma
Cahuilla Band of Mission Indians of the Cahuilla Reservation, California
Cahto Indian Tribe of the Laytonville Rancheria, California
Campo Band of Diegueno Mission Indians of the Campo Indian Reservation, California
Capitan Grande Band of Diegueno Mission Indians of California
Barona Group of Capitan Grande Band of Mission Indians of the Barona Reservation, California
Viejas (Baron Long) Group of Capitan Grande Band of Mission Indians of the Viejas Reservation, California
Catawba Indian Nation (aka Catawba Tribe of South Carolina)
Cayuga Nation of New York
Cedarville Rancheria, California
Chemehuevi Indian Tribe of the Chemehuevi Reservation, California
Cher-Ae Heights Indian Community of the Trinidad Rancheria, California
Cherokee Nation of Oklahoma

Cheyenne-Arapaho Tribes of Oklahoma
Cheyenne River Sioux Tribe of the Cheyenne River Reservation, South Dakota
Chickasaw Nation, Oklahoma
Chicken Ranch Rancheria of Me-Wuk Indians of California
Chippewa-Cree Indians of the Rocky Boy's Reservation, Montana
Chitimacha Tribe of Louisiana
Choctaw Nation of Oklahoma
Citizen Potawatomi Nation, Oklahoma
Cloverdale Rancheria of Pomo Indians of California
Cocopah Tribe of Arizona
Coeur D'Alene Tribe of the Coeur D'Alene Reservation, Idaho
Cold Springs Rancheria of Mono Indians of California
Colorado River Indian Tribes of the Colorado River Indian Reservation, Arizona and California
Comanche Indian Tribe, Oklahoma
Confederated Salish & Kootenai Tribes of the Flathead Reservation, Montana
Confederated Tribes of the Chehalis Reservation, Washington
Confederated Tribes of the Colville Reservation, Washington
Confederated Tribes of the Coos, Lower Umpqua and Siuslaw Indians of Oregon
Confederated Tribes of the Goshute Reservation, Nevada and Utah
Confederated Tribes of the Grand Ronde Community of Oregon
Confederated Tribes of the Siletz Reservation, Oregon
Confederated Tribes of the Umatilla Reservation, Oregon
Confederated Tribes of the Warm Springs Reservation of Oregon
Confederated Tribes and Bands of the Yakama Indian Nation of the Yakama Reservation, Washington
Coquille Tribe of Oregon
Cortina Indian Rancheria of Wintun Indians of California
Coushatta Tribe of Louisiana
Cow Creek Band of Umpqua Indians of Oregon
Coyote Valley Band of Pomo Indians of California
Crow Tribe of Montana
Crow Creek Sioux Tribe of the Crow Creek Reservation, South Dakota
Cuyapaipe Community of Diegueno Mission Indians of the Cuyapaipe Reservation, California

-D-

Death Valley Timbi-Sha Shoshone Band of California
Delaware Tribe of Western Oklahoma
Dry Creek Rancheria of Pomo Indians of California
Duckwater Shoshone Tribe of the Duckwater Reservation, Nevada

-E-

Eastern Band of Cherokee Indians of North Carolina
Eastern Shawnee Tribe of Oklahoma
Elem Indian Colony of Pomo Indians of the Sulphur Bank Rancheria, California
Elk Valley Rancheria, California
Ely Shoshone Tribe of Nevada
Enterprise Rancheria of Maidu Indians of California

-F-

Flandreau Santee Sioux Tribe of South Dakota

Forest County Potawatomi Community of Wisconsin Potawatomi Indians, Wisconsin
Fort Belknap Indian Community of the Fort Belknap Reservation of Montana
Fort Bidwell Indian Community of the Fort Bidwell Reservation of California
Fort Independence Indian Community of Paiute Indians of the Fort Independence Reservation, California
Fort McDermitt Paiute and Shoshone Tribes of the Fort McDermitt Indian Reservation, Nevada and Oregon
Fort McDowell Mohave-Apache Community of the Fort McDowell Indian Reservation, Arizona
Fort Mojave Indian Tribe of Arizona, California & Nevada
Fort Sill Apache Tribe of Oklahoma

-G-

Gila River Indian Community of the Gila River Indian Reservation, Arizona
Grand Traverse Band of Ottawa & Chippewa Indians of Michigan
Greenville Rancheria of Maidu Indians of California
Grindstone Indian Rancheria of Wintun-Wailaki Indians of California
Guidiville Rancheria of California
Graton Rancheria

-H-

Hannahville Indian Community of Wisconsin
Havasupai Tribe of the Havasupai Reservation, Arizona
Ho-Chunk Nation of Wisconsin (formerly known as the Wisconsin Winnebago Tribe)
Hoh Indian Tribe of the Hoh Indian Reservation, Washington
Hoopa Valley Tribe, California
Hopi Tribe of Arizona
Hopland Band of Pomo Indians of the Hopland Rancheria, California
Houlton Band of Maliseet Indians of Maine
Hualapai Indian Tribe of the Hualapai Indian Reservation, Arizona
Huron Potawatomi, Inc., Michigan

-I-

Inaja Band of Diegueno Mission Indians of the Inaja and Cosmit Reservation, California
Ione Band of Miwok Indians of California
Iowa Tribe of Kansas and Nebraska
Iowa Tribe of Oklahoma

-J-

Jackson Rancheria of Me-Wuk Indians of California
Jamestown S'Klallam Tribe of Washington
Jamul Indian Village of California
Jena Band of Choctaw Indians, Louisiana
Jicarilla Apache Tribe of the Jicarilla Apache Indian Reservation, New Mexico

-K-

Kaibab Band of Paiute Indians of the Kaibab Indian Reservation, Arizona
Kalispel Indian Community of the Kalispel Reservation, Washington
Karuk Tribe of California
Kashia Band of Pomo Indians of the Stewarts Point Rancheria, California
Kaw Nation, Oklahoma

Keweenaw Bay Indian Community of L'Anse and Ontonagon Bands of Chippewa Indians of the L'Anse Reservation, Michigan
Kialegee Tribal Town, Oklahoma
Kickapoo Tribe of Indians of the Kickapoo Reservation in Kansas
Kickapoo Tribe of Oklahoma
Kickapoo Traditional Tribe of Texas
Kiowa Indian Tribe of Oklahoma
Klamath Indian Tribe of Oregon
Kootenai Tribe of Idaho

-L-

La Jolla Band of Luiseno Mission Indians of the La Jolla Reservation, California
La Posta Band of Diegueno Mission Indians of the La Posta Indian Reservation, California
Lac Courte Oreilles Band of Lake Superior Chippewa Indians of the Lac Courte Oreilles Reservation of Wisconsin
Lac du Flambeau Band of Lake Superior Chippewa Indians of the Lac du Flambeau Reservation of Wisconsin
Lac Vieux Desert Band of Lake Superior Chippewa Indians of Michigan
Las Vegas Tribe of Paiute Indians of the Las Vegas Indian Colony, Nevada
Little River Band of Ottawa Indians of Michigan
Little Traverse Bay Bands of Odawa Indians of Michigan
Los Coyotes Band of Cahuilla Mission Indians of the Los Coyotes Reservation, California
Lovelock Paiute Tribe of the Lovelock Indian Colony, Nevada
Lower Brule Sioux Tribe of the Lower Brule Reservation, South Dakota
Lower Elwha Tribal Community of the Lower Elwha Reservation, Washington
Lower Lake, California
Lower Sioux Indian Community of Minnesota Mdewakanton Sioux Indians of the Lower Sioux Reservation in Minnesota
Lummi Tribe of the Lummi Reservation, Washington
Lytton Rancheria of California

-M-

Makah Indian Tribe of the Makah Indian Reservation, Washington
Manchester Band of Pomo Indians of the Manchester-Point Arena Rancheria, California
Manzanita Band of Diegueno Mission Indians of the Manzanita Reservation, California
Mashantucket Pequot Tribe of Connecticut
Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians of Michigan (Gun Lake Band)
Mechoopda Indian Tribe of Chico Rancheria, California
Menominee Indian Tribe of Wisconsin
Mesa Grande Band of Diegueno Mission Indians of the Mesa Grande Reservation, California
Mescalero Apache Tribe of the Mescalero Reservation, New Mexico
Miami Tribe of Oklahoma
Miccosukee Tribe of Indians of Florida
Middletown Rancheria of Pomo Indians of California
Minnesota Chippewa Tribe, Minnesota (Six component reservations)
Bois Forte Band (Nett Lake); Fond du Lac Band; Grand Portage Band; Leech Lake Band; Mille Lacs Band; White Earth Band
Mississippi Band of Choctaw Indians, Mississippi
Moapa Band of Paiute Indians of the Moapa River Indian Reservation, Nevada
Modoc Tribe of Oklahoma
Mohegan Indian Tribe of Connecticut

Mooretown Rancheria of Maidu Indians of California
Morongo Band of Cahuilla Mission Indians of the Morongo Reservation, California
Muckleshoot Indian Tribe of the Muckleshoot Reservation, Washington
Muscogee (Creek) Nation, Oklahoma

-N-

Narragansett Indian Tribe of Rhode Island
Navajo Nation of Arizona, New Mexico & Utah
Nez Perce Tribe of Idaho
Nisqually Indian Tribe of the Nisqually Reservation, Washington
Nooksack Indian Tribe of Washington
Northern Cheyenne Tribe of the Northern Cheyenne Indian Reservation, Montana
Northfork Rancheria of Mono Indians of California
Northwestern Band of Shoshoni Nation of Utah (Washakie)

-O-

Oglala Sioux Tribe of the Pine Ridge Reservation, South Dakota
Omaha Tribe of Nebraska
Oneida Nation of New York
Oneida Tribe of Wisconsin
Onondaga Nation of New York
Osage Tribe, Oklahoma
Ottawa Tribe of Oklahoma
Otoe-Missouria Tribe of Indians, Oklahoma

-P-

Paiute Indian Tribe of Utah
Paiute-Shoshone Indians of the Bishop Community of the Bishop Colony, California
Paiute-Shoshone Tribe of the Fallon Reservation and Colony, Nevada
Paiute-Shoshone Indians of the Lone Pine Community of the Lone Pine Reservation, California
Pala Band of Luiseno Mission Indians of the Pala Reservation, California
Pascua Yaqui Tribe of Arizona
Paskenta Band of Nomlaki Indians of California
Passamaquoddy Tribe of Maine
Pauma Band of Luiseno Mission Indians of the Pauma & Yuima Reservation, California
Pawnee Nation of Oklahoma
Pechanga Band of Luiseno Mission Indians of the Pechanga Reservation, California
Penobscot Tribe of Maine
Peoria Tribe of Indians of Oklahoma
Picayune Rancheria of Chukchansi Indians of California
Pinoleville Rancheria of Pomo Indians of California
Pit River Tribe, California (includes Big Bend, Lookout, Montgomery Creek & Roaring Creek Rancherias & XL Ranch)
Poarch Band of Creek Indians of Alabama
Pokagon Band of Potawatomi Indians of Michigan
Ponca Tribe of Indians of Oklahoma
Ponca Tribe of Nebraska
Port Gamble Indian Community of the Port Gamble Reservation, Washington
Potawatomie Indians of Michigan

Potter Valley Rancheria of Pomo Indians of California
Prairie Band of Potawatomi Indians, Kansas
Prairie Island Indian Community of Minnesota Mdewakanton Sioux Indians of the Prairie Island Reservation, Minnesota
Pueblo of Acoma, New Mexico
Pueblo of Cochiti, New Mexico
Pueblo of Jemez, New Mexico
Pueblo of Isleta, New Mexico
Pueblo of Laguna, New Mexico
Pueblo of Nambe, New Mexico
Pueblo of Picuris, New Mexico
Pueblo of Pojoaque, New Mexico
Pueblo of San Felipe, New Mexico
Pueblo of San Juan, New Mexico
Pueblo of San Ildefonso, New Mexico
Pueblo of Sandia, New Mexico
Pueblo of Santa Ana, New Mexico
Pueblo of Santa Clara, New Mexico
Pueblo of Santo Domingo, New Mexico
Pueblo of Taos, New Mexico
Pueblo of Tesuque, New Mexico
Pueblo of Zia, New Mexico
Puyallup Tribe of the Puyallup Reservation, Washington
Pyramid Lake Paiute Tribe of the Pyramid Lake Reservation, Nevada

-Q-

Quapaw Tribe of Indians, Oklahoma
Quartz Valley Indian Community of the Quartz Valley Reservation of California
Quechan Tribe of the Fort Yuma Indian Reservation, California & Arizona
Quileute Tribe of the Quileute Reservation, Washington
Quinault Tribe of the Quinault Reservation, Washington

-R-

Ramona Band or Village of Cahuilla Mission Indians of California
Red Cliff Band of Lake Superior Chippewa Indians of Wisconsin
Red Lake Band of Chippewa Indians of the Red Lake Reservation, Minnesota
Redding Rancheria, California
Redwood Valley Rancheria of Pomo Indians of California
Reno-Sparks Indian Colony, Nevada
Resighini Rancheria, California (formerly known as the Coast Indian Community of Yurok Indians of the Resighini Rancheria)
Rincon Band of Luiseno Mission Indians of the Rincon Reservation, California
Robinson Rancheria of Pomo Indians of California
Rosebud Sioux Tribe of the Rosebud Indian Reservation, South Dakota
Round Valley Indian Tribes of the Round Valley Reservation, California (formerly known as the Covelo Indian Community)
Rumsey Indian Rancheria of Wintun Indians of California

-S-

Sac & Fox Tribe of the Mississippi in Iowa
Sac & Fox Nation of Missouri in Kansas and Nebraska
Sac & Fox Nation, Oklahoma
Saginaw Chippewa Indian Tribe of Michigan, Isabella Reservation
Salt River Pima-Maricopa Indian Community of the Salt River Reservation, Arizona
Samish Indian Tribe, Washington
San Carlos Apache Tribe of the San Carlos Reservation, Arizona
San Juan Southern Paiute Tribe of Arizona
San Manual Band of Serrano Mission Indians of the San Manual Reservation, California
San Pasqual Band of Diegueno Mission Indians of California
Santa Rosa Indian Community of the Santa Rosa Rancheria, California
Santa Rosa Band of Cahuilla Mission Indians of the Santa Rosa Reservation, California
Santa Ynez Band of Chumash Mission Indians of the Santa Ynez Reservation, California
Santa Ysabel Band of Diegueno Mission Indians of the Santa Ysabel Reservation, California
Santee Sioux Tribe of the Santee Reservation of Nebraska
Sauk-Suiattle Indian Tribe of Washington
Sault Ste. Marie Tribe of Chippewa Indians of Michigan
Scotts Valley Band of Pomo Indians of California
Seminole Nation of Oklahoma
Seminole Tribe of Florida, Dania, Big Cypress, Brighton, Hollywood & Tampa Reservations
Seneca Nation of New York
Seneca-Cayuga Tribe of Oklahoma
Shakopee Mdewakanton Sioux Community of Minnesota (Prior Lake)
Shawnee Tribe of Oklahoma
Sheep Ranch Rancheria of Me-Wuk Indians of California
Sherwood Valley Rancheria of Pomo Indians of California
Shingle Springs Band of Miwok Indians, Shingle Springs Rancheria (Verona Tract), California
Shoalwater Bay Tribe of the Shoalwater Bay Indian Reservation, Washington
Shoshone Tribe of the Wind River Reservation, Wyoming
Shoshone-Bannock Tribes of the Fort Hall Reservation of Idaho
Shoshone-Paiute Tribes of the Duck Valley Reservation, Nevada
Sisseton-Wahpeton Sioux Tribe of the Lake Traverse Reservation, South Dakota
Skokomish Indian Tribe of the Skokomish Reservation, Washington
Skull Valley Band of Goshute Indians of Utah
Smith River Rancheria, California
Snoqualmie Tribe, Washington
Soboba Band of Luiseno Mission Indians of the Soboba Reservation, California
Sokaogon Chippewa Community of the Mole Lake Band of Chippewa Indians, Wisconsin
Southern Ute Indian Tribe of the Southern Ute Reservation, Colorado
Spirit Lake Tribe, North Dakota (formerly known as the Devils Lake Sioux Tribe)
Spokane Tribe of the Spokane Reservation, Washington
Squaxin Island Tribe of the Squaxin Island Reservation, Washington
St. Croix Chippewa Indians of Wisconsin, St. Croix Reservation
St. Regis Band of Mohawk Indians of New York
Standing Rock Sioux Tribe of North & South Dakota
Stockbridge-Munsee Community of Mohican Indians of Wisconsin
Stillaguamish Tribe of Washington
Summit Lake Paiute Tribe of Nevada
Suquamish Indian Tribe of the Port Madison Reservation, Washington

Susanville Indian Rancheria, California
Swinomish Indians of the Swinomish Reservation, Washington
Sycuan Band of Diegueno Mission Indians of California

-T-

Table Bluff Reservation - Wiyot Tribe, California
Table Mountain Rancheria of California
Te-Moak Tribes of Western Shoshone Indians of Nevada (Four constituent bands: Battle Mountain Band; South Fork Band and Wells Band)
Thlopthlocco Tribal Town, Oklahoma
Three Affiliated Tribes of the Fort Berthold Reservation, North Dakota
Tohono O'odham Nation of Arizona
Tonawanda Band of Seneca Indians of New York
Tonkawa Tribe of Indians of Oklahoma
Tonto Apache Tribe of Arizona
Torres-Martinez Band of Cahuilla Mission Indians of California
Tule River Indian Tribe of the Tule River Reservation, California
Tulalip Tribes of the Tulalip Reservation, Washington
Tunica-Biloxi Indian Tribe of Louisiana
Tuolumne Band of Me-Wuk Indians of the Tuolumne Rancheria of California
Turtle Mountain Band of Chippewa Indians of North Dakota
Tuscarora Nation of New York
Twenty-Nine Palms Band of Luiseno Mission Indians of California

-U-

United Auburn Indian Community of the Auburn Rancheria of California
United Keetoowah Band of Cherokee Indians of Oklahoma
Upper Lake Band of Pomo Indians of Upper Lake Rancheria of California
Upper Sioux Indian Community of the Upper Sioux Reservation, Minnesota
Upper Skagit Indian Tribe of Washington
Ute Indian Tribe of the Uintah & Ouray Reservation, Utah
Ute Mountain Tribe of the Ute Mountain Reservation, Colorado, New Mexico & Utah
Utu Utu Gwaitu Paiute Tribe of the Benton Paiute Reservation, California

-W-

Walker River Paiute Tribe of the Walker River Reservation, Nevada
Wampanoag Tribe of Gay Head (Aquinnah) of Massachusetts
Washoe Tribe of Nevada & California (Carson Colony, Dresslerville Colony, Woodfords Community, Stewart Community, & Washoe Ranches)
White Mountain Apache Tribe of the Fort Apache Reservation, Arizona
Wichita and Affiliated Tribes (Wichita, Keechi, Waco & Tawakonie), Oklahoma
Winnebago Tribe of Nebraska
Winnemucca Indian Colony of Nevada
Wyandotte Tribe of Oklahoma

-Y-

Yankton Sioux Tribe of South Dakota
Yavapai-Apache Nation of the Camp Verde Indian Reservation, Arizona
Yavapai-Prescott Tribe of the Yavapai Reservation, Arizona

Yerington Paiute Tribe of the Yerington Colony & Campbell Ranch, Nevada
Yomba Shoshone Tribe of the Yomba Reservation, Nevada
Ysleta Del Sur Pueblo of Texas
Yurok Tribe of the Yurok Reservation, California

-Z-

Zuni Tribe of the Zuni Reservation, New Mexico

Alaska

Village of Afognak
Native Village of Akhiok
Akiachak Native Community
Akiak Native Community
Native Village of Akutan
Village of Alakanuk
Alatna Village
Native Village of Aleknagik
Algaaciq Native Village (St. Mary's)
Allakaket Village
Native Village of Ambler
Village of Anaktuvuk Pass
Yupiit of Andreafski
Angoon Community Association
Village of Aniak
Anvik Village
Arctic Village (See Native Village of Venetie Tribal Government)
Native Village of Atka
Asa'carsarmiut Tribe (formerly Native Village of Mountain Village)
Atqasuk Village (Atkasook)
Village of Atmautluak
Native Village of Barrow Inupiat Traditional Government (formerly Native Village of Barrow)
Beaver Village
Native Village of Belkofski
Village of Bill Moore's Slough
Birch Creek Village
Native Village of Brevig Mission
Native Village of Buckland
Native Village of Cantwell
Native Village of Chanega (aka Chenega)
Chalkyitsik Village
Village of Chefornak
Chevak Native Village
Chickaloon Native Village
Native Village of Chignik
Native Village of Chignik Lagoon
Chignik Lake Village
Chilkat Indian Village (Kluckwan)
Chilkoot Indian Association (Haines)
Chinik Eskimo Community (Golovin)

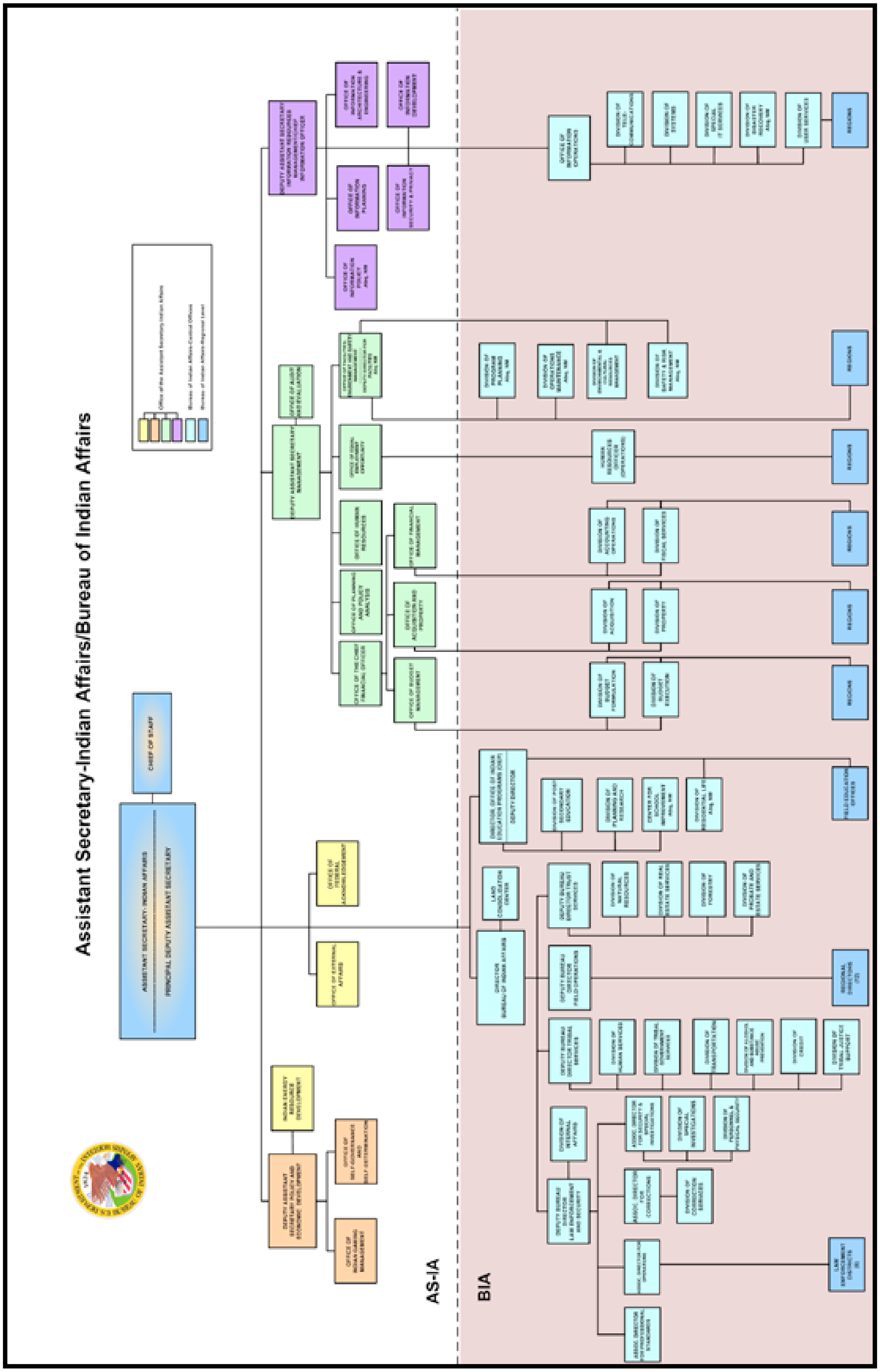
Native Village of Chistochina
Native Village of Chitina
Native Village of Chuathbaluk (Russian Mission, Kuskokwim)
Chuloonawick Native Village
Circle Native Community
Village of Clark's Point
Native Village of Council
Craig Community Association
Village of Crooked Creek
Curyung Tribal Council (formerly Native Village of Dillingham)
Native Village of Deering
Native Village of Diomede (aka Inalik)
Village of Dot Lake
Douglas Indian Association
Native Village of Eagle
Native Village of Eek
Egegik Village
Eklutna Native Village
Native Village of Ekuk
Ekwok Village
Native Village of Elim
Emmonak Village
Evansville Village (aka Bettles Field)
Native Village of Eyak (Cordova)
Native Village of False Pass
Native Village of Fort Yukon
Native Village of Gakona
Galena Village (aka Louden Village)
Native Village of Gambell
Native Village of Georgetown
Native Village of Goodnews Bay
Organized Village of Grayling (aka Holikachuk)
Gulkana Village
Native Village of Hamilton
Healy Lake Village
Holy Cross Village
Hoonah Indian Association
Native Village of Hooper Bay
Hughes Village
Huslia Village
Hydaburg Cooperative Association
Igiugig Village
Village of Iliamna
Inupiat Community of the Arctic Slope
Iqurmuit Traditional Council (formerly Native Village of Russian Mission)
Ivanoff Bay Village
Kaguyak Village
Organized Village of Kake
Kaktovik Village (aka Barter Island)
Village of Kalskag

Village of Kaltag
Native Village of Kanatak
Native Village of Karluk
Organized Village of Kasaan
Native Village of Kasigluk
Kenaitze Indian Tribe
Ketchikan Indian Corporation
Native Village of Kiana
Agdaagux Tribe of King Cove
King Island Native Community
King Salmon Tribe
Native Village of Kipnuk
Native Village of Kivalina
Klawock Cooperative Association
Native Village of Kluti Kaah (aka Copper Center)
Knik Tribe
Native Village of Kobuk
Kokhanok Village
New Koliganek Village Council (formerly Koliganek Village)
Native Village of Kongiganak
Village of Kotlik
Native Village of Kotzebue
Native Village of Koyuk
Koyukuk Native Village
Organized Village of Kwethluk
Native Village of Kwigillingok
Native Village of Kwinhagak (aka Quinhagak)
Native Village of Larsen Bay
Levelock Village
Lesnoi Village (aka Woody Island)
Lime Village
Village of Lower Kalskag
Manley Hot Springs Village
Manokotak Village
Native Village of Marshall (aka Fortuna Ledge)
Native Village of Mary's Igloo
McGrath Native Village
Native Village of Mekoryuk
Mentasta Traditional Council (formerly Mentasta Lake Village)
Metlakatla Indian Community, Annette Island Reserve
Native Village of Minto
Naknek Native Village
Native Village of Nanwalek (aka English Bay)
Native Village of Napaimute
Native Village of Napakiak
Native Village of Napaskiak
Native Village of Nelson Lagoon
Nenana Native Association
New Stuyahok Village
Newhalen Village

Newtok Village
Native Village of Nightmute
Nikolai Village
Native Village of Nikolski
Ninilchik Village
Native Village of Noatak
Nome Eskimo Community
Nondalton Village
Noorvik Native Community
Northway Village
Native Village of Nuiqsut (aka Nooiksut)
Nulato Village
Nunakauyarmiut Tribe (formerly the Native Village of Toksook Bay)
Native Village of Nunapitchuk
Village of Ohogamiut
Village of Old Harbor
Orutsararmuit Native Village (aka Bethel)
Oscarville Traditional Village
Native Village of Ouzinkie
Native Village of Paimiut
Pauloff Harbor Village
Pedro Bay Village
Native Village of Perryville
Petersburg Indian Association
Native Village of Pilot Point
Pilot Station Traditional Village
Native Village of Pitka's Point
Platinum Traditional Village
Native Village of Point Hope
Native Village of Point Lay
Native Village of Port Graham
Native Village of Port Heiden
Native Village of Port Lions
Portage Creek Village (aka Ohgsenakale)
Pribilof Islands Aleut Communities of St. Paul & St. George Islands
Qagan Toyagungin Tribe of Sand Point Village
Rampart Village
Village of Red Devil
Native Village of Ruby
Village of Salamatoff
Organized Village of Saxman
Native Village of Savoonga
Saint George (See Pribilof Islands Aleut Communities of St. Paul & St. George Islands)
Native Village of Saint Michael
Saint Paul (See Pribilof Islands Aleut Communities of St. Paul & St. George Islands)
Native Village of Scammon Bay
Native Village of Selawik
Seldovia Village Tribe
Shageluk Native Village
Native Village of Shaktoolik

Native Village of Sheldon's Point
Native Village of Shishmaref
Shoonaq Tribe of Kodiak
Native Village of Shungnak
Sitka Tribe of Alaska
Skagway Village
Village of Sleetmute
Village of Solomon
South Naknek Village
Stebbins Community Association
Native Village of Stevens
Village of Stony River
Takotna Village
Native Village of Tanacross
Native Village of Tanana
Native Village of Tatitlek
Native Village of Tazlina
Telida Village
Native Village of Teller
Native Village of Tetlin
Central Council of the Tlingit & Haida Indian Tribes
Traditional Village of Togiak
Tuluksak Native Community
Native Village of Tuntutuliak
Native Village of Tununak
Twin Hills Village
Native Village of Tyonek
Ugashik Village
Umkumiute Native Village
Native Village of Unalakleet
Qawalangin Tribe of Unalaska
Native Village of Unga
Village of Venetie (See Native Village of Venetie Tribal Government)
Native Village of Venetie Tribal Government (Arctic Village and Village of Venetie)
Village of Wainwright
Native Village of Wales
Native Village of White Mountain
Wrangell Cooperative Association
Yakutat Tlingit Tribe

C. BIA Organizational Chart



D. Management Controls and Audit Follow-Up

The BIA is committed to maintaining integrity and accountability in all programs and operations. Management assessed its systems of management, administrative and financial controls in accordance with the standards and guidelines established by the *Federal Managers' Financial Integrity Act* (FMFIA) and the Office of Management and Budget (OMB) Circular A-123 to ensure that:

- Programs achieve their intended results
- Resources are used consistent with the BIA's mission
- Resources are protected from waste, fraud and mismanagement
- Laws and regulations are followed
- Reliable and timely information is maintained, reported and used for decision-making.

In performing the assessment, the BIA relied on the knowledge and experience management has gained from daily operation of its programs and systems of management, administrative and financial controls.

In FY 2005, the Associate Deputy Secretary's assurance statement was supported by assurance statements from his five senior managers: Director, Bureau of Indian Affairs; Director, Office of Indian Education Programs; Deputy Assistant Secretary – Management; Deputy Assistant Secretary – Policy and Economic Development; and Deputy Assistant Secretary – Information Resources Management/Chief Information Officer. These senior managers provided assurance that their areas of responsibility had assessed the systems of management, administration and financial controls in accordance with the prescribed standards.

In addition to these assurance statements, BIA relied upon information obtained from management control reviews, Office of Inspector General (OIG) audit and evaluation reports, program reviews, evaluations and studies, audits of financial statements, performance plans and reports, and other information. These reviews, evaluations, assessments, reports and audits included:

Reviews, Evaluations, Assessments, Reports, and Audits	Status of Review*	Results
Central Office		
Quality in Contracting Reviews (4 Reviews)	Completed	No new material weakness
Property Management Reviews (4 Reviews)	Completed	No new material weakness
Facilities Management Program Reviews (3 Reviews)	Completed	No new material weakness
Office of the Chief Information Officer		
General Support Systems and Major Applications (39 Reviews)	Completed	No new material weakness
Regional Office		
Eastern Oklahoma Region (2 Reviews)	Completed	No new material weakness
Eastern Region (1 Review)	Completed	No new material weakness
Great Plains Region (1 Review)	Completed	No new material weakness
Navajo Region (1 Review)	Completed	No new material weakness
Northwest Region (3 Reviews)	Completed	No new material weakness
Rocky Mountain Region (3 Reviews)	Completed	No new material weakness
Southwest Region (3 Reviews)	Completed	No new material weakness

Field Education Office		
Billings Area Field Education Office (2 Reviews)	Completed	No new material weakness
Cheyenne River Field Education Office (2 Reviews)	Completed	No new material weakness
Chinle Field Education Office (1 Review)	Completed	No new material weakness
Eastern Navajo Field Education Office (1 Review)	Completed	No new material weakness
Fort Apache Field Education Office (2 Reviews)	Completed	No new material weakness
Fort Defiance Field Education Office (4 Reviews)	Completed	No new material weakness
Hopi Education Line Office (1 Review)	Completed	No new material weakness
Midwest Region Field Education Office (1 Review)	Completed	No new material weakness
Northern Navajo Field Education Office (1 Review)	Completed	No new material weakness
Northern Pueblos Field Education Office (1 Review)	Completed	No new material weakness
Papago – Pima Field Education Office (1 Review)	Completed	No new material weakness
Pine Ridge Field Education Office (1 Review)	Completed	No new material weakness
Portland Field Education Office (2 Review)	Completed	No new material weakness
Rosebud Field Education Office (1 Review)	Completed	No new material weakness
Sacramento Field Education Office (1 Review)	Completed	No new material weakness
Southern Pueblos Field Education Office (1 Review)	Completed	No new material weakness
Standing Rock Field Education Office (1 Review)	Completed	No new material weakness
Turtle Mountain Field Education Office (1 Review)	Completed	No new material weakness
Haskell Indian Nations University (1 Review)	Completed	No new material weakness
OIG and GAO		
Independent Auditors' Report on Bureau of Indian Affairs' Financial Statements for Fiscal Years 2004 and 2003 (OIG No. E-IN-BIA-0059-2004)	Completed	Material weaknesses identified and corrective actions developed and ongoing
Management Issues Identified During the Audit of the Bureau of Indian Affairs' Fiscal Years 2004 and 2003 Financial Statements (OIG No. E-IN-BIA-0004-2005)	Completed	No new material weakness
U.S. Department of the Interior Indian Trust Funds Management (OIG No. X-IN-MOA-0027-2004)	Completed	No new material weakness
Process Used to Assess Applications to Take Land Into Trust for Gaming Purposes (OIG No. E-EV-BIA-0063-2003)	Completed	No new material weakness
Use of Facility Improvement and Repair Funds (OIG No. C-IN-BIA-0015-2004)	Completed	No new material weakness

* Represents the status of the review, assessment and audit. Actions necessary to correct identified weaknesses may be ongoing.

Corrective actions for any non-material control weaknesses identified by the assessments are being implemented and monitored through completion by the Regional Directors, Education Line Officers and Central Office Directors.

The BIA continues to implement corrective actions to address identified Material Weaknesses identified through the *Federal Managers' Financial Integrity Act* (FMFIA) process in Detention Facilities; Wireless Communication; Indian Trust Assets; Acquisition Management; Debt Collection; and Irrigation Operation and Maintenance.

BIA Material Weaknesses Identified Through the Federal Managers' Financial Integrity Act		
Description	**Corrective Actions**	**Target Date**
Detention Facilities (Department-level material weakness)	*Recent Actions:* BIA established an Office of Detention and selected an Associate Director of Corrections to head the Headquarters' staff. Through its staffing analysis, BIA identified a staffing shortage of over 600 staff at 52 facilities. The Office of Law Enforcement Services (OLES) developed a recruitment plan and began addressing the shortage. An assessment of all detention facility personnel identified 350 staff personnel not certified through the Indian Police Academy. A process to ensure that all staff personnel are properly trained has been developed. BIA developed standards which are being utilized by the Office of Professional Standards to perform inspections. Reports are provided to the District Supervisors for follow-up and correction of deficiencies. BIA drafted a Serious Incident Reporting policy for use by all Bureau and contract detention facilities. Notification reporting procedures for serious incidents have been established. The OLES and BIA's Office of Facilities Management and Construction (OFMC) began prioritizing detention facility repair and improvements using OFMC's *Facility Management Improvement System*. The priority list is reviewed and updated quarterly. *Planned Actions:* • Carry out remainder of the staffing plan • Conduct staff training • Implement small jail inspection process • Finalize Serious Incident Reporting policy • Develop strategic plan for jail replacement.	September 2007
Wireless Communication (Department-level material weakness)	*Recent Actions:* Phase I – Planning, Baseline, and Operations Support BIA has developed and successfully piloted a holistic Information Technology (IT) community-based approach to Land Mobile Radio (LMR) by combining the needs of all of the BIA programs and identifying and developing sharing arrangements with other Federal, State and tribal governments. BIA appointed a National Radio Manager to lead the program. BIA instituted Regional Radio Working Groups to effectively provide program direction to the Office of Information Operations (OIO) in meeting radio needs.	December 2010

BIA Material Weaknesses Identified Through the Federal Managers' Financial Integrity Act		
	BIA completed engineering checklist reports, site survey reports and comprehensive safety reports. BIA also developed and submitted to the Department its Master Plan for Re-design and Implementation of BIA's infrastructure. Instituted agreement with the State of South Dakota to utilize existing compliant trunk system with State. *Planned Actions:* Phase II – Implementation The implementation phase will be conducted on a regional basis and include the following subtasks. • Discovery Phase – "Tiger Team" visits each Land Mobile Radio (LMR) site (agency office) to collect design and logistical data, plan installation and training, and complete designs, frequency plans and fleet maps. • Implementation Phase – BIA will order and program radios, install transmission equipment, train personnel and create documentation. • Site Decommission Phase – BIA will inventory site assets, demolish unusable assets, and reallocate and redeploy usable assets.	December 2010
Indian Trust Assets (Department-level material weakness)	*Recent Actions:* BIA continued to improve procedures, systems and internal controls over the billing and collection of lease revenue in order to eliminate the backlog of unprocessed probates and to update land ownership records. BIA continued its reorganization of the probate functions at Regional Offices to provide staff to work specifically on probates and implement Pro-Trac's probate tracking and case management system modifications to enhance the processing of probates. BIA continued the planning phase of its efforts to re-engineer and streamline the Land Title Records Office (LTRO) business functions and processes and to automate the chain of title, title determination, title document imaging and management and title mapping functions. BIA continued its efforts to revise its regulations to improve its leasing process. BIA also developed handbooks for agriculture, residential and business leasing. *Planned Actions:* • Implement Pro-Trac • Complete planning process for land records functions • Issue revised regulations • Complete TAAMS implementation.	October 2008
Acquisition Management (Bureau-level material weakness)	*Recent actions:* Buy Indian Regulations have been reviewed and concurred with by the Department and the Office of Management and Budget (OMB). Pending the review and concurrence by the new Director, Bureau of Indian Affairs, the final regulations will be issued. *Planned actions:* • Publish final regulations for Buy Indian Act.	March 2006

BIA Material Weaknesses Identified Through the Federal Managers' Financial Integrity Act		
Debt Collection (Bureau-level material weakness)	*Recent actions:* The BIA's FY 2005 financial statement audit again found noncompliance with the Debt Collection Improvement Act of 1996 regarding BIA's referral of delinquent debt. *Planned Actions:* • Formalize draft policies and procedures • Establish management review process.	June 2006
Irrigation Operation and Maintenance (Bureau-level material weakness)	*Recent Actions:* BIA consulted with Indian Tribes and interested parties a second time on the revised 25 CFR 171 in the spring of 2005. BIA restructured the construction debt cancellation package based on Office of the Secretary comments. The cancellation request is under review by the Associate Deputy Secretary. *Planned Actions:* • Publish 25 CFR 171 as final rule.	March 2006

KPMG, LLP, identified three Material Weaknesses and three Instances of Non-Compliance with Laws and Regulations in its review of the BIA FY 2004 financial statements. One of the three material weaknesses has been adequately addressed.

The FY 2005 Material Weaknesses and Instances of Non-Compliance with Laws and Regulations follow:

FY 2005 Audited Financial Statement Material Weakness and Instances of Non-Compliance with Laws and Regulations			
Description	**Recommendation**	**Target Date**	**New / Carryover**
Controls Over Processing Trust Transactions	Improve fiduciary controls over processing of Trust transactions including supervised accounts, accounts receivables and deposits. Continue updating Trust accounting policies, procedures and reports. Continue updating software, systems and tools being used to manage Trust revenues.	September 2008	Carryover
Property, Plant and Equipment	Transfer completed construction projects from Construction-in-Progress to appropriate real property accounts timely and properly. Perform periodic review/analysis of software in development balances. Record capitalized asset donations in accordance with Federal accounting standards.	June 2006	Carryover
Accounts Receivable and Deferred Revenue	Implement consistent billing practices that permit recovery of unbilled accounts and application of deferred revenue balances. Reconcile deferred revenue and unbilled accounts receivable balances timely to ensure amounts are properly drawn down.	September 2006	Carryover
Debt Collection Improvement Act (DCIA) of 1996	Improve debt collection process to ensure compliance with the Debt Collection Improvement Act of 1996.	June 2006	Carryover
OMB Circular A-25	Implement methodology for determining an overhead burden rate and applying the rate to existing and future reimbursable contracts and agreements.	June 2006	Carryover

FY 2005 Audited Financial Statement Material Weakness and Instances of Non-Compliance with Laws and Regulations			
OMB Circular A-133, Single Audit Act Amendments of 1996	Improve grantee-monitoring processes to ensure compliance with reporting requirements of the Single Audit Act Amendments. Issue management decisions within prescribed time frames.	June 2006	Carryover
Federal Financial Management Improvement Act (FFMIA) of 1996	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards and the US Standard General Ledger at the transaction level.	June 2006	Carryover

E. Performance Summary

End Outcome Goal: Protect Lives, Resources and Property

√ Targets Met = 1	▼ Targets Not Met = 1	▲ Targets Exceeded = 3

NOTE: Please note that certain performance measurements are not yet available for selected programs.

End Outcome Measure: Other Facilities, including dams are in "Fair" to "Good" condition as measured by the Facilities Condition Index (FCI).

Performance	Results			
▲ Improve the condition of administrative/employee housing facilities.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	0.4308	0.4235	0.3735
In August 2005, the results of our Validation of Building Record (VBR) efforts enabled the program to reduce the number of backlogs in FMIS and ensured accuracy of ratings. In addition, the inventory validation re-evaluated the replacement costs and increased those values to be more realistic with current replacement values. This significantly reduced the FCI value. Quarters units at two locations (Cherokee Agency & Conehatta Elementary School) were transferred to the tribes. This action reduced the value of repair and improvement in FMIS.				

Performance	Results			
▼ Improve the condition of dams.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	0.136	0.135	0.146
Eight dams went from "Good" / "Fair" condition to "Poor" condition based on recent inspections (found new discrepancies). One dam went from "Poor" to "Fair" and one new to the program dam was rated as "Poor".				

Performance	Results			
▲ Complete rehabilitation construction on 2 dams for total of 23 dams with completed construction.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	1.6	1.5	2	3
√ Perform recurring maintenance on 117 dams.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	110	112	117	117
▲ Perform Early Warning Systems maintenance on 62 dams.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	66	62	65
The Safety of Dams (SOD) program developed an extensive 5-year plan that has allowed them to approach the program in a more efficient manner. This allowed them to achieve slightly higher than their projected target on two of their output goals.				

End Outcome Goal: Fulfill Indian Fiduciary Trust Responsibilities

√ Targets Met = 8	▼ Targets Not Met = 6	▲ Targets Exceeded = 15

Beneficiary Services: Improve Indian Trust Ownership and Other Information

Performance	Results			
▲ Land Conveyances: Acreage of approved land conveyances completed.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	57,565	50,000	144,206
The projected target has been exceeded due to an overall program effort to get land conveyances complete.				

Performance	Results			
▲ Title Information: Percent of title encumbrances filed within 2 business days.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	42%	47%	52%	59%
The projected target was exceeded because a priority was placed on the LTRO program to get TAAMS Title current. Funding for overtime work helped significantly.				

Performance	Results			
▼ Improve Management of Land and Natural Resource Assets Percent of ownership for which lease data is matched within 10 days.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	UNK
The BIA was unable to establish a baseline for this goal. The system (LRIS) for collecting ownership interest is no longer in use. In FY 2006, the Regions are expected to have access to the new system (TAAMS) and at that time BIA will be able to report on this measure.				

Performance	Results			
▲ Leasing: Percent of leases executed within 10 days cycle time.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	32%	50%	69%
The projected target has been exceeded due to an overall program effort to approve all lease transactions within the 10 day cycle.				

Performance	Results			
▲ Probate: Percent of estates in which assets are distributed and all title information is updated in standard probate process cycle time.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	29%	30%	100%

▲ Percent of probate cases where document preparation and post/record work has been completed.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	15%	33%	88%
These goals were exceeded because the counting of cases in all status has been redefined to assure accurate accounting. In addition, users are aggressively conducting "data clean-up" of cases to properly reflect status. All of BIA is under an aggressive project, and case work progress has been placed within individual performance standards with specific quotas to achieve by September 30, 2005. The goal of the program is to totally eliminate all case backlog by December, 31, 2007, and then have enough resources/staff to handle all "current" deaths and eliminate the need for contractor support.				

Indian Natural Resource Trust Assets Management: Responsible Use

Performance	Results			
▲ Volume of timber offered for sale.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	634	580	585	627
84% of total annual allowable cut (AAC) was offered for sale. Favorable marketable conditions resulted in more sales than anticipated.				

Performance	Results			
▲ Percentage of acres on forested reservations that have a forest management plan or IRMP with forest management provisions.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	41%	44%	73%	86%
Navajo Forest Management Plan was approved adding significant acreage to total acres covered by plans.				

Indian Natural Resource Trust Assets Management: Responsible Use

Performance	Results			
√ Percent of eligible trust land acres that are under lease for:	2003 Actual	2004 Actual	2005 Planned	2005 Actual
• Energy development	UNK	UNK	Establish Baseline	1%
• Non-energy mineral development	UNK	UNK		1%
• Grazing land	UNK	UNK		68%
• Agricultural use	UNK	UNK		2%
• Commercial property use	UNK	UNK		0.015%
An overall baseline for acres under lease has been established at 72%.				

Performance	Results			
Percent of acres of forest, grazing and agricultural leases achieving desired conditions where condition is known and where specified in management plans consistent with applicable environmental laws and regulations.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
Percentage of acres achieving desired condition: ▲ Forest leases √ Grazing leases ▼ Agricultural Leases	1.75% UNK UNK	1.75% 13% 50%	1.75% 13% 50%	92% 13% 35%
Improved data calculations as well as increased acres of forest land covered by management plans allowed the BIA to ensure a higher percentage of forest leases are achieving conditions as specified in management plans. The target for agricultural leases was based on preliminary data. Baseline needs to be adjusted to more accurately reflect verified data.				

Performance	Results			
√ Population Enhancement: Percent of planned enhancement/ reintroduction objectives completed.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	95%	100%	100%
Goal Met.				

Performance	Results			
▲ Percent of Tribal and Federal Indian water rights projects needed to support the litigation, adjudication, and negotiation of water claims that are funded.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	66%	67%	67%
Large number of high ranking proposals for which the funding could be spread out more evenly allowed for slightly exceeding the targeted goal.				

Performance	Results			
▼ Percent of Tribal and Federal Indian Water Resources Management Projects funded.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	62%	66%	54%
The high number of requests and limited funds available strictly for management, planning and pre-development projects prevented the attainment of the targeted goal.				

Performance	Results			
▲ Percentage of bureaus/facilities with Environmental Management System (EMS) plans.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	75%	90%	100%
100% of agencies requiring EMS plans had them in place. There has been a Departmental initiative to develop EMS plans. In response, Mescalero, Papago, and Pima Agency have draft EMS plans. The draft plans are now being revised to reassess EMS for appropriate facilities definition. Final plans are anticipated in FY 2006 upon finalization of EMS policy and the identification of "appropriate" facilities.				

Performance	Results			
√ Percentage of planned environmental audits conducted.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	170%	100%	100%
15 BIA agencies received baseline comprehensive environmental audits. The audits consist of one agency with multiple facilities. Excluded are individual Office of Law Enforcement Services (OLES) detention centers audits.				

Performance	Results			
√ Percent of NEPA documents completed.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	69%	90%	90%
Goal Met.				

Performance	Results			
▲ Percentage of sites that are under remediation.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	10%	34%
Number of sites needing remediation was reduced due to reassessment of BIA liability. This reduction in number of sites leads to an increased percentage of assessment and remediation work.				

Performance	Results			
√ Percent of Interior/Tribal land use agreements that need to incorporate protections for Indian sacred sites and sacred resources and their use that do incorporate them.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	100%	100%	100%
BIA does not have any land use agreements that require sacred sites protection.				

Performance	Results			
▼ Percent of cultural properties in BIA inventory in good condition.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	61%	93%	60%
Through a multi-year effort initiated in FY 2005, BIA is identifying properties on the real property inventory that are culturally significant. This reported data contains only those properties that have been identified to date as listed, or eligible for inclusion, on the National Register of Historic Places. To address the condition of cultural properties, an automated system is currently under development that will improve coordination. This coordination involves the cultural resource field staff, who have expertise in assessing significance and managing cultural resources, and the OFMC staff, who are primarily responsible for care and maintenance of BIA facilities. This goal was not met because the inventory and condition assessments are still being completed by field staff, whose primary focus is on compliance issues on Trust lands. DECRM will continue to identify and assess real property holdings for historic and cultural significance, and continue to work towards meeting the target by increasing OFMC awareness of the special management needs of historic properties.				

Performance	Results			
▲ Percent of collections in DOI inventory in "Good" condition.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	16%	17%	18%	22%

Efforts continue to complete condition assessments of BIA collections. As of the end of the FY 2005, 9 new facility condition assessments and 17 reassessments of facility condition have been completed. A total of 118 collections were assessed, 38 of which are in "Good" condition. An additional 54 collections need to be assessed. The total number of collections in "Good" condition increased from 17.1% to 22.09% during FY 2005 due to improved data collection, rather than to addressing specific issues at facilties to improve the condition.

Performance	Results			
▼ Invasive species: Percent change in baseline in the number of acres infested with invasive plant species.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	6.8%	6.7%	7.2%

Improved inventory and monitoring of invasive plant infestations resulted in documentation of additional acres, which exceeds the baseline by .52%. Increased baseline to 7.2% to accommodate the additional acreage identified.

Performance	Results			
▼ Invasive species: Control/Management: Percent of infested acres and percent of populations of invasive organisms that are managed for containment or eradication.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	59%	59%	20%

Target was based on preliminary data. Baseline needs to be adjusted to 20%, since this data is more representative of where the program is.

Performance	Results			
▲ Invasive species: Early detection: Percentage of localized infestations of known or suspected invasive species that are detected and assessed.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	5	5	16

A higher priority for monitoring and assessing by the field staff resulted in a much higher percentage of land being evaluated. Baseline should be adjusted to 16% to accommodate the level of monitoring being done in the field.

Performance	Results			
√ Invasive species: Prevention: Number of new invasive species detected and invasions prevented through monitoring and regulation of known invasion pathways and vectors eradication.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	1	1	1

Goal Met.

Indian Self-Governance and Self-Determination

Performance	Results			
Percent of Tribes with performance-based P.L. 93-638 and P.L. 103-413 Agreements.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
▲ P.L. 93-638 Agreements √ P.L.103-413 Agreements	UNK UNK	42% 40%	43% 40%	53% 40%
Improved training and technical assistance efforts have contributed to an increase in Tribal contracting.				

Performance	Results			
▲ Percent of DOI-supported Tribal judicial systems receiving an independent Tribal court review and percent of Tribal judicial systems reviewed that received an acceptable rating.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	0%	10%	16%
The increase in Tribal court reviews is in response to the corrective actions outlined from the unsatisfactory Program Assessment Rating Tool (PART) review of the Tribal Courts Program. Funds have been identified to continue this increased review effort in FY 2006 and the reviews are expected to increase substantially.				

End Outcome Goal: Advance Quality Communities for Tribes and Alaska Natives

√ Targets Met = 17	▼ Targets Not Met = 15	▲ Targets Exceeded = 6

Improve Welfare Systems for Indian Tribes and Alaska Natives

Performance	Results			
√ Increase percentage of Active Supervised IIM account deficiencies corrected.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	28%
Baseline of 28% was established.				

Performance	Results			
√ Improve the percentage of Indian Child Welfare Act (ICWA) notifications processed within established processing time.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	97%
Baseline of 97% was established.				

Performance	Results			
√ Improve the percentage of Supervised IIM account case records reviewed in accordance with 25 CFR Part 115.427.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	77%
Baseline of 77% was established.				

Performance	Results			
√ Percent of applicants determined to be eligible receiving services or financial assistance.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	94%
Baseline of 94% was established.				

Human Services: Housing

Performance	Results			
▼ Percent of eligible Housing Improvement Program (HIP) applicants whose need for safe and sanitary housing in Indian Country is met.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	9%	9%	9%	5%

The program did not meet its goal in FY 2005 due to the increased price of materials and fuel prices. These factors have a direct negative impact on our ability to construct new and rehabilitate existing homes in Indian country. The FY 2006 HIP is also expected to be adversely affected due to these reasons, as well as expected reductions in the budget, and recent hurricane damage increasing economic pressure for construction materials.

Economic Growth: Promote the Economic Vitality of Indian Tribes and Alaska Natives

Performance	Results			
√ **Achieve parity between Tribal community and US national average on rural unemployment rates and per capita income.**	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	43%	43%	43%

Although the Bureau maintained its unemployment at the projected 43% rate, the per capita income level in Indian country fell slightly short of the rural per capita income. The Bureau will continue to work to secure loans for businesses that create long-term positions, provide training, and place individuals into well paying and permanent positions in an effort to further increase the Indian country per capita income.

Performance	Results			
▲ Capital: Number of jobs created through capital provided by DOI loans.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	1549	1719	1700	1922

In FY 2005, a small percentage of construction loans allowed for an increase in the number of jobs created.

Performance	Results			
▲ Increase the percentage of jobs created that are long-term positions.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	TBD	90%	100%

Construction loans allowed for the creation of additional long term positions.

Performance	Results			
▼ Increase the average household income in Indian country.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	33,409	33,409	32,866

Most recent data from the US Census Bureau shows that there was a slight decrease in the average household income in Indian country. The Bureau will continue to work to create long-term jobs in its concerted efforts to increase the household income in Indian country.

Performance	Results			
√ Reduce default rates on BIA loans.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	1.64%	2%	2%

Goal Met.

Performance	Results			
▼ Increase subsidy levels for BIA loans.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	$5,722,000	$6,348,000	$5,637,000

The subsidy amount authorized by Congress fell slightly short of the projected level. The Bureau will continue to work on improving its default rate in an effort to increase subsidy.

Performance	Results			
▲ Credit Program: Cost per job created (lower number is good).	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	$3,000	$3,000	$2,933

The Bureau was able to create jobs at a slightly lower than projected cost in FY 2005.

Performance	Results			
√ Transportation: Percent of miles of road in "Good" or "Better" condition based on the Surface Level Index.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	15%	21%	21%

Road conditions were able to exceed the goal target through continued cooperation by PL 93-638 Tribes for their reporting and by continued updates on condition ratings consistent with the established rating standard.

Performance	Results			
▲ Percent of bridges in "Good" or "Better" condition based on the Service Level Index.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	47%	47%	52%

Bridges exceeded the target goal through continued cooperation by PL 93-638 Tribes for their reporting and by continued updates on condition ratings consistent with the established rating standard.

Economic Growth: Achieve parity between Tribal community and US national average on rural unemployment rates and per capita income

PERFORMANCE	RESULTS			
▼ Job Placement & Training: Cost per job achieved (lower number is good). (Cost includes transportation, tools & maintenance until first paycheck is received).	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	$1,799	$1,70 0	$2,190
Inflationary costs caused job placement costs to rise slightly.				

PERFORMANCE	RESULTS			
? Job Placement & Training:	2003 Actual	2004 Actual	2005 Planned	2005 Actual
• Number of Job Placements • Number Retained After One Year	UNK UNK	7,081 UNK	Establish Baseline	14,314 UNK
Data is still not yet available. This measurement requires employment data from the States. At this time, the States have refused to provide the necessary unemployment data to the BIA offices to determine job retention.				

PERFORMANCE	RESULTS			
√ Percentage of participants that earned a diploma, GED or certificate.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	99%
3,412 participants earned a diploma, GED or certificate and a baseline of 99% was established.				

PERFORMANCE	RESULTS			
√ Increase the percentage of numeracy gain. (477 Program Only -- No AVT).	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	26.66%	26.66%	26.66%
Goal Met.				

PERFORMANCE	RESULTS			
√ Number of jobs created through the efforts of P.L. 102-477, the Indian Employment, Training and Related Services Act, as amended.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	UNK	676
This is a new output measure for the 477 Program. Amended legislation allows for the creation of jobs under P.L. 102-477 and the program is working to create positions in order to place their participants.				

Education: Quality

Performance	Results			
√ Achieve parity between the Tribal community and the US rural area national average on high school graduation.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	80%	82%	82%

Partial data reported. Education Report is preliminary; we have reporting from 138 of 170 academic schools. Final data will be available in December. Graduation Rate is 82% based on reports from the Education Line Officers' quarterly report with 1,837 seniors at the start of SY 04-05 and 1,500 graduating at the end of the SY.

Performance	Results			
▲ Percent of teacher proficiencies in select subject areas -- 76% of teachers are teaching in their area(s) of certification.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	74%	76%	94%

Education Report is preliminary; we have reporting from 138 of 170 academic schools. Final data will be available in December. Number of Core Area Teachers at 2495; Number of Highly Qualified Core Area Teachers at 2351; OIEP exceed the target.

Performance	Results			
▼ Improve the teacher retention rate.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	91%	93%	89%

Education Report is preliminary; we have reporting from 138 of 170 academic schools. Final data will be available in December. Teachers at the end of last SY were 3,088. Teachers returning were 2,736. OIEP did not meet target for teacher retention.

Performance	Results			
▼ Improve the average student attendance rate.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	87%	89%	88%

Education Report is preliminary; we have reporting from 138 of 170 academic schools. Final data will be available in December. Total enrollment was 38,876. Attendance K-8 was 91.43%; 9-12 attendance rate was 85.25%; average attendance rate was 88%. OIEP did not meet target by 1%.

Performance	Results			
▼ Percent of children in BIA and Tribal schools will read independently by the end of 3rd grade.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	48%	51%	45%

Education Report is preliminary; we have reporting from 138 of 170 academic schools. Final data will be available in December. Reading: Total 3rd grade student tested 2,480. Total number proficient or better was 1,109, or 45% proficient/advanced. OIEP did not meet target with 138 schools reporting.

Performance	**Results**			
▼ Improve the student proficiency level in BIA and Tribal schools for language arts.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	51%	52%	55%	49%
Education Report is preliminary. BIA has a report from 138 of 170 academic schools. Final data will be available in December. Language Arts: Total students tested 12,754. Total number proficient or better 6,226, or 49%. OIEP did not meet target with 138 schools reporting.				

Performance	**Results**			
▼ Improve the student proficiency level in BIA and Tribal schools for math.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	53%	53%	56%	39%
Education Report is preliminary. BIA has a report from 138 of 170 academic schools. Final data will be available in December. Mathematics: Total students tested were 18,729. Total number proficient or better was 7,395, or 39%. OIEP did not meet target with 138 schools reporting.				

Performance	**Results**			
▼ The incidences of violence and substance abuse in Bureau funded schools will decrease by 2% from the previous year.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	9,129	7,146	7,003	7,288
Education Report is preliminary. BIA has a report from 138 of 170 academic schools. Final data will be available in December. The total 7,288 is based on the number of violence at 4,943 and Substance Abuse incidents at 2,345. OIEP did not meet target.				

Education: Facilities

Performance	**Results**			
√ Learning Environment: Facilities are in "Fair" to "Good" condition as measured by the Facilities Condition Index.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	0.1458	0.1243	0.1072	0.1072
Goal Met.				

Performance	Results			
√ Increase the percentage of BIA replacement schools constructed in four years or less.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	50%	57%	57%
Goal Met.				

Performance	Results			
√ Increase the percentage of BIA facilities improvement and repair projects completed in four years or less.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	43%	55%	55%
Goal Met.				

Performance	Results			
√ Increase percentage of academic construction projects with costs within or below target range.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	43%	48%	48%
Goal Met.				

Post-Secondary Education

Performance	Results			
? Award adequate level scholarships: The number of scholarships awarded within targeted funding level.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	9,021	9,021	8,570	UNK
This Report is preliminary. Data is not yet available.				

Performance	Results			
? The number of Special Higher Education scholarships awarded.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	299	299	291	UNK
This Report is preliminary. Data is not yet available.				

Performance	Results			
▼ Increase the number of degrees and certificates granted by Junior and Senior Colleges/Universities.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	1,723	1,533	1,564	18%
This Report is preliminary. Tribal College annual reports are due in December of each year. Final reporting for all college-related performance measures will be available for the supplemental report in February 2006. These results are from Southwestern Indian Polytechnic Institute (SIPI) and Haskell Indian Nations University.				

Performance	Results			
▼ Increase the number of students achieving proficiency by passing the two required Freshman Level English courses or testing out.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	91%	92%	66%
This Report is preliminary. Tribal College annual reports are due in December of each year. Final reporting for all college-related performance measures will be available for the supplemental report in February 2006. These results are from (SIPI) and Haskell.				

Performance	Results			
▼ Increase the number of students achieving proficiency by passing the one required Freshman Level math course or testing out.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	70%	72%	13%
This Report is preliminary. Tribal College annual reports are due in December of each year. Final reporting for all college-related performance measures will be available for the supplemental report in February 2006. These results are from (SIPI) and Haskell.				

Public Safety: Achieve parity between Tribal community and US national average on violent crime

Performance	Results			
? Enhance Public Safety Violent Crime: Part 1 violent crime rate per 100,000 inhabitants (lower number is good).	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	16.8%	14.6%	356	UNK
This Report is preliminary. Data is not yet available for this program. Full reporting for the OLES program will be available in the supplemental report in February 2006.				

Performance	Results			
▼ Improve community policing: BIA will achieve 100% participation by all BIA field agencies in community policing programs.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	UNK
This Report is preliminary. Data is not yet available for this program. Full reporting for the OLES program will be available in the supplemental report in February 2006.				

Performance	Results			
▼ Improve Criminal Investigations: Increase case clearance rate by 10% annually.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	UNK
This Report is preliminary. Data is not yet available for this program. Full reporting for the OLES program will be available in the supplemental report in February 2006.				

Performance	Results			
√ Improve Detention Program Management: 32% of OIG recommendations are corrected on schedule.	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	UNK	Establish Baseline	32%
The baseline was established in FY 2005 and BIA will improve by 2% annually.				

Performance	Results			
▲ Enhance Public Safety Detention: Law enforcement facilities are in "Fair" to "Good" condition as measured by the Facilities Condition Index (lower FCI number is good).	2003 Actual	2004 Actual	2005 Planned	2005 Actual
	UNK	0.169%	0.169%	0.123%
The OFMC targeted those facilities with the greatest need for improvement, i.e., those with the highest Facilities Condition Index (FCI). Those facilities that were in "Poor" condition as identified by backlog and deficiency data within the FMIS were provided facility improvement and repair funds for renovation. Funds used for minor improvement and repair were targeted in those with a high FCI. In addition, OFMC worked collaboratively with the Office of Law Enforcement Services (OLES) Regional Detention Supervisors to invest funds in detention programs that OLES established as having high priority.				