

Part 1.
Management's
Discussion and
Analysis

Who We Are and What We Do

The Department of the Interior is the Nation's principal Federal conservation agency (*Figure 1-1*). We manage many of the Nation's special natural, cultural, and historic places, conserving lands and waters, protecting cultural legacies, and keeping alive the Nation's history. We manage parks, refuges, and recreation areas for public enjoyment (*Figure 1-2*). We manage and provide access to many of the Nation's natural resources, enhance scientific understanding, and fulfill America's trust and other responsibilities to native people. We provide hydropower to the western States. We deliver water to over 31 million citizens and manage over 2,800 dams and reservoirs throughout the Department. Our stewardship responsibilities extend from Mt. Rushmore to the Everglades and encompass petroglyphs, pioneer trails, and historic museum pieces ranging from airplanes to clothing. Our mission, vision, and key business principles are summarized in *Figure 1-3*.

The Department operates at 2,400 locations across the United States, Puerto Rico, and U.S. territories. We have a full-time workforce of more than 70,000 employees and 200,000 volunteers (*Figure 1-4*). For more information about our varied responsibilities, see *Figure 1-5*, Interior by the Numbers.

FIGURE 1-1
Bureau Missions

BUREAU OF LAND MANAGEMENT (BLM)

Mission: To sustain the health, diversity and productivity of the public lands for the use and enjoyment of present and future generations.

MINERALS MANAGEMENT SERVICE (MMS)

Mission: The Minerals Management Service manages the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use and realize fair value.

OFFICE OF SURFACE MINING (OSM)

Mission: Ensure that coal mines are operated in a manner that protects citizens and the environment during mining and assures that the land is restored to beneficial use following mining, and mitigate the effects of past mining by aggressively pursuing reclamation of abandoned coal mine lands.

BUREAU OF RECLAMATION (BOR)

Mission: Manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.

U.S. GEOLOGICAL SURVEY (USGS)

Mission: Provide the Nation with reliable, unbiased information to describe and understand the earth; minimize loss of life and property from natural disasters; manage water, biological, energy and mineral resources; and enhance and protect our quality of life.

FISH AND WILDLIFE SERVICE (FWS)

Mission: Conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people.

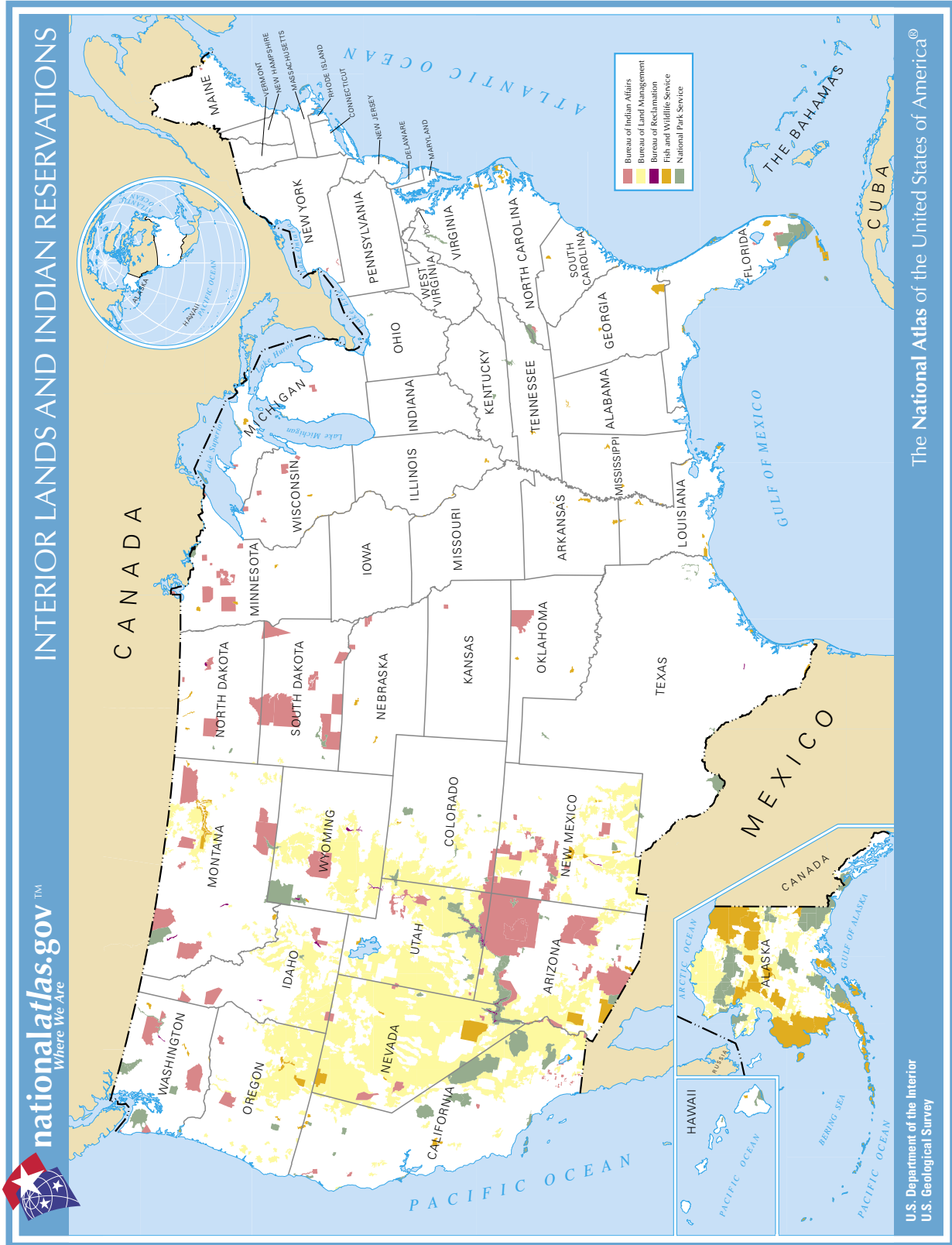
NATIONAL PARK SERVICE (NPS)

Mission: Preserve unimpaired the natural and cultural resources and values of the national park system for the enjoyment, education, and inspiration of this and future generations. The Park Service cooperates with partners to extend the benefits of natural and cultural resource conservation and outdoor recreation throughout this country and the world.

BUREAU OF INDIAN AFFAIRS (BIA)

Mission: Fulfill its trust responsibilities and promote self-determination on behalf of Tribal governments, American Indians and Alaska Natives.

FIGURE 1-2



Note - Land areas less than 23,000 acres do not show on the map due to the map scale.

FIGURE 1-3

Interior's Mission, Vision, and Key Business Principles



Mission

The U.S. Department of the Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives and affiliated island communities.

Vision

Communication, consultation, and cooperation all in the service of conservation.

Key Business Principles

Value

Accountability

Modernization

Integration

FIGURE 1-4

Interior's Workforce
(Full-Time Equivalents)

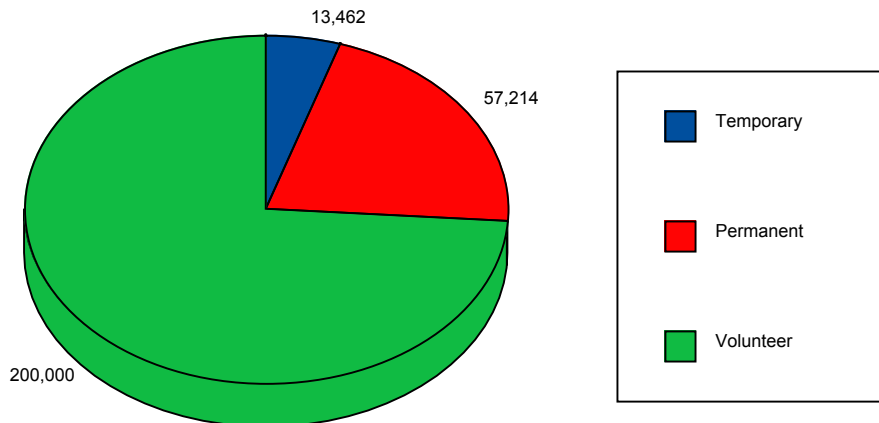
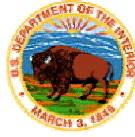
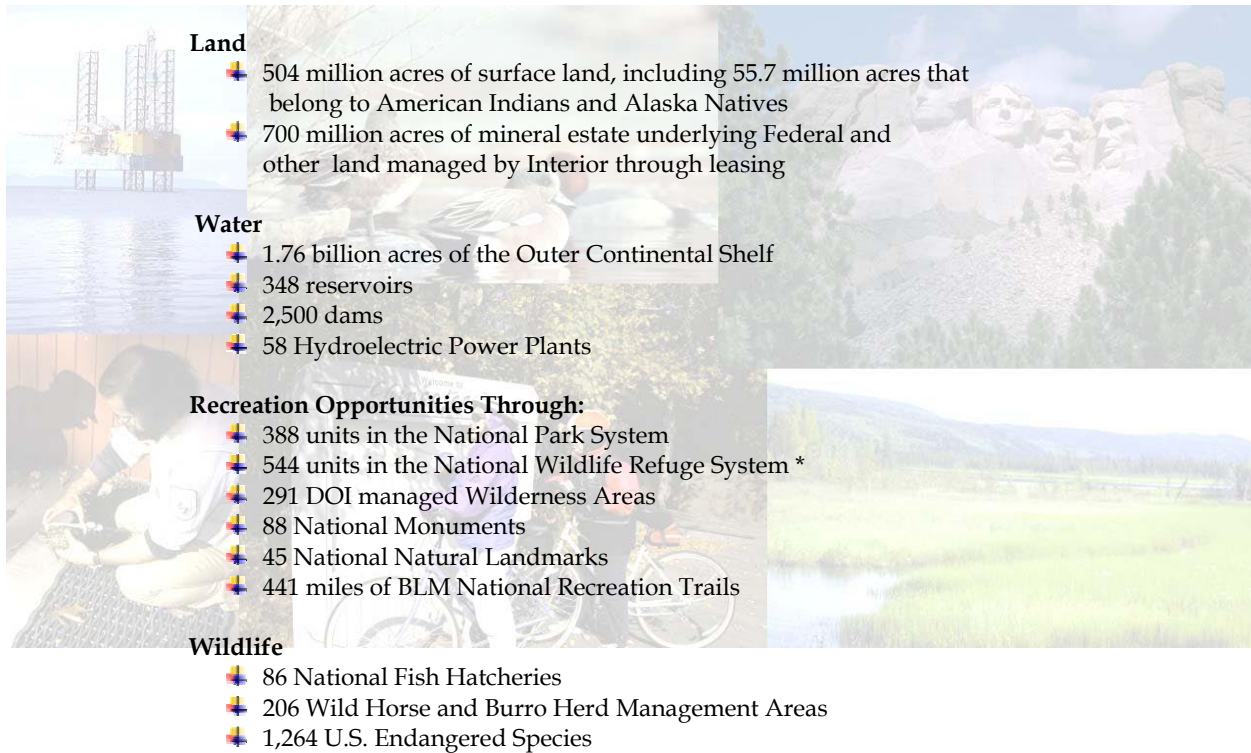


FIGURE 1-5



Your Department of the Interior By the Numbers

The Department of the Interior was created in 1849, just 43 years after the Lewis and Clark expedition. Since that time, the Department has become steward for:



* As of October 30, 2004, an additional refuge had been added to the system, bringing the total to 545.

Making Performance Measurements Matter: Our Strategic Planning Framework

This year's Performance and Accountability Report (PAR) is a significant milestone in the development of the Department's performance measurements. For the first time since the inception of the Government Performance and Results Act (GPRA) in 1993, we have looked at the Department as a whole—creating a new tool that integrates and aligns bureau responsibilities. Focused on results, the PAR measures outcomes (i.e., how we are making a difference and the results of our efforts), not outputs (i.e., our products and deliverables), and emphasizes accountability.

In the past, the Department gathered strategic plans, annual plans, and annual performance reports from individual bureaus, then bundled and submitted them collectively with an overview providing the Departmental perspective. This approach reinforced the historic evolution of the Department as the public sector equivalent to a holding company, with compartmentalized bureaus working separately, without cooperative planning, shared responsibilities, or common measurements.

The Department's 2003-2008 Strategic Plan was designed to help transcend that compartmentalization. Introduced in September 2003, it presents the Department from an enterprise perspective, as one entity, with a single over-arching plan driven by cross-cutting programs and multi-bureau and multi-agency goals and objectives.

The 2004 Performance and Accountability Report is our first publicly documented analysis of how we are performing against the targets set by the new strategic plan. The results it measures will become the baseline and then the coordinates by which we steer our course into the future. Interior's mission has been organized into four areas of responsibility: Resource Protection, Resource Use, Recreation, and Serving Communities (*Figure 1-6*).

Each area has its own strategic goal, supported by several related end-outcome goals (i.e., the desired consequences of our actions). Those end-outcome goals, in turn, guide a collection of related programs and services administered by one or more of the Department's bureaus and offices. Likewise, each goal is supported by a broad range of quantitative performance measures—intermediate out-

come goals and performance targets that step down to the bureau, program, and individual employee level.

We have also changed what we measure. We are now tracking the cost of outcomes, program by program—the cost of operating a wildlife refuge, for example, or removing invasive plants from an acre of land. With numbers that tie dollars to measurable outcomes, managers can link budget spending with performance results, as envisioned by the President’s Management Agenda. The result is a better way to identify superior performance, focus attention on achievement and innovation, and move quickly to spread best practices throughout the organization.

FIGURE 1-6



How We Performed in FY 2004

The Department met or exceeded 63% of the 226 performance measures monitored during FY 2004 (*Figure 1-7 and Table 1-1*). For a full report of each measure, see Part 2: Performance Data and Analysis. In FY 2004, 22% of the measures were not met and 15% were not reportable because data were insufficient to generate or estimate performance. Performance information for these measures will be provided no later than our FY 2005 Performance and Accountability Report.

A principal reason that performance was not better is that most of the Department's measures were new for FY 2004. Consequently, historical data to support targeting was only rarely available. To our credit, we chose not to set exceptionally conservative targets despite this uncertainty. The value of the data collected for the FY 2004 report will grow over the remaining years of our FY 2003–2008 Strategic Plan. FY 2004's results will become a point from which we can begin to show performance trends over a longer term, while identifying the factors that impact our mission performance.

FIGURE 1-7

Performance Measures Met or Exceeded

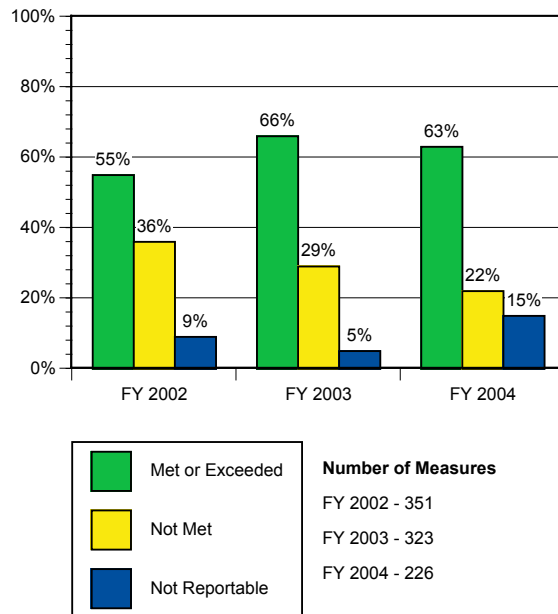


TABLE 1-1

Interior's FY 2004 Performance Measure Scorecard					
GPRA Program Activity	Number of Measures	Met Goal	Did Not Meet Goal	No Report	Percent Exceeding or Meeting Goal
Mission Area 1	48	25	14	9	52.0%
Mission Area 2	41	29	10	2	70.7%
Mission Area 3	16	9	3	4	56.0%
Mission Area 4	86	59	17	10	68.6%
Strategic Goal	35	20	7	8	57.0%

Program Assessment Rating Tool (PART)

Since FY 2002, the Administration has reviewed programs using a government-wide evaluation approach called the Program Assessment Rating Tool, or PART. PART is a standardized and systematic process by which OMB evaluates program performance against a standard set of criteria. PART results will be used to affirm programs that are performing well and to improve underachieving programs through the development and implementation of program-specific recommendations.

Like all new management tools, PART implementation is neither quick nor easy—and its utility will increase as the Administration gains experience with the tool. But it is helping Interior take a focused look at its programs. For example, the PART process helped Interior identify a need for greater program clarity to more effectively and efficiently address rural water requirements. As a consequence, the Administration proposed legislative changes to create a more coherent program within the Bureau of Reclamation relating to the construction of rural water projects.

Fifteen Interior programs were assessed using the PART process for Budget Year 2004. These assessments led to several recommendations for improvement. In response, Interior program managers developed corrective action plans to improve the effectiveness of these assessed programs. Key executives are actively monitoring progress toward implementing these actions using a web-enabled tracking system. Part 2 of this report provides a list of the programs assessed and the actions taken to date in response to the PART evaluation process.

Performance Scorecard and the President's Management Agenda (PMA)

In FY 2004 Interior continued to improve in areas targeted by the President's Management Agenda (PMA). The PMA focuses on improving Federal management and program performance. Organized around five mutually reinforcing components, the PMA applies to every department and agency. The five elements are:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government (E-Government)
- Budget and Performance Integration

These components share a common goal of enhancing citizen-centered governance focused on delivering results that matter to the American public. OMB uses what is called an Executive Branch Management Scorecard to monitor the status and progress of agencies toward attaining PMA goals. Color-coded ratings (red, yellow, and green) are used to visually depict agency ratings.

The Executive Branch Scorecard for the fiscal year ending September 30, 2004, showed Interior's progress as green in four areas and yellow in the other two (*Table 1-2*). Overall, Interior has moved from red to yellow in performance status in three areas, while remaining red in two areas. We improved our status rating in FY 2004 in the areas of Strategic Management of Human Capital and E-Government (moving from a red to a yellow rating). However, we still have much work to do in the areas of Budget

and Performance Integration and Financial Performance (red rating for FY 2004 and FY 2003). Interior's progress ratings for Budget and Performance Integration, E-Government, and Financial Performance was upgraded to green, although Competitive Sourcing dropped back to yellow. In FY 2004, Interior took on an additional initiative, Real Property, in an effort to improve how it manages its physical assets. While it scored a red rating in this category, it has shown progress during the year (yellow). *Table 1-3* summarizes benefits Interior expects to derive by continuing and completing goals related to the PMA.

Major Management Challenges

Each year, the Inspector General and GAO identify what they consider to be the major management challenges facing the Department. *Table 1-21* in Part 1, Compliance with Legal and Regulatory Requirements section, summarizes these and provides actions taken to address the challenges to date. More in-depth discussion of the OIG's Top Management Challenges can be found in Part 4, Top Management Challenges for the Department of the Interior section. Many of these challenges remain the same as in past years. They include:

1. Financial Management. Although the Department has made some progress, internal control weaknesses continue to hinder our management systems. Interior has several initiatives underway aimed at improving financial management, including: the Financial and Business Management System (FBMS), Performance and Budget Integration, and Activity-Based Costing/Performance Management (ABC/PM). While these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.

TABLE 1-2

Interior's FY 2004 and FY 2003 Scorecards				
	September 30, 2004		September 30, 2003	
	Status	Progress	Status	Progress
<i>Human Capital</i>	●	●	●	●
<i>Competitive Sourcing</i>	●	●	●	●
<i>Financial Performance</i>	●	●	●	●
<i>E-Government</i>	●	●	●	●
<i>Budget and Performance Integration</i>	●	●	●	●
<i>Real Property</i>	●	●	N/A	N/A

TABLE 1-3

Interior Looks Forward	
By continuing and completing goals related to the PMA areas, we will . . .	
Strategic Human Capital	Know which types of jobs with what sort of skills we need for the future in the most challenging areas so that we can target recruitment efforts and make the most intelligent use of contractors.
Competitive Sourcing	Save money to reinvest in our mission by routinely challenging ourselves to re-examine how we get the job done, and looking for ways to operate more efficiently and make better use of partners' capabilities.
Financial Performance	Have a modern financial management system that will allow us to enter data once into one system, thereby saving time on administrative chores that can be spent instead on accomplishing our mission, and reduce errors due to several manual data entries.
E-Government	<p>Save millions of dollars through volume Information Technology (IT) purchases and by adopting Department-wide modern systems, freeing up funds to invest in on-the-ground mission delivery.</p> <p>Increasingly use technology to handle routine and repetitive tasks like taking campground reservations, so the Department will have more time to do the more challenging work that draws on our expertise and taps our enthusiasm.</p> <p>Have secure IT systems so that our work and service to the public will not be interrupted by security breaches.</p> <p>Provide readily available information for management decisions.</p>
Budget and Performance Integration	<p>Have current and easy-to-use financial and performance information available to all employees, so we can more easily learn from each other's best practices, as well as anticipate and resolve problems.</p> <p>Be better able to make budget decisions based on comparing performance of related programs.</p>
Real Property	Have developed the first Department Asset Management Plan, so we can make more intelligent choices about the investment in and use of our assets.

2. Information Technology. The Department has made information technology (IT) security maintenance a high priority for all bureaus. Interior has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent in 2004. To foster this effort, Interior has invested more than \$100 million in its security program over the past 3 years. Based on these efforts, the Inspector General and the Department have concluded that DOI's information security program generally meets the requirements of the Federal Information Security Management Act (FISMA). DOI will continue to make improvements to further strengthen IT security and ensure consistent implementation by all bureaus and offices.

3. Health, Safety and Emergency Management. Interior has a responsibility to protect the millions of visitors to its recreation sites and public lands. Likewise, it must protect its facilities and property from both internal and external threats. Interior continues to be challenged in updating its mission and priorities to reflect its new security responsibilities and commitment.

4. Maintenance of Facilities. Interior needs to more aggressively address its deferred maintenance backlog. DOI has embarked on a comprehensive approach to maintenance management that includes implementation of a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition of maintenance of facilities. It has adopted a computer-based facilities maintenance management system, which it tested in FY 2002, and has been assessing the condition of facilities. It has developed a five-year maintenance plan, and established goals to reduce the deferred maintenance backlog. However, maintenance remains a material weakness and an enormous challenge to be managed.

5. Responsibility to Indians and Insular Areas. Interior needs to address persistent management problems in programs for Indians and island communities. Despite DOI's efforts, inadequate information systems and controls prevent it from completely ensuring that trust and program funds are properly managed. Interior managers are taking

steps to improve, including replacing information technology legacy systems and implementing enhanced management controls to ensure proper accounting of trust funds.

6. Resource Protection and Restoration. Interior resource managers face the challenge of balancing the competing interests for use of the Nation's natural resources. Interior has made progress in this area, particularly toward restoring significant national ecosystems to health by: (1) addressing the growing wildland fire threat to communities and resources caused by excessive buildup of fuels in forested ecosystems; (2) restoring the South Florida ecosystem, including the Everglades; and, (3) controlling and eradicating invasive non-native species.

7. Revenue Collections. The largest revenue collector in DOI is the Minerals Management Service (MMS). The amount of collections and the significant potential for underpayments make revenue collections a continued management challenge for the Department. MMS has implemented a comprehensive system and other program improvements to address concerns with its entire Minerals Revenue Management Program.

8. Procurement, Contracts and Grants. Interior spends substantial resources each year in contracting for goods and services, and in providing Federal assistance to States and American Indian organizations. Managing procurement activities continues to be a challenge requiring constant attention. Interior has developed and implemented several comprehensive plans to continue to address deficiencies in specific areas.

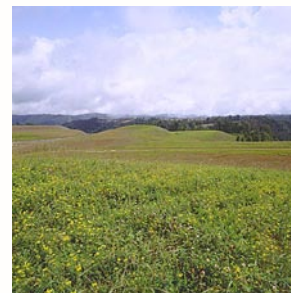
Mission Area 1: Resource Protection—Protect the Nation’s Natural, Cultural, and Heritage Resources

- End Outcome 1 Improve the Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
- End Outcome 2 Sustain Biological Communities on DOI Managed and Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
- End Outcome 3 Protect Cultural and Natural Heritage Resources

As the Nation’s principal conservation agency, Interior is the custodian of many of America’s natural and cultural resources—conserving Federally managed lands and waters, protecting fish and wildlife, and preserving public lands for future generations to enjoy. We fulfill our resource protection mandate in several ways. We administer programs on thousands of upland, wetland, and aquatic parcels within our jurisdiction. We protect thousands of native plant and animal species, including 1,264 with special status under the Endangered Species Act. We serve as guardians of the Nation’s cultural heritage, with assets ranging from Native American archeological and cultural sites to national icons such as the Statue of Liberty and the U.S.S. Arizona Memorial.

Recognizing Good Neighbors in Reclamation

Since passage of the Surface Mining Law in 1977, land reclamation has become a built-in component of surface coal mining in the United States. Interior’s Office of Surface Mining initiated its annual Excellence in Surface Coal Mining



Reclamation Awards in 1986 to spotlight the people and organizations behind some of the most outstanding achievements in environmentally sound surface mining and land reclamation, and to share experience gained from completing such exemplary reclamation. More than 170 awards have been conferred upon various mining companies and individuals since the award program’s initiation about 18 years ago.

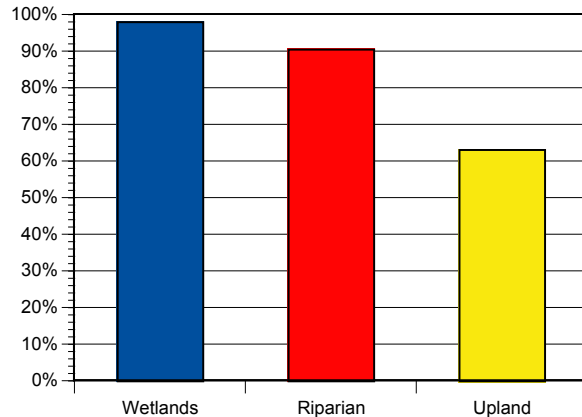
In 2004, OSM’s “Best of the Best” Award in Excellence in Surface Coal Mining Reclamation went to the San Juan Mine in Waterflow, New Mexico. The team at the San Juan Mine exemplified award-winning reclamation; grading techniques and channel design used at the mine represent some of the most innovative reclamation technology that has been developed for western coal mining during the past 25 years. The reclamation team created slopes with the same characteristics as undisturbed lands. Their design process is based on fluvial geomorphic principles, so the reclaimed topography is more stable, diverse, and resistant to damage from flash flooding than traditional reclaimed land in an arid environment.

End Outcome Goal 1: Improve the Health of Watersheds, Landscapes, and Marine Resources

Science is key to making decisions on how best to conserve the Nation's natural resources. Science conducted by the U.S. Geological Survey (USGS) focuses on understanding, modeling, and predicting how multiple forces affect natural systems to enable land managers to evaluate the resource and environmental consequences of management choices under various scenarios. Scientists at Interior's National Park Service (NPS), Bureau of Land Management (BLM), U.S. Fish and Wildlife Service (FWS), and Bureau of Indian Affairs (BIA) actively monitor the health of plants and animals and the quality of water and air on Interior-managed public and Tribal lands to identify factors impacting our natural resources. The NPS Natural Resource Challenge, for example, focuses on monitoring conditions within national park boundaries. The initiative includes vital signs and water quality monitoring. Recurring monitoring enables BLM to assess whether land use plans and management decisions are having their intended effect. Data collected by the FWS's Migratory Bird Survey Program are used by scientists to understand how bird populations respond to annual and long-term variation in weather and climate and the importance of habitat integrity to maintaining healthy bird populations. The USGS's Fire Science Research Program focuses on determining the role of fire in the restoration of non-forested ecosystems, the role of fire in the control and spread of invasive plants, and the effectiveness of fire/fuel treatments to reduce fire hazards. All of these efforts have helped Interior realize land and water restoration and protection efforts (Figure 1-8).

Our resource protection mandate is not limited to Federal lands. We manage conservation activities on non-Federal lands, particularly lands impacted by past mining. For example, within the last few years, we have sealed more than 27,000 abandoned mine portals and shafts and reclaimed more than 190,000 acres of abandoned coal mine land. In FY 2004, preliminary data suggest that we improved 12 stream-miles compromised by past surface coal mining against a target of 150 miles, but these data have yet to be verified.

FIGURE 1-8
Percent of Targeted Wetlands, Riparian, and Upland Areas Restored in FY 2004



500 Babies Offer Hope for the Future of Their Species

About 500 hatchlings of the world's most endangered sea turtles were released into the waters of Padre Island National Seashore in July 2004. The release was the exciting culmination of months of work between the U.S. Fish and Wildlife Service, the National Park Service, the Texas Parks and Wildlife Department, and the National Marine Fisheries Service, with funding in part from Unilever and the National Park Foundation to help save Kemp's ridley sea turtles from extinction—a successful program for over two decades. A record 40 Kemp's ridley nests were located on the Texas coast during the season. Eggs from 32 of the 40 nests were transported to an incubation facility at Padre Island NS for protected care and monitoring. The successful release of hatchlings from the tenderly incubated eggs adds substantially to chances for long-term survival of the Kemp's ridley at the Padre Island National Seashore.



End Outcome Goal 2: Sustain Biological Communities

Part of our conservation mission includes discharging specific duties under the Endangered Species Act. We strive to recover species to healthy, self-sustaining levels, and protect species that are candidates for listing.

The Candidate Conservation Program is an integral component of endangered species management. This program conserves species on the brink of becoming listed as threatened or endangered. By working with private landowners, Tribes, State fish and wildlife agencies, and other Federal agencies, Interior's employees partner with others through the Candidate Conservation Program in a voluntary manner to stave off species extinction while promoting common sense, multiple-use land management. The Candidate Conservation Program has two key components: assessments of declining species and preventing the need to list those species. In FY 2004, Interior reported three new Candidate Conservation Agreements (CCAs) and three new Candidate Conservation Agreements with Assurances (CCAAs) were established to protect candidate and other at-risk species. Since inception of the program, Interior has signed and completed 108 CCAs and 8 CCAAs. An additional 37 CCAs and 35 CCAAs are ongoing. Many of these agreements have successfully contributed to removing threats, thus reducing or avoiding the need for listing. We have made substantial progress with a number of species, and as individual activities of the agreements are implemented over the coming years, we may be able to determine that listing several species covered by these agreements is unnecessary. The three species for which we determined that listing was unnecessary in FY 2004 due entirely or substantially to conservation efforts were slickspot peppergrass, the Camp Shelby burrowing crayfish, and the Holsinger's cave beetle.

Some invasive species threaten the ecological and economic health of the Nation. These alien species of plants and animals often invade native species habitat, choking out the endemic flora and fauna and competing for resources. The uncontrolled spread of some invasive species can lead to a loss of native species and upset the ecological balance. Controlling

Team Tamarisk: Fighting a Nasty Weed

An inclusive alliance of cooperating agencies, Tribes, Federal and State organizations, and individuals across the West have banded together to form Team Tamarisk, a group devoted to controlling tamarisk and associated non-native invasive plants. Tamarisk is an especially tenacious, undesirable invasive shrub that can cause a wide



variety of economic, environmental, and public health and safety problems. It annually consumes an extra 2-3 million acre-feet of water out of western rivers in comparison to the consumption of native vegetation, stealing this precious resource from fish, wildlife, farmers, and faucets in western cities. It also burns even when it is green, making it a year-round fire hazard. Team Tamarisk is fighting the tamarisk wars head-on, developing a strategic approach to eliminate this nuisance. At a landmark conference sponsored in March 2004 by the Departments of the Interior and Agriculture, the National Invasive Species Council, the National Association of Counties, and numerous other organizations and agencies, more than 400 individuals came together to develop a set of principles to help guide tamarisk control work. We believe that by working together, we can make progress in addressing this invasive species challenge and win the tamarisk war.

these invaders is difficult and expensive. Interior is working closely with other Federal and State agencies to detect, predict the spread of, and prevent the establishment of invasive species before they become nuisances. In FY 2004, Interior restored an estimated 3,611,708 acres of land and 1,145 miles of stream- and shore-line to achieve habitat conditions to support species conservation against a target of 3,978,995 acres of land, and 841 stream/shoreline miles. We are partnering with private landowners and local communities to control established species such as tamarisk in the Southwest, the brown tree snake on Guam, and Asian carp in the Mississippi River Basin. These partnerships have achieved habitat/biological community goals for an estimated 47,022 acres of land through voluntary agreements and have protected habitat on an estimated 8,754,360 acres of landscapes and watersheds. In FY 2004, Interior experienced an estimated 8.7% change, against a target of 6.5%, from its baseline in the number of acres infested with invasive plant species. While we planned to establish a baseline to help us measure our

progress in controlling the number of invasive animal populations, we were unable to establish that baseline due to delays in establishing reporting databases and systems. Final data are expected in late December 2004. Overall, our efforts are helping to reestablish habitat conditions that support native species conservation.

End Outcome Goal 3: Protect Cultural and Natural Heritage Resources

Interior's historic preservation responsibilities include maintaining and updating inventories of historic and prehistoric districts, structures, buildings, sites, landscapes, and objects on lands owned or controlled by the Department. Interior also partners with Tribes and other government agencies as well as non-profit groups to preserve historic structures not managed by Interior. Interior strives to increase the number of historic structures contained on the List of Classified Structures (LCS) that are in "good" condition. The LCS is the primary database containing condition information on national park historic structures. Structures on the LCS are on, or are eligible for, the National Register of Historic Places, or are otherwise treated as cultural resources. The condition of these historic structures is listed as good, fair, or poor. Maintaining these structures in good condition meets requirements of the National Historic Preservation Act and is also a responsibility of the Department as part of its commitment to maintain the integrity of cultural resources it manages.

We are making progress. In FY 2004, 64.5% of cultural properties in DOI's inventory were in good condition, against a target of 62.1%. Efforts are underway to establish a baseline against which we can measure progress toward the percentage of collections designated as Indian natural resource trust assets (defined to consist of objects, works of art, and historic documents representing the fields of archeology, art, geology, biology, paleontology, and ethnology) contained in our inventory that are in good condition. As of the end of FY 2004, we have not yet identified the eligible properties in the BIA inventories, but a system has been developed that will enable us to identify and evaluate the condition of these properties over the next two years, at which time we will be able to establish the baseline.

Preserving Memories and Historic Treasures: Marian Anderson's Piano

On February 24, 2004, Secretary of the Interior Gale A. Norton conferred a special historical designation on the Steinway Grand Concert Piano used to accompany the prominent African American opera singer, Marian Anderson. The piano was purchased in 1937 while Harold L. Ickes served as Secretary of the Interior and Franklin D. Roosevelt was President. In 1939, after Marian Anderson was denied the opportunity to sing at Constitution Hall (due to a clause in all contracts restricting the hall to "a concert by white artists only, and for no other purpose"), Secretary Ickes arranged for her to perform at the Lincoln Memorial and at the Interior Department. In 1943, the piano again accompanied Ms. Anderson when she performed at an Interior ceremony dedicating a mural depicting her performance at the Lincoln Memorial.



"African American history is a book filled with many unexplored chapters," Norton said at the 2004 event, at which she was joined by Ken Saliba, Vice President of Steinway and Sons Piano Company; Ms. Cynthia Hoover, Curator of Historical Instruments of the Smithsonian Museum; and Howard University officials. "These important chapters illustrate the contributions African Americans made in shaping this Nation. Let us appreciate this opportunity and build on it for the future."



TABLE 1-4

Mission Area 1: Resource Protection Performance and Resource Scorecard				
End Outcome Goal	Number of Measures Met	Number of Unmet Measures	Number of Measures Containing Estimated or No Reports	Costs (in millions)
Goal #1: Improve the Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water	14	7	5	\$911
Goal #2: Sustain Biological Communities on DOI Managed and Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water	7	4	2	\$1,670
Goal #3: Protect Cultural and Natural Heritage Resources	4	3	2	\$466
Total	25	14	9	\$3,047
Percentage (Total of 48 Measures)	52%	29%	19%	

Mission Area 2: Resource Use— Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy

- End Outcome 1 Energy—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value
- End Outcome 2 Non-Energy Minerals—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value
- End Outcome 3 Forage—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value
- End Outcome 4 Forest Products—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value
- End Outcome 5 Water—Deliver Water Consistent with Applicable State and Federal Law, in an Environmentally Responsible and Cost-Efficient Manner
- End Outcome 6 Hydropower—Generate Hydro-power Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner

Managing the vast resources of America’s public lands has been a core Interior responsibility since the Department was founded in 1849. Over the past 156 years, that management task has grown more complex than it was in the 19th Century. Today, we continue to provide access to the resources needed by the Nation, but our challenge is to determine where, when, and how to provide access to the renewable and non-renewable economic resources of these public lands and waters.

Lands and water managed by Interior produce resources critical to the Nation’s economic health. Our multiple-use lands, water, and offshore areas supply about 30% of the Nation’s domestic energy production, including 34.5% of the natural gas, 34.7% of the oil, 43% of the coal, 17% of the hydropower, and 50% of the geothermal energy. Making responsible resource use decisions demands that we balance the economy’s call for energy, minerals, water, forage, and forest resources with our resource protection and recreation mandates. Interior conducts resource and environmental assessments to make informed decisions.

End Outcome Goals 1, 2, and 3: Managing Energy and Non-Energy Minerals and Forage Resources

Science is a key foundation upon which we base management decisions that promote natural resource use to sustain a dynamic economy while maintaining healthy lands and waters. Interior scientists, including geologists, engineers, and researchers at USGS, provide the critical information needed to make informed natural resource use decisions. In FY 2004, the USGS helped support non-energy mineral resource use decisions by providing information covering 2,401,329 average square miles of the United States. This information includes geologic maps and digital data sets, mineral locality information, and a web-based geochemical database. The geochemical database alone includes data for approximately 71% of the land area of the United States, including sites in all 50 States. USGS also conducted five oil and gas resource assessments (against a goal of 5) on targeted basins to support management decisions.

One hundred percent of its studies were validated through appropriate peer or independent reviews.

Interior also manages leases and mineral operations covering more than 700 million acres of mineral estate underlying Federal and other onshore surface ownerships, and nearly 1.8 billion acres of the Outer Continental Shelf (OCS). Annual revenues from resource use activities have reached as high as \$11 billion. In FY 2004, these revenues amounted to approximately \$10 billion. These revenues are shared, in part, with States, Tribes, and communities (*Figure 1-9*). These revenues play an empowering role in local economies. Some of them also become a part of the Historic Preservation Fund and the Land & Water Conservation Fund, helping to protect natural, cultural, recreational, and heritage resources. Interior’s BLM and Minerals Management Service (MMS) have specific responsibilities as stewards of energy minerals resources on Interior-managed lands. In FY 2004, revenues collected from the offshore mineral leases administered by MMS amounted to approximately \$6.3 billion. BLM collected more than \$700 million in revenue from energy, minerals, grazing, land sales, and other leases it administers. In FY 2004, MMS reported that royalties received for offshore and onshore mineral leases comprised 96% of predicted revenues (against a target of 98% for 2001), based on market indicators in the production year. It reported that it disbursed 95.5% of its revenues on a timely basis, against a target of 94%, compared with 92.6% in FY 2003 and 80% in FY 2002.

Implementing the President’s National Energy Plan, which focuses in part on producing energy on Federal lands while maintaining environmental protections, is a priority of the Department. In FY 2004, Interior met its performance target and held four offshore sales, consistent with the Secretary’s Five-Year Program for supporting the National Energy Plan. Offshore sales resulted in \$544 million in high bids on 922 tracts.

Walk a Mile in My Boots

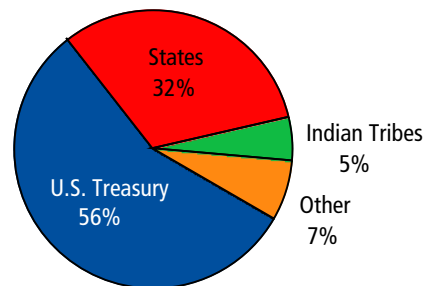
The FWS and the National Cattlemen’s Beef Association (NCBA) have launched a cooperative exchange program between FWS employees and NCBA representatives that provides an opportunity to learn about each others’ respective lifestyles and perspectives. Through the “Walk a Mile in My Boots” initiative, ranchers and FWS employees are learning what it is like to be on the “other side of the fence”—often quite literally. Ranchers and FWS employees sign up for an exchange that lasts typically between 2 and 10 days. During that time, ranchers shadow FWS biologists, managers, and educators and attend government meetings while visiting refuges and offices. FWS employees are paired with cattlemen, learning what it is like to run a ranch and participating in a range of activities from mending fences to moving cattle.

Since the program’s launch in the summer of 2003, exchanges have taken place in Texas, Idaho, Montana, and Wyoming. Those participating have characterized the program as a “rewarding experience.”



FIGURE 1-9

Interior Revenue Distribution





As part of the President's Healthy Forests Initiative, forest managers are looking to reduced fuels techniques to mitigate damage to forests caused by fires. Here are photos showing a stand of trees that was thinned, before (left photo) and after a fire (right photo).

End Outcome Goal 4: Forest Products

Forest management programs led by BIA and BLM within the Department have the dual benefit of generating timber harvests on public and Indian trust lands, while restoring forest health through the President's Healthy Forests Initiative. BIA is steward for Indian forests, which cover 18 million acres on 275 reservations in 26 states. BIA forest use plans, which at present cover 44% of forested lands on reservations, optimize the benefits of timber resources while addressing use conflicts, ensuring Tribes realize the full potential of their lands. Guardian of forest health on the Interior lands it manages, BLM balances its conservation mission with managing timber as a resource. In FY 2004, BLM offered 188 million board feet (MMBF) of timber for sale on Interior lands, against a target of 208 MMBF. The administrative cost of the timber offered was maintained at \$176 against a target of \$165 per thousand board feet (MBF) within 94% of its target for costs. The \$176 includes administrative and program management costs that were not included in the target. Due to litigation in the Pacific Northwest, Interior was unable to meet its target for percent of wood products offered over the allowable sale quantity (ASQ). Instead, 80% of the wood products offered were consistent with management plans against a target of 88.5%. In addition, we increased the volume of timber offered for sale on Indian lands to 579.8 MMBF, exceeding a target within our Serving Communities mission area.

End Outcome Goal 5: Deliver Water

Water availability is among the most critical issues facing our Nation today. Interior is the largest supplier and manager of water in the 17 western States. Interior bureaus manage over 2,800 dams and reservoirs. Interior's Bureau of Reclamation (Reclamation) manages 476 dams and 348 reservoirs, and provides drinking water to over 31 million people. Interior water irrigates more than 10 million acres of farmland, on which farmers produce about 60% of the Nation's vegetables and 25% of our fruits and nuts. In FY 2004, Reclamation delivered an estimated 28.7 million acre-feet (MAF) of water to its customers, consistent with applicable requirements of Federal and State water laws, against a target of 29.1 MAF. One acre-foot equals about 326,000 gallons of water, or enough to fill a football field to a depth of one foot. An acre-foot is also enough water to supply the needs of a family of five for a year. The Department of Water Resources in the State of Utah estimates Lake Powell holds approximately 28 million acre feet at normal capacity.

Reclamation operates and maintains a safe and reliable water infrastructure and delivery system. In FY 2004, 100% of its water facilities remained in compliance with environmental requirements as defined by law, against a target of 97%. Reclamation's Facilities Reliability Rating showed 97.4%, against a target of 96%, of its water infrastructure was in fair to

good condition. Reclamation increased its capacity for delivering water, making an additional 103,598 acre-feet available (against a target of 102,109), by completing infrastructure construction projects.

End Outcome Goal 6: Generate Hydropower

Reclamation's water infrastructure generates 17% (42 billion kilowatt hours) of the Nation's hydropower—making Reclamation the second largest producer of hydroelectric power in the United States. Reclamation produces this power cost-effectively and reliably. In FY 2004, Reclamation's facilities produced power at a cost estimated to be within the lowest quartile of all hydropower producers. Its hydroelectric power generating units were available for an estimated 91.9% of the time to the interconnected Western Electrical System during daily peak summer demand periods in 2004 (against a target of 91.5%). Its forced outage time is better than the industry average at about 1% (against a target of 2.5%).

Partnering to Succeed: Water 2025 Initiative

Water supply challenges will continue to confront the West in the coming decades. Crisis management is not an effective way to address these long-term, systemic problems. Recent crises in the Klamath and Middle Rio Grande Basins—where American Indian Tribes, farmers, urban residents,

and fish and wildlife have been affected by water shortages—vividly demonstrate the consequences of failing to strategically address the problem of competing demands for a finite water supply. To address these and other concerns, an initiative known as Water 2025 is underway. Its purpose is to help manage scarce water resources and develop partnerships to nourish a healthy environment and sustain a vibrant economy. Through a 50-50 Challenge Grant Program, Water 2025 encourages voluntary water banks and other market-based measures, promotes the use of new technology for water conservation and efficiency, and removes institutional barriers to increase cooperation and collaboration among Federal, State, Tribal, and private organizations. The goal of these challenge grants is to support realistic, cooperative approaches and tools that have the most likelihood of successfully addressing water challenges in the basins facing the greatest risk.

Interior and its partners will continue to use Water 2025 as a basis for public discussion of the realities that face the West so that decisions can be made at the appropriate level in advance of water supply crises. Water 2025 will hopefully serve as a useful tool for finding innovative, workable solutions to water management challenges.

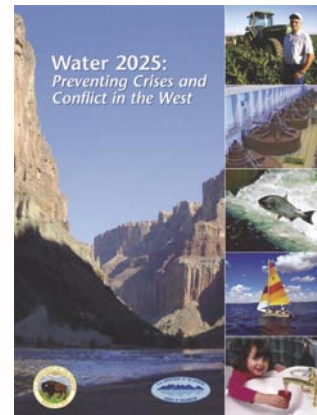


TABLE 1-5

Mission Area 2: Resource Use Performance and Resource Scorecard				
End Outcome Goal	Number of Measures Met	Number of Unmet Measures	Number of Measures Containing Estimated or No Reports	Costs (in millions)
Goal #1: Energy—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value	12	2	1	\$1,902
Goal #2: Non-Energy Minerals—Manage or Influence Resource Use	4	1	0	\$142
Goal #3: Forage—Manage or Influence Resource Use	1	1	1	\$76
Goal #4: Forest Products	1	3	0	\$58
Goal #5: Water—Deliver Water Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner	6	3	0	\$1,134
Goal #6: Hydropower—Generate Hydropower Consistent with Applicable Federal and State Law	5	0	0	\$218
Total	29	10	2	\$3,530
Percentage (Total of 41 Measures)	70.7%	24.4%	4.9%	

Mission Area 3: Recreation— Provide Recreation Opportunities for America

- End Outcome 1 Provide for a Quality Recreation Experience, Including Access and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters
- End Outcome 2 Provide for and Receive Fair Value in Recreation

The Department's formal recreation responsibility began with Yellowstone National Park, established in 1872 to serve as a "pleasuring-ground for the benefit and enjoyment of the people." Today NPS, BLM, FWS, and Reclamation provide recreation opportunities, operating under the principal mandates of the NPS Organic Act, the Refuge Recreation Act, the National Wildlife Refuge System Improvement Act, and the Federal Land Policy and Management Act.

End Outcome Goal 1: Provide for a Quality Recreation Experience

Interior's recreation destinations are among the Nation's most popular. In FY 2004, the 388-unit National Park System reported 268 million visits. Thirty-nine million people visited the 544-unit, 96-million-acre National Wildlife Refuge System, which just celebrated its 100th anniversary. An additional 66 million people visited the 262 million acres of public lands managed by BLM, while Reclamation logged 90 million visits to 308 sites. There are also significant recreational opportunities on lands administered by BIA as well as on Tribal lands.

Wheelin' Sportsmen

Interior's FWS and the National Wild Turkey Federation's Wheelin' Sportsmen program have partnered under a Memorandum of Understanding to create outdoor opportunities for the disabled. Wheelin' Sportsmen represents a national outreach effort to help persons with disabilities enjoy outdoor recreation, including hunting, fishing, and bird-watching. The FWS has long been interested in expanding opportunities for the disabled. Through the partnership, special events are being held at National Wildlife Refuges for the disabled and mobility-impaired to encourage enjoyment of public lands.



Americans come to national parks, refuges, and public lands for many reasons—to renew their sense of self, to experience adventure and relaxation, and to sample the rich diversity of our landscape and culture on water or land, at sea level or thousands of feet above, in scuba gear, on mountain bikes, or with a camera, while hunting, fishing, camping, hiking, boating, white-water rafting, and birding. We assess our success with our recreation mission by measuring visitor satisfaction, ease of access, visitor learning opportunities, and the quality of our facilities.

In FY 2003, 96% of visitors responding to a satisfaction survey reported that they were satisfied with the overall quality of their experience, against a target of 95% (Figure 1-10) (Note: 2004 results will be available in March 2005 since surveys are conducted during the prior summer season (May - October). In FY 2004, 153 million visitors, against a target of 125.4 million visitors, participated in interpretive and educational programs designed to enrich their visit. Interior ensured that 7.8%, against a target of 9.7%, of its facilities were universally accessible (including access by the disabled) in relation to the total number of recreation areas it manages. Preliminary data suggest that specific management actions and partnerships made 338.5 million acres, against a target of more than 340 million acres, available for recreation along with 19,870 miles of rivers and shorelines. These data, however, have yet to be verified.

End Outcome Goal 2: Provide for and Receive Fair Value in Recreation

The Recreational Fee Demonstration Program is designed to improve visitor services. Established by Congress in 1996, this program permits agencies to retain most recreation fees at the site where they were collected so that they can be reinvested to improve visitor facilities and services. Although recreational fees date to 1908, Congress first established broad recreation fee authority in 1965 under the Land and Water Conservation Fund Act. In enacting this authority, Congress acknowledged that visitors to Federal lands receive some benefits that do not directly accrue to the public at large and that charging a modest fee to visitors is both equitable and fair to the general taxpayer.

In FY 2004, Interior generated \$147 million in revenues through the Recreational Fee Demonstration Program. This program has enabled us to invest funds to further reduce our maintenance backlog, enhance resource protection activities, and defray the cost of future fee collections at recreational areas managed by FWS, NPS, and BLM.

In addition, \$25 million in revenue, against a target of \$39.1 million, was collected from concessions located on National Park System lands, 94.5% of which are operated under performance-based contracts (against a target of 2.9% for FY 2004). An estimated 82.4% of those responding to a survey in FY 2004 reported they were satisfied with the value received for the fee they paid to use recreational sites, meeting our target.

FIGURE 1-10

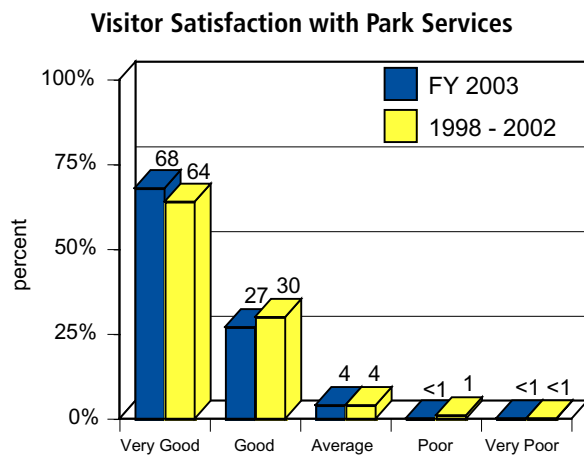


TABLE 1-6

Mission Area 3: Recreation Performance and Resource Scorecard				
End Outcome Goal	Number of Measures Met	Number of Unmet Measures	Number of Measures Containing Estimated or No Reports	Costs (in millions)
Goal #1: Provide for a Quality Recreation Experience, Including Access and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters	6	2	4	\$1,834
Goal #2: Provide for and Receive Fair Value in Recreation	3	1	0	\$327
Total	9	3	4	\$2,161
Percentage (Total of 16 Measures)	56%	19%	25%	

Mission Area 4: Serving Communities— Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve

- End Outcome 1 Protect Lives, Resources, and Property
- End Outcome 2 Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science
- End Outcome 3 Fulfill Indian Fiduciary Trust Responsibilities
- End Outcome 4 Advance Quality Communities for Tribes and Alaska Natives
- End Outcome 5 Increase Economic Self-Sufficiency of Insular Areas

Interior’s responsibility to serve communities continues to grow larger and more complex, extending well beyond the lands and resources we manage. The Department is responsible for protecting lives, resources, and property; providing scientific information for better decision-making; and fulfilling the Nation’s trust or other special responsibilities to American Indians, Alaska Natives, and residents of island communities.

We help protect communities from wildland fires; safeguard visitors on our lands from illegal activities; and, provide scientific information to reduce risks from earthquakes, landslides, and volcanic eruptions. We provide scientific assessments and information on the quality and quantity of our Nation’s water resources; collect, process, integrate, archive, and provide access to geospatial and natural resource data; and, conduct multi-purpose natural science research to promote understanding of earth processes, which are vital to resource use as well as resource protection.

Partnering to Succeed: Improving Wildland Fire Management

Partnerships like the Wildland Fire Leadership Council leverage scarce resources and focus unique expertise and technology available through partner agencies to solve problems of mutual concern.



The Wildland Fire Leadership Council, comprising representatives from Interior, the Department of Agriculture, Tribal forestry, and State agencies, works closely with community-based fire-fighting units to improve wildland fire management and reduce hazardous fuels on forests and rangelands. In FY 2004, the Council worked with communities to develop common performance measures, common cost accounting protocols, and an effective hazardous fuels reduction program. Since 2001, Interior and the U.S. Forest Service have removed hazardous fuels from over 11 million acres.

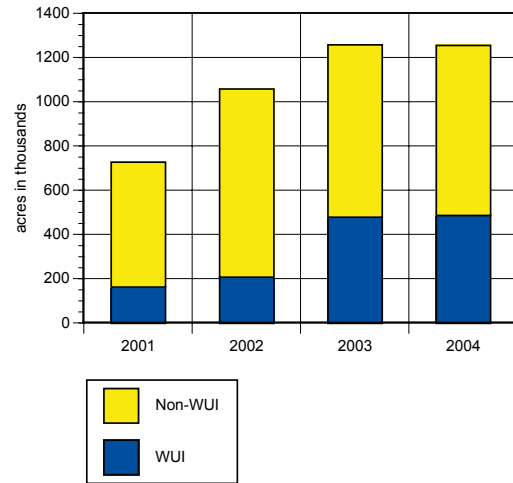
Federal agencies have provided assistance to 7,731 rural and volunteer fire departments through grants, training, supplies, equipment, and public education support. These agencies have also sponsored 14 national and 500 community Firewise workshops to increase awareness about wildland fire prevention and management.

End Outcome Goal 1: Protect Lives, Resources, and Property

Interior has improved its ability to protect lives, resources, and property from the ravages of wildland fires. We had a 97% success rate in containing unwanted wildfires on initial attack during the 2003 fire season. During the 2004 fire season, our success rate was 97%, exceeding our target of 95%. *Figure 1-11* shows upward trending hazardous fuels treatment data on wildland urban interface (WUI) and non-WUI areas. Interior exceeded its FY 2004 fuels targets because of four interdependent factors: four years of capacity-building, advance planning that created a large number of on-the-shelf projects, a below normal fire season in the lower 48 States that enhanced personnel availability, and generally favorable weather conditions for fuels treatments.

The United States is also subject to a variety of natural hazards (earthquakes, volcanic eruptions, and landslides) that can result in considerable human suffering and billions of dollars in property and

FIGURE 1-11
Hazardous Fuels Treatment: National Fire Plan



business losses. The occurrence of these hazardous events is inevitable and uncontrollable. However, the extent of damage and loss of life can be reduced through preventative planning; social, economic, and engineering adaptations; provision of real-time

Scientists and Mount St. Helens: Monitoring a Restless Earth

In the fall of 2004, USGS scientists monitored the eruption of Mount St. Helens in Washington State. Seismic unrest at the volcano (whose American Indian name means "smoking mountain") began on September 23. Activity ramped up quickly, and the first steam and ash explosion occurred on October 1. USGS scientists quickly expanded monitoring networks and issued appropriate warnings of the potential dangers of an eruption to the U.S. Forest Service, State emergency management officials, the Federal Aviation Administration, the Washington Volcanic Ash Advisory Center, and nearby residents. They provided the continuous updates and information needed to protect people and aircraft from hazardous situations, as the volcano produced periodic steam and ash explosions that sent ash as high as 10,000 feet, accompanied by persistent seismic unrest. Mount St. Helens is one of several potentially active volcanic peaks in the Pacific Northwest Cascade Range. Its 1980 eruptions marked the reawakening of a relatively young (40,000 years) volcano that had been dormant since 1857. One major hazard posed by eruptions at Mount St. Helens is that ash clouds could affect air traffic and operations at nearby airports in Portland and Seattle.



warning capabilities; and more effective post-event emergency response. The more precisely we can define risks, the greater the likelihood that appropriate mitigation strategies will be adopted (e.g., building codes for new construction and retrofitting; land-use plans; local zoning regulations; and design and location/routing of critical infrastructure such as highways, bridges, subways, water and sewer lines, gas lines, electric lines, and petroleum-distribution networks). The sooner information reaches emergency response centers, the sooner teams can be dispatched to resolve time-sensitive medical, utility, or infrastructure problems. Our programs are designed to produce information and understanding that will reduce the impacts that natural hazards and disasters on human life and the economy. In FY 2004, 43.2% of communities in the United States used Interior science related to hazard mitigation,

preparedness, and avoidance to assist in preparing for and mitigating hazard events. These communities reported that 98% of the information provided met their needs and/or helped achieve the goal of reduced risk. Ninety-eight percent of those surveyed reported satisfaction with the adequacy of our science base for their decision-making regarding the hazards for which we gather data.

End Outcome Goal 2: Advance Knowledge Through Scientific Leadership

Science is the cornerstone of Interior's land management decisions, supporting work to achieve resource protection, resource use, recreation, and serving community goals. We provide scientific assessments and information on the quality and quantity of our Nation's water resources. We collect, process, integrate, archive, and provide access to geospatial and

Fire Break Protects Utah Community

It's a tragic story, one heard all too frequently during recent fire seasons: wildfire sweeps through a community. Homes are destroyed and with them the family treasures of those who fled. Sometimes lives are lost.

That could have been the story of the small southwestern Utah town of Central had it not been for the combined efforts of the community working with State and Federal agencies to prepare for the possibility of wildland fire. At about 4:00 p.m. on Thursday, August 12, lightning ignited the Cal Hollow Fire in pinyon and juniper woodland northwest of the town. On this hot, windy summer afternoon fire swept through the trees, hot embers blew in the wind, and the fire headed straight for the town. At 6:00 p.m. more than 100 households were evacuated.



This story could have ended in misfortune, but this town was surrounded by a fuel break—a fuel break that was built as a cooperative effort by the people of Central and several State and Federal agencies as part of President Bush's Healthy Forests Initiative using National Fire Plan dollars. The fuel break slowed down the raging fire, giving firefighters the time they needed to avert disaster. By 10:00 p.m., the fire had been contained and residents returned to their homes. No one was hurt. No structures were lost.

Creation of fuel breaks accelerated as part of the Healthy Forests Initiative. In 2002, several communities were identified for pilot testing the use of streamlined environmental analysis to meet urgent needs for fuel reduction. Because Central was one of the top 10 "communities at risk" for wildfire in Utah, it made an excellent choice for a demonstration project. Like many wildland-urban-interface (WUI) communities, Central has State, private, BLM, and Forest Service land surrounding it. In order to buffer the community from wildland fires, all of these groups worked as a team under a chartered organization called The Color Country Fuels and Wildland-Urban Interface Committee. This team worked with the local community to remove brush and lop trees around their homes, creating a "fuels-free" barrier around structures. Many homeowners had to be convinced to support the approach—many people prefer to see dense woodland right up against the property boundary of their homes.

Addressing the State and Federal agency representatives who were present at an interview after the fire, Gerald Schiefer, assistant fire warden of Pine Valley, expressed appreciation, "Thank you for doing the fire break. It probably saved Central and it significantly slowed the fire. This allowed for defensive action for the homes . . . even though there was a good wind, until the air drops could be made. You guys are our heroes."

natural resource data. We conduct multi-purpose natural science research to promote understanding of earth processes—processes vital to resource use, as well as resource protection. We provide these data to decision-makers within Federal, State, and local government agencies, as well as local communities, so that leaders and managers can make informed decisions on land and resource management.

In FY 2004, Interior’s principal science bureau, the USGS, expanded its information base by providing temporal and spatial monitoring, research, and assessment/data coverage to meet land use planning and monitoring requirements for 54.66% of the surface area of the United States, against a target of 45.91%. It improved access to this information, providing 90% of decision-makers with science data needed to make informed decisions, meeting our target. Ninety-three percent reported that these data helped them achieve their management goals. USGS validated 100% of these studies through appropriate peer or independent review to ensure accuracy and reliability of the research, against a target of 100%.

End Outcome Goals 3 and 4: Fulfill Indian Fiduciary Trust Responsibilities and Advance Quality Communities for Tribes and Alaska Natives

Interior works with 562 federally recognized Tribes and a service population of approximately 1.5 million American Indians and Alaska Natives to help them protect their land and natural resources, to fulfill our trust obligations and to help create the infrastructure and educational opportunities that build strong communities. At the outset of FY 2004, we provided services to elementary and secondary school populations of about 48,000 Indian students while protecting millions of cultural and historic resources on Federal and Indian Lands.

In FY 2004, we discharged these responsibilities by:

- Creating 1,719 jobs for American Indians and Alaska Natives using capital provided by Interior loans, against a target of 1,300 jobs, and at a cost of \$1,799 per job, against a target of \$4,400.
- Reporting an attendance rate of children in grades 1-12 as 87.18%, against a target of 92%.

- Ensuring that 48% of BIA school children were able to read independently by the 3rd grade, against a target of 52%.
- Achieving parity between the Tribal community and U.S. rural area national average on high school graduation at 80%, exceeding our target of 78%.

Interior manages approximately 56 million acres of Indian trust land. An estimated 10 million acres belong to individual Indians, while nearly 46 million acres are held in trust for Indian Tribes. On these lands, Interior manages over 100,000 leases for individual Indians and Tribes. Leasing revenues, use permit fees, land sale revenues, and interest income totaling approximately \$205 million in FY 2004 were collected for approximately 266,000 open Individual Indian Money accounts. In FY 2004, about \$378 million was collected in 1,400 Tribal accounts for 300 Tribes. In addition, the trust manages approximately \$3 billion in Tribal funds and \$414 million in individual Indian funds.

BIA “Green” School Recognized

In April 2004, the U.S. Green Building Council awarded the Bureau of Indian Affairs and the Baca/Dlo’ay azhi Community School Project of Prewitt, New Mexico, with the Leadership in Energy and Environmental Design (LEED) designation. The LEED designation raises consumer awareness in the benefits of green buildings and recognizes leaders of the environmentally-sensitive building design industry. The Baca/Dlo’ay azhi Community School is the first LEED certified building in the State of New Mexico. Several sustainable design features, in addition to Navajo cultural elements, were incorporated into the innovative, energy-efficient school.



We recognize the challenges of our Indian fiduciary trust responsibilities. We have made a number of changes to improve how we manage trust assets. In FY 2003, we reorganized the BIA and the Office of the Special Trustee for American Indians so that our organizational structure could better focus on its critical fiduciary trust duties. We are also improving the management of approximately 266,000 open Individual Indian Money account assets.

In FY 2004, we improved our timeliness in providing financial account information, providing timely information 97% of the time against a target of 100%. Additional efforts are underway to ensure we meet our 100% accuracy target in FY 2005.

End Outcome Goal 5: Increase Economic Self-Sufficiency of Insular Areas

Along with serving communities of American Indians and Alaska Natives, the Department of the Interior coordinates Federal policy with respect to the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. We also oversee Federal programs and funding in the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. We provide financial and technical assistance and promote appropriate Federal policies to help the islands develop more efficient and effective government. We helped increase the economic self-sufficiency of insular areas in FY 2004 by taking actions to realize a ratio of Federal revenue to total revenues in insular areas of 0.26, against a target of 0.25. We also realized a ratio of 0.76 private sector jobs to total employment, against a target of 0.70, to help increase economic development in the insular areas.

Achieving Law Enforcement Excellence

Interior's law enforcement, security, and emergency management activities are critical to successfully managing and protecting public lands, resources, visitors, and employees, as well as surrounding communities. Interior is in its second year of reforming its law enforcement activities, responding to 25 specific areas of improvement identified by a 2002 Inspector General report and mandated for reform by the Secretary of the Interior. Interior is making strategic investments in its law enforcement and security programs, improving its oversight of related budgets, and assuring accountability through effective performance goals and measures.



The law enforcement, security, and emergency management functions of the Department are integrated through an extensive information sharing and analysis program. Electronic connectivity has been established between the Department's 24-hour Watch Office and the intelligence, law enforcement, and homeland security communities. A secure collaborative internet-based workspace has been created to enhance information sharing throughout the Department. Regularly scheduled intelligence briefings are being provided to key leadership to improve their situational awareness and support decision-making.

A noteworthy improvement is IMARS—Interior's Incident Management, Analysis and Reporting System. IMARS will be developed as a single, Web-based system to be used by all Interior offices and bureaus with law enforcement responsibilities to record and manage information relating to incidents on Interior lands. Not only is the system concept the first of its kind within the Department, it is also the first system to integrate incident information collection and performance reporting for all law enforcement programs within one Federal Department.

Interior is playing a significant role in carrying out the National Critical Infrastructure Protection (CIP) Program. We must provide for the safety and security of the employees, visitors, facilities, and key resources we manage in accordance with procedures developed collaboratively with the Department of Homeland Security. Recent efforts have focused on improving security at priority dam locations. Additionally, as part of our responsibilities under the CIP Program, we are working to protect our Nation's national monuments and icons, in cooperation with Federal, State, local, and private partners.

With more than 1,200 linear miles of borderland under Interior's jurisdiction, we face challenges in safeguarding our Nations's natural, cultural, recreational, and heritage resources from risks associated with continuing illegal activities along the border. Interior is working closely with the Department of Homeland Security to protect employees, visitors, cultural and natural resources, and facilities through increased law enforcement security staffing at the most at-risk locations.

We are also working to improve Interior's response, through the President's National Response Plan (NRP), to any type of emergency—man-made or natural. The Department will provide support to nine "Emergency Support Functions" under the Department of Homeland Security's new NRP; we also have primary responsibility under this plan for developing interagency guidance related to the protection of natural and cultural resources during emergencies, as well as emergency response on tribal lands and the Insular Areas. Another major emergency management initiative is the testing and evaluation of Continuity of Operations (COO) and Continuity of Government (COG) plans, which will lead to a revision of Departmental guidance and plans to enhance our capability to carry out essential functions during emergencies and other situations that disrupt normal operations.

TABLE 1-7

Mission Area 4: Serving Communities Performance and Resource Scorecard				
End Outcome Goal	Number of Measures Met	Number of Unmet Measures	Number of Measures Containing Estimated or No Reports	Costs (in millions)
Goal #1: Protect Lives, Resources, and Property	18	2	5	\$2,305
Goal #2: Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science	5	1	0	\$959
Goal #3: Fulfill Indian Fiduciary Trust Responsibilities	21	9	2	\$773
Goal #4: Advance Quality Communities for Tribes and Alaska Natives	12	5	3	\$2,402
Goal #5: Increase Economic Self-Sufficiency of Insular Areas	3	0	0	\$342
Total	59	17	10	\$6,781
Percentage (Total of 86 Measures)	68%	20%	12%	

Strategic Goal: Management Excellence— Manage the Department to be Highly Skilled, Accountable, Modern, Function- ally Integrated, Citizen-Centered, and Result-Oriented

- End Outcome 1 Workforce has Job-Related Knowledge and Skills Necessary to Accomplish Organizational Goals
- End Outcome 2 Accountability
- End Outcome 3 Modernization
- End Outcome 4 Integration
- End Outcome 5 Customer Value

Management improvement is an ongoing, iterative process that is essential if we are to deliver the consistent performance improvement the American public expects. Interior's journey toward management excellence builds upon the Secretary's four key business principles: customer value, accountability, integration, and modernization. Our management goals guide us toward the effective, efficient accomplishment of Interior's mission. We strive to ensure that all of our activities are customer-centered—designed to add value for citizens, partners, users of public lands, other Federal agencies, Tribes, States, and local governments. This focus requires an organization of results-oriented, skilled, diverse employees. To create this organization, we apply best practices in competitive sourcing reviews and human capital management.

Modernization and Integration of Interior Business Systems: FBMS

Interior's Financial and Business Management System (FBMS) is a major Department-wide initiative that will integrate financial management, acquisition, property management, grants administration, and other subsidiary



systems. It will revamp administrative processes throughout the Department. The FBMS will help us provide complete, accurate, and timely information that employees and managers need to make informed decisions about their programs at all levels of the organization. The integrated system will streamline linkages between critical financial management systems, providing service through a single system instead of the more than 16 systems that Interior currently operates. The FBMS will provide more economic and efficient input and retrieval of data. It will help us to achieve unqualified audit opinions and the best use of taxpayer dollars. Most importantly, it will standardize business practices and business data across the Department.

Interior took a tremendous step toward making its vision of the FBMS a reality when, in January 2004, it awarded a contract to BearingPoint, Inc., as a solution provider for the system. Interior managers have given FBMS the highest priority for new information technology systems.

End Outcome Goal 1: Knowledgeable and Skilled Workforce

Our Strategic Human Capital Management Plan, published in September 2002, establishes the link between human resources and our mission. It identifies common challenges that are shaping the skills, training, and professions that we need to discharge our responsibilities effectively. These challenges include increased urbanization, rising security demands, an aging infrastructure, and increased expectations for accountability and efficiency by those we serve. The goals outlined in our Human Capital Plan have spurred us toward progress. Through this plan, we seek to have the right people in the right places at the right time with the right tools. In FY 2004, we completed 71.4% of the strategic actions needed to fully implement our Human Capital Plan, against a target of 90%, falling short because we were unable to complete a task related to evaluating the relationship between succession planning for leadership and bureau workforce planning solutions. However, outcome goals were identified for 100% of these actions. All of our Senior Executive Service (SES) now have performance agreements in place containing GPRA, PMA, and Citizen-Centered Governance performance-based elements, making these key leaders and managers accountable as partners in realizing the Department's human capital goals. *Figure 1-12* shows progress toward achieving our diversity goals.

End Outcome Goal 2: Accountability

To be accountable, Interior must set clear performance measures for managers and employees. The SES cascading performance agreements are an important start. However, managers and employees also need accurate, timely, and integrated financial, budget, and performance information if they are to excel. Interior has taken steps to become more accountable and efficient, while providing employees with the data they need to accomplish their mission, by focusing on innovations and a re-engineering of business processes. An example of our progress toward being more accountable can be seen in *Figure 1-13*, which shows how we have reduced the number of delinquent travel charge card accounts.

FIGURE 1-12
Diversity Trends

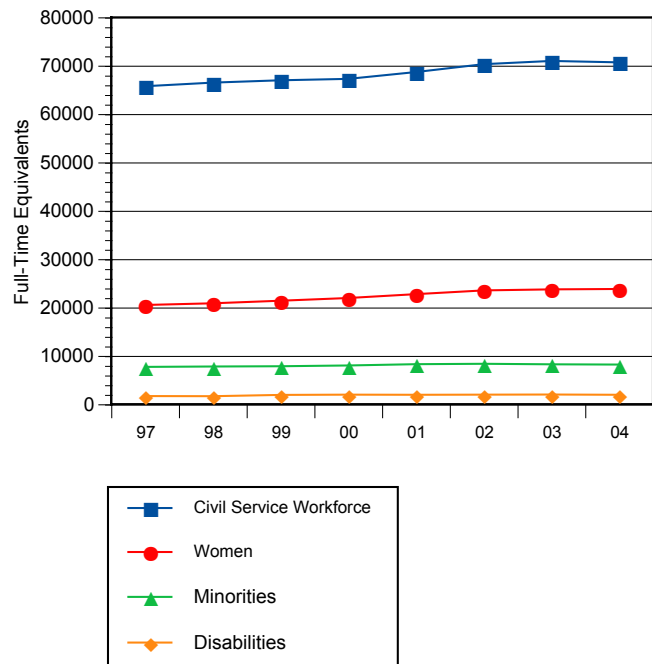
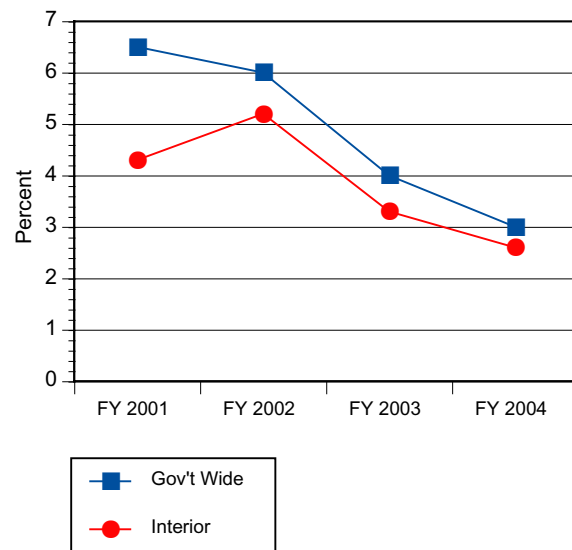


FIGURE 1-13

Travel Card Payment Delinquency



In October 2003, we began deploying a new activity-based cost/performance management system, ABC/PM, which breaks work into specific activities, allowing managers to measure and compare unit costs and performance by dollars spent and actions undertaken. In FY 2004, 100% of Interior's bureaus and offices reported fully implementing accurate activity-based accounting systems, meeting our target.

By implementing systems like ABC/PM and adopting Department-wide financial management systems, we are eliminating redundancy and inefficiency while promoting shared processes that further Interior's integration goals.

End Outcome Goals 3 and 4: Modernization and Integration

Our modernization activities use technology to work smarter and provide single points of access to services. A key to modernization is our enterprise architecture (EA). EA is a blueprint for key business areas that enables Interior to integrate processes and systems and reduce redundancies, thereby more effectively managing information technology resources. In FY 2004, Interior developed modernization blueprints for key business lines, including wildland fire, law enforcement, financial management, and recreation.

Blueprints are presented to Interior's Information Technology (IT) Investment Review Board (IRB) for approval. Approved blueprints guide the IRB's future investment decision-making in each business area, thus forming a strong tie between EA and capital planning and investment control. In FY 2004, the IRB approved the recreation modernization blueprint. The remaining blueprints will be presented for approval to the IRB the first quarter of FY 2005.

Interior's Enterprise Services Network (ESN) project complements its EA activities by integrating and consolidating Interior's existing networks, systems, and computing environments to provide secure and robust telecommunications throughout the agency. The benefits to be gained include standardized and efficient network operations, enhanced accountability for network performance,

Honoring the A-Team: Interior Recognized for Excellence in Enterprise Architecture

On September 22, 2004, Interior was awarded the prestigious E-Gov Institute Award for Excellence in Enterprise Architecture. Interior's Enterprise Architecture Program is a roadmap for leveraging information technology to meet strategic and programmatic goals and objectives efficiently and effectively. Under this program, Interior has developed modernization blueprints for many of its key business lines, including Wildland Fire, Recreation, Law Enforcement, and Financial Management. Interior was one of only five other award recipients, competing with 92 other Federal, State and local government entries. The award honored Interior's Enterprise Architecture Program in the category of Federal Civilian Leadership in Government Transformation.



a uniformly high level of security, the reduction of risks associated with the loss of knowledge capital due to high projected turnover rates for skilled staff, and improved technical support for network managers. In FY 2004, preparations for Phase I of the ESN project were completed, setting the stage for a single Department-wide intranet by November 2004 and the consolidation of all internet connections across Interior by the end of December 2004. The network operations and security center to manage the network and provide customer support was also operational.

End Outcome Goal 5: Customer Value

Interior is using information technology as one of its tools for improving ways it serves other agencies and the public, thus offering customer value. One example is Interior's Recreation One-Stop initiative (Figure 1-14). By tapping into the power of the Internet to provide potential visitors with an array of helpful information about public lands, the

Department's Recreation One-Stop initiative has created a citizen-centered Web portal for recreation opportunities throughout the Nation. Supported by a partnership of Federal agencies, including Interior's NPS, BLM, FWS, and Reclamation, as well as the U.S. Forest Service and U.S. Army Corps of Engineers, the Recreation One-Stop project uses cutting-edge data-sharing technology to make recreation information accessible directly to the public and through State and local government partnerships. In FY 2004, the Interior-managed project broke new ground when a performance-based contract was awarded to integrate two existing Federal recreation reservation systems into one user-friendly national recreation reservation system. Individuals planning trips will be able to make recreation-related reservations using Federal sites and a single on-line "shopping cart." In addition to improving upon the existing www.recreation.gov website, the project has developed recreational data standards acceptable to the recreation community. The new service will provide valuable information ranging from entrance fees for given sites, to weather conditions, and will feature links to non-Federal recreation partners.

Another way Interior adds customer value to our services is through its volunteer program. Interior has close ties to the American people. The historic, cultural, and natural resources we manage provide a rich context within which to engage the public, establish partnerships, and promote volunteerism in America.

Every year, Interior receives enormous contributions from partners and volunteers. Individuals of all ages and levels of experience contribute valuable time to help us fulfill our recreation mission while promoting healthy lifestyles and dynamic recreational opportunities. Interior bureaus support

FIGURE 1-14



vibrant volunteer programs. Through special programs such as Take Pride in America, volunteers enhance our refuges, parks, recreation areas, and cultural and historic sites. Volunteers are recognized for their outstanding efforts with national annual awards.

In FY 2004, over 200,000 volunteers contributed close to 8.9 million hours valued at about \$153 million by working with NPS, FWS, BLM, USGS, and Reclamation. Some Interior bureaus and offices, however, cannot tap into valuable volunteer resources because they do not have the statutory authority to accept these services. We are hoping to change this. Rep. Richard Pombo (R-CA) sponsored legislation that passed the House in late 2004 to provide the Office of the Secretary and BIA with the authority to accept volunteer services while also updating the volunteer authorities of the USGS and Reclamation. These new authorities will allow Interior to expand and standardize its highly successful volunteer programs.

TABLE 1-8

Strategic Goal: Management Excellence Performance and Resource Scorecard			
End Outcome Goal	Number of Measures Met	Number of Unmet Measures	Number of Measures Containing Estimated or No Reports
Goal #1: Workforce has Job-Related Knowledge and Skills Necessary to Accomplish Organizational Goals	0	0	1
Goal #2: Accountability	2	0	1
Goal #3: Modernization	4	0	0
Goal #4: Integration	1	0	1
Goal #5: Customer Value	13	7	5
Total	20	7	8
Percentage (Total of 35 Measures)	57%	20%	23%

* Management Excellence costs are part of Mission Area goal costs.

Looking Forward: Our Challenges

Challenge 1: Increased Use of Our Facilities and Aging Infrastructure

Increasingly, the management of lands and resources under Interior's stewardship involves ecological, scientific, economic, and social factors that extend well beyond any single agency's or bureau's boundaries. Population shifts toward the West, the South, and the coasts are bringing rapid growth—new people in new places, with new houses, roads, schools, stores, and other buildings. This urbanization can fragment wildlife and waterfowl habitat and impact cultural and heritage resources. Interior maintains more than 40,000 buildings, 4,200 bridges and tunnels, 126,000 miles of highways and roads, and 4,500 historic trails.

Challenge 2: Increased Demand for Energy and Water

The demand for energy keeps growing, along with the demand for non-energy minerals, forage, and forest products. Water shortages are already a way of life, particularly in the arid West, and are certain to get worse. Increased demands are further compounded during periods of drought. Interior must continue to find creative new ways to store and deliver water to those we serve to help meet demands, while prudently managing and accounting for millions of dollars appropriated for our water conservation projects.

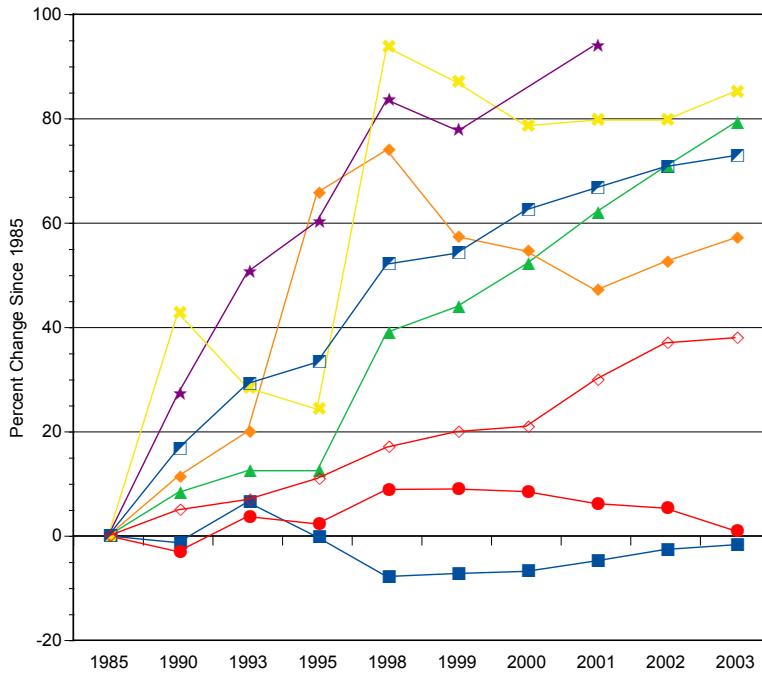
Challenge 3: Natural and Manmade Hazards

A growing number of communities are at risk from natural hazards, the perils of coastal storms and other processes, and capricious forces of nature that can cause wildfires of devastating proportion. Global trading patterns and connections bring invasive species into our farms and natural areas, devastating habitat and exacerbating fire threats. Our increasing role in homeland security, law enforcement, and emergency management responsibilities to protect people; natural, cultural, and heritage resources; dams; and icons and monuments from intentional criminal acts is significant and demands our continued vigilance. Working with our partners in Federal, State, Tribal, and local law enforcement, security, intelligence, and emergency management is essential in carrying out our responsibilities.

Challenge 4: Increased Demand for Service and Human Resources

The American people continue to expect more from their public servants (Figure 1-15). Citizens also increasingly expect to be involved at every step of the decision process. They call for better business management practices, improved efficiency, financial integrity, and mission accountability. However, there are costs for developing systems that improve business practices. In optimizing the use of funding, coming up with resources to fund such improvements can be challenging. Besides meeting and reconciling those demands, Interior personnel must compete for financial and workforce resources and cope with the complications of fast-changing technology. The retirement of the baby boomers is producing new labor force dynamics, shifting to a younger workforce with different values, standards, and expectations.

FIGURE 1-15
Demand for Services
(Percent Change Since 1985)



KEY

- DOI Employment
- NPS Park Visits
- ▲ FWS Refuge Visits
- ◆ BLM Land Visits
- ★ BIA Service Population
- ✱ MMS Gulf of Mexico Leases
- ◻ BOR Contracts
- ◇ USGS Public Inquiries

Interior's Response to Future Challenges

Unity, focus, efficiency, and flexibility will all be needed to meet the accelerating challenges of the years ahead. Secretary Norton's vision for effective performance—the 4 C's: Cooperation, Consultation and Communication, in the service of Conservation—reflect Interior's goal of involving others, including communities, partners, customers, contractors, volunteers, and the interested public, in carrying out our mission by improving our programs, processes, plans, and practices.

Partnership and Volunteers

Partnerships are critical for Departmental success, and will continue to help us meet future challenges. In FY 2004, we continued to strengthen our relationships with our large network of volunteers, as well as creating alliances across intra- and interagency borders to address such critical issues as wildland fire and homeland security. These enhanced partnerships leverage funding, help us identify strategies that make sense on the ground to the wide variety of stakeholders having an interest in our programs, and create an environment of communication, consultation, and cooperation. Partnerships benefit not only the resources we manage but also the people we serve. For example, the value of in-kind contributions of our volunteer corps in helping us complete programmatic goals was estimated at about \$153 million in 2004. Partnerships such as the High Plains Partnership—a public/private initiative across the 11-State High Plains region—help conserve declining species and habitats on private lands. A cooperative effort between Interior's Fish and Wildlife Service, the Department of Agriculture, State fish and wildlife agencies, private conservation organizations, and private landowners would leverage funds over the next two years to restore, enhance, and protect 2 million acres of land. It will ultimately reduce the potential for listing candidate species, help us to recover or downlist species, and preclude the need to list grassland species in decline.

Other initiatives managed by Interior, including the Central Utah Project, with its \$46.3 million 2005 budget, help Interior conserve and provide water to a thirsty West. The Central Utah Project Completion Act authorizes funding for fish, wildlife, and recreation mitigation and conservation activities; estab-

lishes the Utah Reclamation Mitigation and Conservation Commission to oversee implementation of those activities; and authorizes funding for Ute Indian rights settlement. Accomplishments in 2004 ranged from river restoration work to the implementation of water conservation measures that conserved thousands of acre-feet of water.

Strong Science Conducted with Integrity

Strong science and scholarship will remain the foundation of our work. In FY 2004, we continued to improve the timeliness, accuracy, usability, and accessibility of science available for political leaders, policymakers, and the public. By stressing the connection between the Department's scientists across bureau lines, we strengthened a culture of collegiality, with rigorous internal and external peer review to ensure the highest quality science. A new code of Scientific Ethics will be in place across Interior in 2005 to help ensure scientific integrity on the part of Interior scientists.

Improved Business Practices Through Technology and Management Tools

Successful management is vital to our success, which is why it serves as a pillar of our Strategic Plan, supporting the four mission areas of Resource Use, Resource Protection, Recreation, and Serving Communities. Only with a steady stream of innovative new processes and programs throughout the Department can we create the continual improvements in effectiveness and efficiency that the public legitimately demands. The Secretary's key business principles—customer value, accountability, modernization, and integration—now serve as our end outcome goals for Management Excellence. Progress measured toward realizing these outcomes, combined with our progress in accomplishing the President's Management Agenda, will continue to help guide the individual and collective management decisions and direction needed to meet the challenges of tomorrow.

At the core of our response to our future mission and management challenges is an effort to link our performance with budget data—to make budgeting decisions based on more and better information about how dollars are used and how programs might be improved to enhance results. The continuing PART evaluations, coupled with our integrated Strategic

Plan approach and our implementation of ABC/PM across Interior, all provide building blocks to link budget and performance. Already some of our bureaus are using ABC/PM to improve their work efforts by integrating ABC/PM data into workforce planning, creating more alignment between staff resources and functions to be performed.

Just three years ago, Interior—like most other Federal agencies—did not close its financial books and complete its annual audit until five months after the fiscal year. Needed improvements identified through audits, therefore, could not be undertaken until long after the problems had occurred. Accelerated annual audits will help us tackle financial management and related problems in a timely fashion. And while we have corrected or downgraded 21 of 34 material weaknesses at the bureau level from FY 2002, we have more work to do. Our ability to complete our Performance and Accountability Report by November 15, 2004, just 45 days after the close of the fiscal year, signals that we are beginning to operate with current financial and performance information, enabling us to make better decisions and more efficiently accomplish our mission. In addition, our FY 2005 budget includes a total of \$18.5 million to fund the implementation of the Financial and Business Management System (FBMS), our major enterprise management initiative that will revamp administrative processes throughout the Department while modernizing and integrating financial management, acquisition, property management, grants administration, and other subsidiary systems.

The President has pledged to bring park facilities and resources into good condition, committing \$4.9 billion over five years for park facility maintenance and construction. The Administration's FY 2005 budget request includes \$310 million to address park road maintenance needs through the proposed reauthorization of the Transportation Equity Act for the 21st Century.

Using data from annual condition assessments completed for almost all of its regular assets, the National Park Service will use its Facility Condition Index for each asset to serve as a starting point for determining the investment required and for establishing performance goals to achieve an acceptable condition over time.

Assessing Facility Condition

Using data from annual condition assessments completed for almost all of its parks, the National Park Service has developed a baseline facility condition index—an industry standard for quantifying the condition of a structure—to serve as a starting point for determining the investment needed to bring the asset to an acceptable condition over time.



As required by Executive Order 13327 (Federal Real Property Asset Management), Interior prepared a draft of its first-ever Asset Management Plan. This comprehensive plan, which was submitted in draft to OMB on September 30, 2004, fulfilled a commitment identified in the real property scorecard.

The purpose of the plan is to establish a strategy to manage and oversee Interior-owned and leased assets (including buildings, structures, linear assets, motor vehicle fleet, and office and warehouse space) to maximize their contribution toward accomplishing the Department's diverse missions. The plan's strategies will enable the Department and its bureaus to better:

- Align investments with strategic missions and business goals and outcomes;
- Ensure adherence to Federal and Department-wide investment life-cycle management principles and standards;
- Institute Department-wide objectives, goals, and performance measures;
- Analyze baseline information;

- Evaluate, prioritize, acquire, and manage owned and leased assets based on a range of current and future business, technical, and workforce issues and factors;
- Balance the value of the asset portfolio and individual assets with current and potential risks;
- Seek sound, efficient, and effective solutions to asset needs; and
- Reduce the cost of operating and maintaining assets.

Performance Accountability

The Department's new Strategic Plan represents a major step forward in the long journey toward integrating our processes and programs, reflecting both the changing realities we face and the direction we will take in the years to come. In addition to allowing us to set and measure consistent multi-agency, results-oriented goals, our new performance measurements provide the tools to make Interior more transparently accountable to citizens. They provide the means to reinforce organizational and individual accountability, with results tied to annual performance agreements of senior executives. They guide the development of the Departmental E-Government strategy, based upon analysis of shared business lines. They help us track progress related to Departmental workforce planning efforts as we develop a team that has the skills to accomplish our goals and achieve our performance targets. Backed by the Department-wide implementation of activity-based costing, they let us display the numerical relationships between our budget, strategic plan, performance results, and financial statements, further improving our ability to evaluate program management and performance.

Compliance With Legal and Regulatory Requirements

This section of the report provides the required information on the Department's compliance with the:

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Improper Payments Information Act (IPIA);
- Federal Information Security Management Act (FISMA); and
- Other key legal and regulatory requirements including:
 - Prompt Payment Act (PPA)
 - Debt Collection Improvement Act (DCIA)
 - Biennial review of user fees

In addition, this section includes summaries of Department financial management improvement initiatives with respect to:

- Audited financial statement results;
- Financial management systems;
- Financial management human capital;
- Financial data stewardship; and,
- Major management challenges facing Interior.

Federal Managers' Financial Integrity Act (FMFIA)

The Department believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) ensures high-quality, responsible leadership; (4) ensures the sound delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and

implemented management, administrative, and financial system controls that reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources are used in accordance with the mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

Interior's management control program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," Circular A-127, "Financial Systems," and OMB Circular A-130, "Management of Federal Information Resources."

Annual Assurance Statement

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative, and accounting controls, and their financial systems. Interior's FY 2004 Annual Assurance Statement is provided in *Figure 1-16*. The basis for the assurance statement conclusions is discussed in the following sections and is depicted in the chart in *Figure 1-17*.

Management Control Assessments

Interior conducted an annual assessment of the effectiveness of its management, administrative, and accounting

FIGURE 1-16

FISCAL YEAR 2004 ANNUAL ASSURANCE STATEMENT

The Department conducted the annual assessment of its systems of management, accounting, and administrative controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, "Management Accountability and Control." This assessment recognized the Department's significant progress in mitigating 70% of the FMFIA material weaknesses carried forward from the prior year. Based on the results of this assessment, with the exception of the four material weaknesses noted herein, the Department can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of FMFIA and OMB Circular A-123.

The Department conducted an annual evaluation of its Information Technology (IT) Security Program as required by the Federal Information Security Management Act. The results of this evaluation led the Department and the Office of Inspector General to conclude that: significant improvements in the information technology security program had been achieved; the IT security program generally meets the requirements of FISMA; and, most of Interior's information systems have the levels of security needed to safeguard information and related assets.

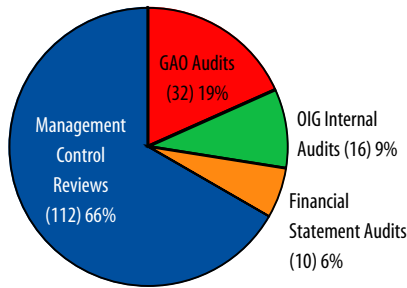
The Department again received an unqualified audit opinion from the independent audit of its financial statements. However, the results of the audit indicated that several Department entities were not in full compliance with applicable Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger based on OMB guidance and materiality thresholds prescribed for the FMFIA, which differed from those prescribed under FISMA. As a result, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA, OMB Circular A-127, "Financial Systems," and OMB Circular A-130, "Management of Federal Information Resources." The Department has implemented a remediation plan to resolve these deficiencies and expects to complete corrective actions in FY 2005.



Secretary of the Interior

FIGURE 1-17

Basis for FY 2003 Assurance Statement



systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary’s Annual Assurance Statement are based on the results of 112 management control reviews of programs and administrative functions conducted by bureaus and offices (66%), 16 OIG internal program audits (9%), 32 GAO program audits (19%), and the 10 financial statement audits (6%) conducted by the independent public accounting firm, KPMG LLP, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. It should be noted that, as in prior years, management control reviews performed by the

Department and its bureaus provided the majority of the support (66%) for the Annual Assurance Statement. In addition, many of Interior’s management control reviews and related accountability and integrity program activities were focused on areas identified as major management challenges and components of the President’s Management Agenda. Figure 1-18 presents a crosswalk of those activities.

Material Weaknesses and Accounting System Non-conformances

Prior to FY 2004 and since the inception of the FMFIA in 1982, Interior had identified and reported 172 material weaknesses and 65 accounting system non-conformances. Interior had corrected 162 of these material weaknesses (94%) and 64 of these accounting system non-conformances (98%). During FY 2004, one new material weakness was identified while 7 material weaknesses were corrected or downgraded. All accounting system non-conformances identified through FY 2000 were previously corrected. The remaining accounting system non-conformance for financial management system security controls was downgraded as a result of significant progress achieved during FY 2004.

FIGURE 1-18

Crosswalk of Activities Related to Major Management Challenges and the President’s Management Agenda

Management Accountability and Integrity Program Activities in FY 2004 Related to Interior’s Major Management Challenges and President’s Management Agenda (Update as of 8/31/04)	Interior’s Top Management Challenges							President’s Management Agenda				
	Financial Management	Information Technology	Health, Safety, and Emergency Management	Maintenance of Facilities	Responsibilities to Indian and Insular Affairs	Resource Protection and Restoration	Revenue Collections	Procurement, Contracts, and Grants	Competitive Sourcing	Strategic Management of Human Capital	Expanded Electronic Government	Improved Financial Management
Management Control Reviews/Management Studies and Initiatives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Office of Inspector General Audits												
- Program Audits Completed	✓	✓		✓		✓						✓
- Financial Statement Audits Completed	✓		✓				✓	✓				✓
U.S. Government Accountability Office Audits Completed	✓	✓		✓	✓	✓		✓			✓	
Federal Manager’s Financial Integrity Act (FMFIA) Material Weaknesses												
- Corrected or Downgraded During FY 2004	✓	✓	✓			✓	✓					✓
- Pending and Carried Forward to FY 2005			✓	✓	✓							

TABLE 1-9

Number of Material Weaknesses Reported and Corrected or Downgraded			
Period Reported	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	169	152	17
FY 2001	1	1	17
FY 2002	2	8	11
FY 2003	0	1	10
FY 2004	1	7	4
Total	173	169	4

The Department's progress in correcting material weaknesses and accounting system non-conformances is presented in *Tables 1-9 and 1-10*. These tables present the number of new material weaknesses and accounting system non-conformances reported and corrected by fiscal year and the number pending at year-end. *Table 1-11* presents the 10 material weaknesses that were pending at the beginning of FY 2004, including those designated as "mission critical weaknesses," and the status (correction or downgrade) of these weaknesses. Interior will carry forward only four material weaknesses to FY 2005, the lowest total of pending material weaknesses since the inception of the FMFIA.

GPRA Goal for Timely Correction of Material Weaknesses

Interior is committed to the timely correction of material weaknesses in order to improve integrity and accountability in its programs, organizations, and functions. To ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department established a GPRA performance measure. The Department's performance goal for FY 2004 was to substantially complete at least 80% of the material weaknesses targeted for completion in FY 2004.

The Department met this performance goal in FY 2004 by correcting or downgrading 5 of 6 material weaknesses targeted for completion in FY 2004, for an 83% performance goal achievement (*Table 1-11*). In addition, 2 material weaknesses targeted for correction after FY 2004 were downgraded. The extensive accomplishments of Office of the Special Trustee for American Indians (OST) in improving Records Man-

TABLE 1-10

Number of Material Non-Conformances Reported and Corrected or Downgraded			
Period Reported	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	64	64	0
FY 2001	1	0	1
FY 2002	0	0	1
FY 2003	0	0	1
FY 2004	0	1	0
Total	65	65	0

agement, and the efforts of BOR and FWS in improving Real Property Management weaknesses ahead of schedule contributed to Interior exceeding this GPRA performance goal.

Mission Critical Material Weaknesses

OMB Circular A-123, "Management Accountability and Control," requires that each agency identify and report on the most critical material weaknesses affecting the agency. The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 1-19*. Interior recognizes the importance of correcting mission critical weaknesses in a timely manner. The Department and senior program management officials continuously monitor corrective action progress for all mission critical weaknesses.

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act, and the Government Management Reform Act. The FFMIA requires that Federal agencies conform to the government-wide Standard General Ledger (SGL), comply with all applicable Federal accounting standards, establish financial management systems that meet government-wide standards and requirements, and support full disclosure of Federal financial data, including the costs of Federal programs and activities.

Federal agencies are required to address compliance with the requirements of the FFMIA in the representation letter to the financial statement auditor. The

TABLE 1-11
Pending FMFIA Material Weaknesses as of September 30, 2004

Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
OST, BIA and OS/OHTA	FY 1991	Indian Trust Assets: Improve trust policies, procedures, systems, training, and internal controls.	Improve procedures, systems, and internal controls over the billing and collection of lease revenue, eliminate the backlog of unprocessed probates, update land ownership records, and address any remaining historical accounting concerns.	<p>During FY 2004, the OIG commenced a performance audit to ensure appropriate collection of funds and adherence to internal controls. The OIG will complete the audit in FY 2005. When the results of that audit are distributed, additional improvements will be implemented where appropriate, along with the additional improvements that are planned and underway in the areas of land records, probate, and leasing.</p> <p>While improvements in systems, procedures, and controls have been implemented, there has been no determination that the trust fund balances need to be adjusted. OST acknowledges that the accuracy of balances in the trust fund accounts has been challenged, and the Court has directed Office of Historical Trust Accounting (OHTA) to conduct an historical accounting. OST also acknowledges that the outcome of the historical accounting may lead to a future direction from the Court or Congress to adjust those balances.</p>	FY 2007	Ongoing. No change in the FY 2007 targeted correction date.
OST and BIA	FY 1991	Records Management: Long standing deficiencies in the records management program have made it difficult to ensure the maintenance and preservation of Indian Trust records.	An updated work plan with strategies, tasks, timelines and resource requirements have been developed by the Office of Trust Records. The implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for BIA and OST.	<p>The Office of Trust Records (OTR) identified the following six strategies and related action milestones to achieve an effective records management program: (1) records retention schedules; (2) record-keeping requirements; (3) safeguarding records; (4) training programs; (5) evaluation of records programs; and, (6) record retrieval and document production requirements. The six strategies have been substantially completed. Major milestones include: the BIA Indian Affairs Records and Files Disposition Handbook was updated and approved by the Archivist of the United States; the Indian Affairs Records Management Manual has been developed and published; the American Indian records Repository was constructed and now contains 32,000 boxes of indexed records previously stored in several records centers across the country; 530 pieces of fireproof records storage equipment have been provided to BIA and OST offices; training and technical guidance has been provided to over 192 line officers; protocols for retiring inactive trust records have been developed and implemented; and, a central database for all inactive Indian Affairs records has been developed, implemented, and over 65,000 boxes of records have been indexed and entered into the database. The remaining action milestones in each strategy are ongoing activities and routine business practices. OTR will continue to monitor and report to the Office of the Assistant Deputy Secretary on the status of these ongoing activities and routine business practices.</p>	FY 2006	Downgraded

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004				
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress
Mission Critical Material Weaknesses				
NPS	FY 2002	Oil and Hazmat Incident Preparedness and Response Program: The lack of an adequate oil and hazardous material incident preparedness and response program potentially endangers the safety of the public, employees, and park resources.	NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires and park resources.	NPS designated an Associate Director for the Hazmat Response Program within NPS, and implemented a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources. NPS conducted follow-up assessments at high-risk parks to measure compliance with fuel transfer, storage and handling operations policies, procedures, and regulations. The results of the assessment indicated there were no material instances of non-compliance.
NPS	FY 2000	Inadequate Structural Fire Program: The current program does not provide adequate protection of employees and visitors, contents, structures, and resources for the effects of fire as required by Director's Order No. 58.	NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies cited in the May 2000 GAO audit report and July 2000 Congressional hearing on fire safety failures of the NPS.	NPS has implemented a requirement that fire safety reviews of all new construction and major facility rehabilitation projects be conducted by a trained, qualified inspector; developed a facilities liaison position to conduct fire protection condition assessments of concessions facilities in national parks; implemented a requirement that any new fire alarm or sprinkler system must be tested before installation for compliance with National Fire Protection Codes; and implemented a phased training program for park personnel on inspection, testing, and maintenance of sprinkler and alarm systems. Remaining training courses have been funded and scheduled for FY 2005.
				FY 2004 PAR Target Date
				Status
				Corrected
				Downgraded

TABLE 1-11
Pending FMFIA Material Weaknesses as of September 30, 2004

Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
DEPT	FY 2000	Information Technology Security: The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing potential vulnerabilities of information systems to unauthorized access have resulted in the need for a comprehensive Department program to maintain IT security.	The Department will continue a comprehensive IT security assessment to determine the security and control issues in its bureaus and offices. Based on its findings, the Department will develop and implement additional security improvement initiatives and capital budgeting requirements, and implement them on a phased basis.	The Chief Information Officer (CIO) has: provided mandatory Security End-user training for DOI employees and contractors and Specialized Security training for individuals having significant security responsibilities; tracked all training for FISMA reporting and for the IT security scorecard; conducted an annual IT Security Program Review for each bureau and tracked improvements over FY 2003 results; continued developing and implementing policy and procedures to measure effectiveness through Entity-wide IT Security Program reviews; enacted a requirement for all bureaus to use Plan of Action and Milestones (POA&M) as an active project management tool to manage and track all IT security weaknesses and activities; and continued to work with BLM to test and roll out Department-wide Smartcard solution for integrating building PC, network, and system access. IN FY 2004, the CIO completed a comprehensive assessment of IT security compliance with NIST Publication 800-26. The assessment measured compliance at both the program and system level in 17 control areas for all Departmental and bureau IT security programs, Major Applications (MA) and General Support Systems (GSS). The results of the assessment indicated that Departmental and bureau progress had reached the desired compliance levels in all but a few areas. Therefore, the CIO concluded, and the Department concurred, that the Department-wide material weakness no longer exists, and that further attention and improvement will be directed at certain areas.	FY 2004	Downgraded
NPS/BIA	FY 2000	Inadequate Wireless Telecommunications: Effective radio communications is critical to employee and public safety, and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Department management directives, and is not funded to achieve timely compliance.	The Department will develop and implement a plan to meet employee and public safety objectives, and restore the program to efficiency by reviewing bureau Narrowband Capital Investment and Implementation Plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services.	Interior's CIO has: reviewed bureau and office Narrowband Capital Investment and Implementation Plans to verify that operations requirements would be met and funding priorities were adequate to meet the mandated land mobile radio narrowband transition by January 2005; revised, Radio Handbook and IRM Bulletins to provide policy direction and wireless program management guidance to ensure compliance with the National Telecommunications and Information Administration Standards, and the Omnibus Budget and Reconciliation Act of 1993; provided Departmental Budget formulation guidance for the transition to VHF narrowband operation for fiscal years 1999 to 2006; identified and implemented plans and actions to maximize resource sharing; and, assessed the transition plans quarterly for all affected offices and bureaus. As a result, BLM, FWS, BOR, USGS, and OS will meet the narrowband transition mandate. NPS and BIA will not be in compliance with the National Telecommunications and Information Administration Standards, and the Department-wide material weakness will be downgraded to bureau-specific material weaknesses for BIA and NPS at the end of FY 2005.	FY 2005	Ongoing. A targeted correction date of FY 2007 has been assigned by NPS and BIA.

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004				
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress
DEPT	FY 1999	Inadequate Department-wide Maintenance Management Capability: Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to established goals (5 percent or less of replacement cost).	Interior identified and commenced implementation of a comprehensive maintenance management system (MAXIMO) with an appropriate linkage to the accounting system. All bureaus are in various stages of implementation, except BIA which is using its own "Legacy" system. All bureaus are starting the 5th year of the 5-year plan to conduct comprehensive condition assessments on all constructed assets with a current replacement value of more than \$50,000. With this information, bureaus are making the determination to repair, replace, or relocate facilities. A 5-year Deferred Maintenance Plan and Capital Investment Plan have been developed and are updated annually. Facilities are being repaired, replaced, and relocated to good condition based on priorities from condition assessments. At the completion of the first cycle of 5-year condition assessments, a baseline of outstanding deferred maintenance will be established and annual reductions toward the goal of 5% or less of replacement cost will be measured.
				FY 2004
				Ongoing. A targeted correction date of FY 2006 has been assigned by the Department.

TABLE 1-11
Pending FMFIA Material Weaknesses as of September 30, 2004

Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
BIA (New)	FY 2004	<p>Indian Detention Facilities: After years of inadequate management attention and funding priorities, serious safety, security, and maintenance deficiencies exist at the majority of BIA detention centers. These deficiencies are a hazard to inmates, staff, and the public.</p>	<p>BIA will immediately commence the implementation of corrective actions that will improve the security, safety, management, and operating efficiency of detention facilities. These actions will include:</p> <ul style="list-style-type: none"> • The Deputy Assistant Secretary for Law Enforcement will become actively engaged in managing the detention program; • The Department's Office of Law Enforcement will conduct frequent scheduled and unscheduled compliance inspections; • Clear "serious incident" reporting and follow-up protocols will be established and implemented; • Facility staffing models will be developed, and shortages related to officer safety should be immediately identified and corrected; • Recruiting standards and guidelines for detention officers will be developed and adhered to; • A system for identifying and prioritizing facilities repairs impacting inmate and officer safety will be implemented; • Internal controls and other improvements for budgeting, cost tracking, and reporting purposes will be developed and implemented; • Strategic plans for jail replacement and renovation based on comprehensive condition assessments will be developed; • Training standards and models for detention offices will be developed and compliance/certification reviews will be conducted; and, • Regular regional meetings of detention administrators will be held to identify best practices and address and resolve emerging issues. 	<p>Before the end of FY 2004, BIA commenced restructuring of the Office of Law Enforcement; issued the Indian Country Detention Strategic Planning summary; developed a staffing plan to address critical staffing shortages; and, commenced development of revised training programs.</p> <p>OIG audit report with recommendations was issued in September 2004.</p>	N/A	<p>Ongoing. A targeted correction date of FY 2005 has been assigned by BIA.</p>

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004				
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress
Other Material Weaknesses				
BIA	FY 1984	Irrigation Operations and Maintenance: The establishment of irrigation assessment rates and collection, recording, investment, and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current and billing and debt collection processes have not been consistently followed.	The BIA will: (1) convert irrigation project billings and collections to the National Irrigation Information Management System (NIIMS) and interface it with Federal Financial System (FFS); complete and forward the construction debt cancellation package to the Assistant Secretary - Indian Affairs; develop Operations Handbook regarding project operations and keeping O&M assessments and collection processes current; and, develop and publish revised irrigation regulations in 25 CFR 171 A and B as a Final Rule,	All irrigation projects have been converted and billings and collections are now processed through NIIMS and reported in FFS. The construction debt cancellation package has been completed and approved by the Assistant Secretary - IA. The Operations Handbook has been issued. Tribal consultations for the Notice of Proposed Rulemaking (NPR) on the revised irrigation regulations have been completed. The NPR will be issued in December 2004.
				FY 2004
				Downgraded
BLM	FY 2002	Land Appraisal and Exchange Functions: Management and oversight of the land appraisal and exchange functions do not ensure that objective and independent market value opinions from qualified appraisers are used in land transactions.	The BLM will establish an independent appraisal function to review all land exchange transactions and establish a multi-agency team to review and identify appraisal and exchange function deficiencies and implement appropriate corrective actions.	Secretarial Order No. 3251 issued and implemented on November 12, 2003, consolidated and transferred real estate appraisal functions of all Interior bureaus into the Office of the Secretary (Office of Appraisal Services in the National Business Center). The consolidation ensures appraisal independence, accountability, high standards, and appropriate training and oversight for Departmental appraisal functions.
				FY 2004
				Corrected

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004				
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress
BOR and FWS	FY 2000/ FY 2003	Improving Controls and Systems for Accounting and Reporting Real Property: The Bureau of Reclamation and U.S. Fish and Wildlife Service do not have the internal controls, accounting procedures, and/or systems to properly account for real property.	The BOR will improve its land inventory and financial reconciliations by (1) conducting reconciliations and searches to validate the accuracy of its land records; (2) populating its new real property system with such data; (3) developing and issuing policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conducting an initial and periodic reconciliation between the detailed land data maintained in its real property system and FFS to ensure the quality of information contained in both systems. FWS will improve the processes, procedures, controls, and systems to ensure that regions provide accurate and timely information for the real property system.	<p>BOR has revised policies and procedures for recording land records in the property management system (FIRM) to ensure and complete reconciliations quality, accuracy, and completeness of data captured in the lands and finance systems; assessed and approved regional reconciliation methodologies; and, completed more than 90% of the project reconciliations to date. The remaining project reconciliations will be completed in FY 2005. FWS implemented a comprehensive corrective actions plan. Completed actions to date include: assessment of regional responsibilities and capabilities to ensure transactions are timely and accurate; property management training; implementation of processes and internal controls to ensure transactions are processed timely and accurately in the financial records; performance of quarterly reconciliations of Construction Work In Progress (CWIP) and other subsidiary systems and the General Ledger; and, implementation of procedures to determine and properly account for capital leases at lease inception.</p>
				<p>FY 2005 PAR Target Date</p> <p>FY 2005</p> <p>Status</p> <p>Downgraded</p>

FIGURE 1-19

Material Weakness Guidelines
<p>The Department defines a mission critical material weakness as:</p> <ul style="list-style-type: none"> • An inherent program or administrative functional material weakness that makes the program or activity susceptible to fraud, waste, and abuse. • A systemic deficiency caused by ineffective program or management support, financial systems, policies, and/or procedures established by a bureau or reporting entity to carry out a major program or administrative function. • A practice that is seriously detrimental to public health or safety, a program or administrative activity, service delivery, national security, economic growth, privacy, or citizens' rights. • A practice that could result in significantly impaired service, program failure, significantly reduced program effectiveness or efficiency, public injury or loss of life, unreliable decisionmaking data, reduced confidence in government, and unauthorized disclosure, manipulation or misuse of sensitive information such as personal, financial management, or programmatic data maintained in computerized systems. <p>The Department will remove a mission critical designation or report a material weakness corrected or downgraded when:</p> <ul style="list-style-type: none"> • Senior management has demonstrated its commitment to resolving the material weakness as evidenced by resource deployment and frequent and regular monitoring of corrective action progress. • Substantial and timely documented progress in completing material weakness corrective actions is provided. • Corrective actions have been substantially completed, and the remaining actions are minor in scope and will be completed within the next fiscal year. • Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness. • Substantial validation of corrective action effectiveness has been performed.

auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditor's Report and in the Internal Control and Compliance Report. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

As a result of material weaknesses and other reportable conditions identified in the FY 2004 financial statement audits, Interior concluded that it did not substantially comply with the FFMIA. The Department has reported the areas requiring improvement in the associated remediation plan.

Highlights of FFMIA Remediation Plan *Information Technology Security*. Interior developed an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. Under the leadership of the OCIO, the Department has achieved substantial progress in implementing the plan at both the Department and bureau levels. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. The FY 2004 FISMA annual evaluation of the IT security program by the Department and the OIG concluded that: (1) significant improvements had been achieved; (2) the IT security program generally meets the requirements of FISMA; and, (3) most of Interior's information systems have the level of security needed to safeguard information and related assets. The Department recognizes that additional improvements in these areas are desired to raise all aspects of the IT security program to targeted performance levels. The Department will focus on these improvements in FY 2005.

Segregation of Duties. The Department will continue to work with those bureaus with reported vulnerabilities in this area to review and restructure employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations where it is cost-effective. Bureaus

with vulnerabilities in this area, and the related corrective action plans, are noted in *Table 1-20*.

Access Controls. The Department has taken action to secure network vulnerabilities and improve access control in each of the following areas: network configuration management; password management; monitoring of security violation logs; access to program and sensitive files that control computer hardware and sensitive applications; and physical security controls. Some bureaus have not followed existing access control procedures that limit or detect inappropriate access to information technology systems and related

resources. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Change Controls. The Department's IT Security Plan seeks to assure that appropriate policies, procedures, and operational controls are developed and implemented to prevent unauthorized system, program, or application modifications. Some bureaus have not fully implemented change controls, or followed existing procedures over application software development and change controls for all financial systems and applications. The bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Service Continuity. As noted in the FY 2004 FISMA evaluation, not all bureaus have completely implemented and tested Continuity of Operation Plans for major systems. These bureaus need to ensure that plans are in place and tested to minimize the risk of loss from unplanned interruptions, and to protect data should interruptions occur. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Federal Accounting Standards. Interior has strived to fully develop and implement strengthened policies, procedures, and controls to ensure that financial statements and related disclosures are prepared in accordance with Federal accounting standards and the U.S. Standard General Ledger, specifically the standards concerning intragovernmental eliminations and real property. The Department consolidated and bureau material weaknesses in these areas, and the related corrective action plans, are noted in *Tables 1-19* and *1-20*.

Inspector General Act Amendments (Audit Follow-Up)

Interior believes that the timely implementation of OIG and GAO audit recommendations is essential to improving efficiency and effectiveness in its programs and operations, as well as achieving integrity and accountability goals. As a result, Interior has instituted a comprehensive audit follow-up program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2004, Interior monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 101 Single Audits,

72 OIG audits, and 61 GAO audits. Audit follow-up actions include analyzing audit reports referred; 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.

GPRa Goal for Timely Implementation of Audit Recommendations

To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, beginning in FY 2001, Interior established an aggressive annual GPRa performance goal of implementing 75% of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation. After successfully meeting that goal for the first time in FY 2002, Interior elected to raise the performance goal to 80% for FY 2003 and FY 2004.

Interior was able to meet its GPRa performance goal for FY 2004. A composite implementation rate of 88% was achieved (*Table 1-12*). The primary reason for Interior's success in achieving the GPRa performance goal for the second consecutive year was the aggressive progress monitoring plan implemented at the direction of the Assistant Secretary – Policy, Management and Budget. In addition to the quarterly management control and audit follow-up program progress scorecard prepared for each bureau and office, a monthly progress scorecard for audited financial statement recommendation implementation progress was established to ensure audit recommendation implementation commitments were being met, and that immediate senior management attention was directed to slippage when it occurred. Interior plans to employ the same aggressive progress monitoring plans in FY 2005 to ensure the continued achievement of this GPRa performance goal.

Single Audits

Interior provides over \$2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control

TABLE 1-12

FY 2004 GPRA Performance Goal for Implementation of OIG and GAO Audits			
Bureau/Office	Number of Recommendations Meeting GPRA Goal Criteria	Number of Recommendations Implemented Within Planned One Year Target	Percentage Implementation
BIA	31	30	97%
NPS	27	21	78%
FWS	43	35	81%
BLM	25	13	52%
MMS	23	21	91%
OSM	10	10	100%
BOR	33	30	91%
USGS	63	63	100%
OS (Dept)	23	20	87%
PIA (Dept)	2	2	100%
OST (Dept)	26	24	92%
TOTAL	306	269	88%

structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring audit follow-up, are forwarded to the Department for distribution to the appropriate bureaus for audit follow-up, resolution, and tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution to the deficiencies identified in the audit reports, as well as for determining the allowability of any expenditure of Federal funds that has been questioned by the auditors.

Collecting and Offsetting Disallowed Costs in Single Audits

As shown in *Table 1-13*, Interior closed only 4 of 65 (6%) audits in tracking during FY 2004. There was a substantial increase in the number of audits referred for tracking with disallowed costs (32 audits with \$12.5 million in disallowed costs). The \$710,000 in disallowed costs recovered represented about 2% of total disallowed costs in tracking during the year. Of the 61 audits in tracking at the end of the year, 28 (46%) had management decision dates greater than 1 year old. The Department plans to be more aggressive in its monitoring and follow-up activities during FY 2005, and expects to achieve significant increases in

the number of audit reports closed and disallowed costs recovered, or offset.

Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During FY 2004, 72 audits were being tracked (46 audits carried over from FY 2003 and 26 new audits were referred for tracking during FY 2004), and 30 of those audits were closed (42%). A total of 536 recommendations from OIG internal audit reports were in tracking during the year, of which 267 were completed or closed during FY 2004. For the 42 audits pending at the end of FY 2004, there are 269 recommendations awaiting final implementation action.

One category of OIG internal audits is those audits where the OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementation of FBU audit recommendations and FBU dollar estimates, which are agreed to by management. As noted *Table 1-14*, there were 5 audits with \$128.6 million in FBU dollars tracked during FY 2004. Three audits (60%) with \$90.4 million (70%) in FBU dollars were closed during the year.

Government Accountability Office Audits

GAO audits are a major component of Interior's audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 25 GAO reports with 57 recommendations were carried over from FY 2003. GAO issued a total of 26 new reports with 51 recommendations during the year. The Department was successful in closing 28 of the 51 (55%) reports in tracking during FY 2004, along with 13 (12%) recommendations (*Table 1-15*).

TABLE 1-13

FY 2004 Summary of Actions Taken on Contract, Grant, and Single Audits with Disallowed Costs			
		Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period *		33	\$22,575,433
(B) New reports		32	\$12,537,394
Total reports in tracking		65	\$35,112,827
(C) Final action taken during period		4	\$710,213
Collected	3	\$429,738	
Written Off	0	0	
Offset	0 **	\$140,359	
Reinstated	1	\$140,116	
Referred to Treasury for Collection Action	0	0	
(D) Reports in progress at end of period		61	\$34,402,614
Mgmt Dec < 1 yr old	32	\$12,537,394	
Mgmt Dec > 1 yr old	28	\$19,695,605	
Mgmt decision under formal appeal	1	\$2,169,615	

* Fiscal Year 2004 beginning balances have been restated to eliminate 53 audit reports with non-monetary findings (internal control issues, etc.) and \$23,016,670 million in funds not subject to Interior audit follow-up that were included in FY 2003 ending balances.

** Report has costs in multiple categories.

TABLE 1-14

Summary of Actions Taken with Funds to be Put to Better Use (FBU) in FY 2004			
		Number of Reports	FBU Dollars
(A) Reports on hand at beginning of report period		2	\$14,435,553
(B) New reports received during report period		3	\$114,139,271
Total reports in tracking		5	\$128,574,824
(C) Reports closed during report period		3	\$90,355,553
(D) Reports in progress at end of report period		2	\$38,219,271
Mgmt dec < 1 yr old	2	\$38,219,271	
Mgmt dec > 1 yr old	0	0	
Mgmt dec under formal appeal	0	0	

Note - Includes only audits with monetary impact of Federal funds (excludes audits of non-Federal funds for insular area governments and indirect cost proposals negotiated).

Audited Financial Statement Results

As required by the Government Management Reform Act, Interior prepares consolidated financial statements. Beginning in FY 2001, these financial statements have been audited by KPMG LLP, an independent auditing firm (the OIG audited the financial statements prior to FY 2001). Additionally, each individual bureau prepares financial statements that are also audited.

The preparation and audit of financial statements are an integral part of the Department's centralized process to ensure the integrity of financial information maintained by Interior.

The results of the FY 2003 and FY 2004 audited financial statement process are summarized in *Table 1-16*. As shown in the table, there were instances where exceptions on internal controls were noted as material weaknesses or reportable conditions, as well as instances of noncompliance with laws and regulations other than compliance with the Federal Financial Management Improvement Act (FFMIA).

Resolution of Internal Control Weaknesses and Non-Compliance Issues Reported in FY 2003 Audited Financial Statements

Tables 1-17 and 1-18 summarize the status of material weaknesses and non-compliance issues reported in the FY 2003 audited financial statements. The Department has established an internal goal of completing corrective actions for material weaknesses and non-compliance issues by the end of the following fiscal year, unless the magnitude of the corrective action plans involves a multi-year effort.

While the Department made progress in correcting material weaknesses reported in the FY 2003 audits, delays in completing corrective actions in some bureaus and several multi-year corrective action plans precluded the achievement of the internal goal in FY 2004. In summary, 7 of the 17 (41%) total material weaknesses reported in FY 2003 financial statements were corrected or downgraded to reportable conditions during FY 2004. Moreover, 7 of the 14 (50%) material weaknesses reported in FY 2003

TABLE 1-15

Summary of Actions Taken on Reports Issued by the GAO in FY 2004					
				Number of Recommendations	Number of Reports
In tracking at the beginning of reporting period				57	25
Issued during the reporting period				51	26
Subtotal				108	51
Closed during the reporting period				13	28
In tracking at the end of the reporting period				95	23
Code	Status of final reports in tracking	No. of Recommendations	No. of Reports		
D1	Management decisions < 1 yr old	43	12		
D2	Management decisions > 1 yr old	53	21		
D3	Mgmt decisions under formal appeal	0	0		

TABLE 1-16

Summary of FY 2003 and FY 2004 Financial Statement Audits											
	Unqualified Opinion on Financial Statements		Material Weakness in Report on Internal Controls		Full Compliance with Laws and Regulations (Non FFMIA)		Full Compliance with Laws and Regulations (FFMIA)		Full Component Compliance with Laws and Regulations (FFMIA)		
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	Systems	Accounting	SGL
Dept	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2004	FY 2004	FY 2004
Dept	Yes	Yes	Yes	Yes	No (2,3,4)	No (2,3,4)	No	No	No	No	No
FWS	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes
USGS	Yes (1)	Yes	Yes	No	Yes	Yes	No	No	No	Yes	Yes
BIA	Yes	Yes	Yes	Yes	No (2,3,4)	No (2,4)	No	No	No	No	No
BLM	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	Yes
MMS	Yes	Yes	No	Yes	Yes	No (2,3)	No	No	No	No	Yes
NPS	Yes	Yes	No	No	No (4)	No (4)	No	No	No	No	Yes
BOR	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	Yes
OSM	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes
DO	Yes	Yes	Yes	Yes	No (4)	No (3,4)	No	No	No	No	Yes

(1) Balance sheet only

(2) Debt Collection Improvement Act

(3) Prompt Payment Act

(4) Single Audit Act

and targeted for correction in FY 2004 were corrected or downgraded to reportable conditions. The decline in the correction percentage over the prior year was directly attributable to several bureaus failing to meet corrective action commitments.

The Department did not make progress in correcting non-compliance issues reported in the FY 2003 audits as delays in completing corrective actions in a few bureaus precluded the achievement of the internal goal in FY 2004. In summary, only 2 of the 18 (11%) total

non-compliance issues reported in FY 2003 financial statements were corrected or downgraded during FY 2004. However, it should be noted that the correction rate is somewhat understated as several bureaus corrected one or more of the FFMIA non-compliance components reported in FY 2003. For example, the USGS achieved compliance of the corrective actions related to its accounting standard component but not its financial system component. As a result, the FFMIA non-compliance was carried forward to FY 2005.

TABLE 1-17

FY 2003 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/04)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
DEPT	Controls over Property, Plant, and Equipment	Implement controls to improve reporting of additions and disposals, land and land rights, construction-in-progress, leased property, depreciation, and reconciliations between general and subsidiary ledgers.	9/30/04	Delayed
DEPT	Financial Reporting Controls	Improve controls and process for financial analysis, transaction entry, and reconciliations. Continue to enhance financial staff resources.	9/30/04	Partially Corrected and Restated
DEPT	Intra-Governmental Eliminations	Implement policies and procedures and work with other Federal agencies to provide streamlined and efficient year-end eliminations and reporting processes.	9/30/04	Delayed
DEPT	Controls Over Trust Funds	Implement the Department's plans to achieve comprehensive Indian Trust reform, including vital improvements to systems, policies, and operations necessary to fulfill the trust obligations to Indian tribes and individuals.	9/30/05	Ongoing
DO	Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls, and systems to effectively manage Tribal and Other Special Trust Funds.	9/30/05	Ongoing
DO	Suspense Accounts	Adopt procedures to reconcile the customer payroll suspense accounts and investigate and resolve the contents of suspense accounts on a monthly basis. Adopt procedures to ensure that entries to resolve suspense accounts are properly supported.	9/30/04	Corrected
FWS	Real Property Controls and Processes	Develop and implement procedures to assess regional responsibilities and capabilities related to real property inventory and make changes as necessary to ensure that real property transactions are recorded in the subsidiary ledger and general ledger at the time the financial event occurs and at the proper amount.	9/30/04	Downgraded
BOR	Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights.	9/30/05	Ongoing
USGS	Unbilled Accounts Receivable and Deferred Revenue Related to Reimbursable Agreements	Implement more effective internal controls through a centralized review and analysis of agreements with abnormal billed and unbilled accounts receivable and deferred revenue balances. Also, enforce current policies and procedures for conducting reviews of agreements.	9/30/04	Downgraded
BIA	Financial Reporting Controls	Improve controls and process for financial analysis, transaction entry, and reconciliations. Continue to enhance financial staff resources.	9/30/04	Downgraded
BIA	Legal Liabilities	Implement controls and processes to provide complete, timely, and accurate data for contingent liabilities.	9/30/04	Downgraded

TABLE 1-17

FY 2003 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/04)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
BIA	Year-End Accruals and Deobligations	Develop and implement policies and procedures to ensure that appropriate accruals and deobligations are recorded in financial management systems.	9/30/04	Corrected
BIA	Controls Over Property	Implement controls to improve reporting of additions and disposals, construction-in-progress, leased property, depreciation, and reconciliations between general and subsidiary ledgers.	9/30/04	Delayed
BIA	Controls Over Procurement Activity	Implement controls and processes to improve the timely, accurate, and complete recording of acquisitions. Ensure that documentation complies with policies and procedures.	9/30/04	Downgraded
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts.	9/30/04	Delayed
OST	Reliance on Processing of Trust Transactions in the BIA	Work collaboratively with Departmental offices to monitor progress, ensure timely completion of Trust reform initiatives, and fulfill fiduciary responsibility to Trust fund beneficiaries.	9/30/04	Delayed
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/04	Delayed

TABLE 1-18

FY 2003 Audited Financial Statements Non-Compliance with Laws and Regulations Status Report (as of 9/30/04)				
Bureau	Non-Compliance Description	Corrective Action	Target Date	Status
DEPT	Debt Collection Improvement Act of 1996	Interior should establish a process to ensure eligible receivables in all bureaus are referred to the U.S. Department of the Treasury in a timely manner.	9/30/04	Delayed
DEPT	Single Audit Act Amendments of 1996	Improve grantee monitoring processes to ensure compliance with reporting requirements	9/30/04	Delayed
DEPT	Prompt Payment Act of 1982 (P.L. 97-177)	Ensure that all bureaus correctly enter payment data into FFS in order to properly calculate and pay prompt pay interest due.	9/30/04	Delayed
DEPT	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial system requirements and U.S. Standard General Ledger accounting standards at the transaction level.	9/30/04	Delayed
BIA	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level.	9/30/04	Delayed
BIA	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
BIA	Prompt Payment Act of 1982 (P.L. 97-177)	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving report are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS.	9/30/04	Corrected
BIA	Debt Collection Improvement Act of 1996	Establish, implement, and monitor policies and procedures addressing debt collection issues to ensure compliance with the Debt Collection Improvement Act.	9/30/04	Delayed
DO	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial systems and accounting standards.	9/30/04	Delayed
DO	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
MMS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement a process to ensure that the Minerals Revenue Management Financial System (MRMFS) is able to produce timely and accurate financial information to meet the requirements of FFMIA	9/30/04	Delayed
FWS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
BLM	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/04	Delayed
NPS	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
NPS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
BOR	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
USGS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	9/30/04	Delayed
OSM	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements.	9/30/04	Corrected

The Department intends to implement more aggressive monitoring actions during FY 2005 in order to substantially correct all of the material weaknesses and noncompliance issues reported in FY 2004 by the end of the third quarter of FY 2005.

Tables 1-19 and 1-20 present summaries of each of the material weaknesses and non-compliance issues reported in Department consolidated and bureau FY 2004 financial statement audit opinions. A total of 15 material weaknesses were reported, of which 10 (67%) were carried over from FY 2003. A total of 19 non-compliance issues were reported, of which 16 (84%) were carried over from FY 2003.

Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress what they consider to be the Major Management Challenges facing the Department. *Table 1-21* presents a summary of the Major Management Challenges identified by the OIG and GAO and actions taken to address these challenges to date.

Improper Payments Information Act of 2002

The Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300) requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering any amounts overpaid. An improper (or erroneous) payment includes any payment that should not have been made, or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Incorrect amounts include: overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for credit for applicable discounts.

To implement IPIA, the Office of Management and Budget (OMB) required agencies to review all programs (meeting OMB's definition of "program") to determine the risk susceptibility of making improper payments and to perform more in depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." The threshold for significant erroneous payments is: program payments

exceeding both 2.5% and \$10 million annually. For all programs meeting the criteria, agencies were required to quantify the amount of erroneous payments using a statistically valid method with a 90% confidence level.

Summary of Implementation Efforts for FY 2004

Based on a series of internal control review techniques, Interior determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. It should be noted that these reviews were conducted in addition to audits under the Single Audit Act Amendments of 1996, the Chief Financial Officers Act of 1990, GAO reviews, and reviews by Interior's Inspector General. Three different techniques were used to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs; (2) Departmental Functional Reviews (DFRs) focusing on the general control environment for making payments and the controls related to specific payment types; and (3) pre-payment and post-payment audits and recoveries. Each of the three techniques is summarized below:

1. Risk Assessments. Interior's Management Control Guidance for FY 2004 required managers to conduct risk assessments of all programs to determine if any were risk-susceptible for making significant improper payments. The assessments were used to establish risk profiles for all bureau programs. In particular, three programs of the Department were initially thought to have the potential for meeting the OMB threshold for significant erroneous payments. This initial assessment was based on prior audit and management control review efforts. The programs included were: Indian Self-Determination and Education Act (P.L. 93- 638) of the Bureau of Indian Affairs, Federal Aid of the U.S. Fish and Wildlife Service, and Financial Assistance of the Office of Insular Affairs. These three programs were required to make a more in-depth risk assessment. The results of these reviews and the reviews of all other Interior programs come to the conclusion that none of Interior's programs pose a high-risk of making significant improper payments based on OMB's criteria.

TABLE 1-19

FY 2004 Audited Financial Statements Material Weakness Corrective Action Plan				
Bureau	Material Weakness Description	Corrective Action	Target Date	New Weakness or Carryover from FY 2003
DEPT	Intragovernmental Eliminations	Implement policies and procedures and work with other Federal agencies to provide streamlined and efficient year-end eliminations and reporting processes.	9/30/05	Carryover
DEPT	Controls Over the Year-End Closing Process	Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries.	9/30/05	Partial Carryover
DEPT	Controls Over Trust Funds	Implement and/or revise controls and procedures to ensure that the Indian Trust Funds' activity and balances are properly and timely recorded, and controls and plans are in place to resolve the other deficiencies noted.	9/30/05	Carryover
DEPT	Controls Over Property, Plant, and Equipment	Complete land inventory and reconciliation and implement controls and procedures to ensure transactions are promptly and accurately recorded.	9/30/05	Carryover
DO	Budgetary Transactions	Improve controls to ensure that budgetary transactions promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial reports.	9/30/05	New
DO	Accruals	Test and finalize the accrual methodology for interim financial reporting to reduce year-end accrual effort, and reconcile accrual calculations to the general ledger.	9/30/05	New
DO	Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds.	9/30/05	Carryover
BOR	Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights, and reconcile system balances to the general ledger.	9/30/05	Carryover
MMS	Controls Over the Year-End Closing Process	Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries.	9/30/05	New
BLM	Accounting for Mineral Leases	Implement procedures to ensure that mineral lease transactions are promptly and accurately recorded. Ensure supervisors review and approve all journal entries.	9/30/05	New
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, probate backlogs, probate backlogs and appraisal compacts.	9/30/05	Carryover
BIA	Controls Over Fund Balance with Treasury	Improve controls and procedures to ensure timely transaction entry and reconciliations, and supervisors review and approve adjusting entries.	9/30/05	New
BIA	Controls Over Property, Plant, and Equipment	Develop and implement policies and procedures to ensure that property, plant, and equipment accounts are stated in accordance with Federal accounting standards. Address construction grants, inventory observations, construction in progress, depreciation expense, and fixed asset subsidiary ledger.	9/30/05	Carryover
OST	Reliance on Processing of Trust Transactions at the BIA	Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform initiatives, and fulfill trust fiduciary responsibilities to trust fund beneficiaries.	9/30/05	Carryover
OST	Resolution of Financial Reporting Issues from Prior Periods (six part material weakness)	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/05	Carryover

TABLE 1-20

FY 2004 Audited Financial Statements Non-Compliance with Laws and Regulations				
Bureau	Non-Compliance Description	Corrective Action	Target Date	New or Carryover from FY 2003
DEPT	Federal Financial Management Improvement Act	Improve controls to comply with Federal financial management system requirements, and accounting standards.	9/30/05	Carryover
DEPT	Debt Collection Improvement Act of 1996	Establish a process to ensure eligible bureau receivables are referred to the U.S. Department of Treasury in a timely manner.	9/30/05	Carryover
DEPT	Prompt Payment Act of 1982	Ensure that all bureaus correctly enter payment data voucher into FFS in order to properly calculate and pay prompt pay interest due.	9/30/05	Carryover
DEPT	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
BOR	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/05	Carryover
FWS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover
MMS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	9/30/05	Carryover
MMS	Prompt Payment Act of 1982	Ensure that payment data vouchers are entered correctly into FFS in order to properly calculate and pay prompt pay interest due.	9/30/05	New
MMS	Debt Collection Improvement Act of 1996	Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996.	9/30/05	New
NPS	Single Audit Act Amendments	Develop controls to ensure grantees complete, report on, and implement timely corrective actions for single audits.	9/30/05	Carryover
NPS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover
DO	Federal Financial Management Improvement Act	Continue to improve and implement appropriate controls to ensure full compliance with Federal financial management systems requirements and accounting standards.	9/30/05	Carryover
DO	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
DO	Prompt Payment Act of 1982	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving port are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS.	9/30/05	New
BIA	Debt Collection Improvement Act of 1996	Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996.	9/30/05	Carryover
BIA	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level.	9/30/05	Carryover
BIA	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
USGS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements.	9/30/05	Carryover
BLM	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Financial Management	Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management reporting and related systems.	Carryover	<p>The Department has several initiatives aimed at improving financial management, most notably: the Financial and Business Management System (FBMS), and Activity Based Costing/Performance Management (ABC/PM). While these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.</p> <ul style="list-style-type: none"> Financial and Business Management System In 2003, DOI launched a comprehensive plan to transform its financial management functions and create a world-class financial management structure. The cornerstone of the Department's plan to transform financial management is the FBMS, which will replace a variety of outdated, stand-alone, mainframe-based systems. Computer Labs have been set up to enable staff to test the new FBMS software. In addition, a capstone business case is being prepared for FBMS that will discuss other systems that will be retired. About 160 systems will be affected by the implementation of the FBMS, and currently, 80 of those systems have been identified for retirement. <p>FBMS will be phased into implementation over the coming years, starting in FY 2005 and continuing through FY 2008. Successful implementation of FBMS will be key to addressing DOI's financial management challenges.</p> <ul style="list-style-type: none"> Activity-Based Costing/Performance Management Activity-Based Costing/Performance Management comprises management tools that will help DOI better understand the costs of conducting business because it allows management to examine how program activities consume resources and produce outputs. Formal Department-wide ABC/PM implementation started in October 2003, when DOI employees began documenting their time, purchases, travel related costs, and training to the work activities they performed. Employees used the time and attendance systems, financial data recording processes, and methodologies specified by their bureaus/offices to capture time and expenses against work activities to record outputs. Because DOI is so early in the implementation process, it is difficult to assess how effective the implementation of ABC/PM has been. DOI will monitor the implementation of ABC/PM and make modifications, as necessary, to ensure that ABC/PM provides useful information. 	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Information Technology	<p>The Department has made information technology (IT) security maintenance a high priority for all bureaus. DOI is continuing to make substantial progress in strengthening IT security. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. Although substantial improvements have been made and sound operations are prevalent, some DOI entities do not fully comply with all Federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, as a whole, the Department does not fully comply with, or meet the objectives of, Section 4 of the Federal Financial Management Improvement Act and OMB Circular A-127, "Financial Systems." The Department has implemented a remediation plan to resolve remaining material weaknesses and expects to complete corrective actions in FY 2005.</p>	Carryover	<p>DOI has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6% in 2003 to 98% in 2004. To foster this effort, the Department has invested more than \$100 million in its security program over the past three years. Based on these efforts, DOI believes that its information security program generally meets the requirement of FISMA and that most of its information systems have levels of security to safeguard Department information and related assets.</p> <p>DOI has made efforts to further (1) improve the IT business cases; (2) prioritize IT investments; and (3) develop a strategy to fund enterprise IT investment. DOI is continuing to make progress in strengthening IT security. For example, DOI has developed an information technology security program that meets the financial accounting systems application and general control requirements of the Federal Information Security Management Act. DOI evaluated the perimeter security of its computer systems on a monthly basis and currently shows zero potential vulnerability when measured against an industry standard. Also, DOI has established security processes and documentation for its Indian Trust systems.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Health, Safety, and Emergency Management	<p>Annually, DOI has nearly 260 million visits to national parks, 68 million visits to public lands, and 39 million visits to national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. Accordingly, DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time.</p>	Carryover	<p>In summary, DOI's areas of concern and actions have been focused on the following areas:</p> <p>Radio Communications Effective radio communications are critical to employee and public safety and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance. The Department has developed and commenced implementation of a plan to meet employee and public safety objectives; restore program efficiency by reviewing bureau Narrowband Capital Investment and Implementation Plans; revise plans to maximize radio system sharing and minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services by FY 2005.</p> <p>NPS's Structural Fire Program The Structural Fire Program has not provided adequate protection of employees and visitors, structures, and resources from the effects of fire as required by Director's Order No. 58. NPS has developed and made substantial progress in implementing a comprehensive structural fire program plan as directed by Congress. The plan includes specific milestones to address the operational, organizational, technical, and staffing deficiencies.</p> <p>NPS's Hazardous Material Program In FY 2003, DOI reported that the lack of an adequate oil and hazardous material incident preparedness and response program seriously endangered the safety of the public, employees, and park resources. NPS has developed and made substantial progress in implementing a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.</p> <p>Security Surrounding National Icons Security surrounding the National Park Service's Icon Parks is a key focus of the Department's Homeland Security efforts. The Office of Law Enforcement and Security (OLES) has installed a security professional and has been involved with the implementation of homeland security and related Departmental policies. However, NPS has yet to put in place a security professional or embrace many of the recommendations presented by OLES to enhance security because funding for enhanced security competes with other park projects. DOI will focus on providing the appropriate balance for these competing priorities.</p> <p>DOI Law Enforcement OLES and the bureaus have been working towards implementing 25 Secretarial directives to improve law enforcement. There has been some progress in improving the oversight and coordination of the law enforcement programs. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. Also, a Department-wide policy to provide guidance on internal affairs will be issued.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Maintenance of Facilities	<p>DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. According to the January 2003 Government Accountability Office (GAO) report titled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog because the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. DOI has undertaken facility condition assessments throughout all bureaus. These assessments are producing a facility condition index for each facility and, in the aggregate, for different facility categories. This index provides a measure of whether facilities are in acceptable condition or have a backlog of maintenance needs.</p>	Carryover	<p>DOI has embarked on a comprehensive approach to maintenance management that includes implementation of a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition and maintenance of facilities within all bureaus, especially NPS, and provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance. The key elements of that plan and status at the end of FY 2004 are as follows:</p> <ul style="list-style-type: none"> • Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system (completed); • Conduct comprehensive condition assessments (5-year plan for assessments underway – approximately 73 percent completed); • Make determinations to repair, replace, or relocate facilities (underway); • Develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan (completed and updated annually); and • Repair, replace, and relocate facilities to good condition, and reduce deferred maintenance to established goals (underway). <p>DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations, and implementation will be completed in FY 2005. The Department has been assessing the condition of facilities, developing a 5-year maintenance plan, and establishing goals to reduce the deferred maintenance backlog. Also, DOI has established a Facilities Management Systems Partnership (FMSP) that provides a forum for the Department and its facilities managing bureaus to coordinate the development and use of facilities management systems. While the FMSP has made demonstrable strides in developing a framework within which to address facilities management issues, deferred maintenance in the Department remains a material weakness and an enormous challenge to be managed.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Responsibility to Indians and Insular Areas	<p>DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian Tribes and individual Indians, and it provides more than \$750 million annually for basic Tribal services, such as social services, Tribal courts, and natural resource management. In addition, over the years, GAO and OIG have reported on DOI's management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls prevent DOI from completely ensuring that trust and program funds are properly managed. Further, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies.</p>	Carryover	<p>Indian Affairs</p> <p>Indian Trust Records - The independent certified public accounting firm of KPMG LLP, under contract with the Office of Special Trustee for American Indians (OST), rendered qualified opinions on OST's FY 2003 and FY 2004 financial statements. KPMG qualified its opinion because of internal control inadequacies in certain trust-related systems and procedures which provide required financial/trust information for OST. Also, KPMG noted that certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and have either filed or are expected to file claims against the U.S. Government, or have filed a request for an accounting which may or may not lead to claims against the U.S. government.</p> <p>DOI 's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls have helped ensure that all trust funds we account for are properly collected. Historical accounting methods and existing system of controls are being strengthened to ensure that BIA ownership and distribution information is correct. The Department will continue to improve its trust policies, procedures, systems, and internal controls and provide training to achieve the goals of the Comprehensive Trust Management Plan by FY 2006.</p> <p>Indian Country Detention Facilities - In September 2004, the OIG informed the Department of the deplorable conditions existing at some of the detention facilities that may lead to life-threatening situations and management deficiencies in the Office of Law Enforcement Services detention program. DOI is assisting the BIA in immediately developing and implementing an action plan to address and alleviate the potentially life-threatening situations at its detention facilities and improve detention program management.</p> <p>Native American Schools – BIA funds or operates schools in 23 States, providing education services to about 48,000 students that attended 184 elementary and secondary schools and dormitories at the outset of FY2004, and supports 29 Tribally controlled community colleges, universities, and post-secondary schools. A significant number of the schools built in the 1940s and 1950s have been poorly maintained, with inadequate roofing and floors, plumbing, heating, and lighting. They are also obsolete and lack critical capabilities such as science and computer labs.</p> <p>To address the problem of inadequate facilities, Congress increased funding to replace and repair American Indian Schools. Six of the seven replacement projects funded from FY 1998 through FY 2000 have been completed and one is awaiting Certificate of Occupancy. Of the thirteen replacement projects funded in FY 2001 and FY 2002, five schools are completed, seven schools are in construction and one school is in design. Of the fourteen replacement projects funded in FY 2003 and FY 2004, one school is complete, two are in construction, and the remaining ten are in Planning or Design phase. BIA is also making significant progress in addressing the Indian school maintenance backlog by providing for a total of 19 facilities improvement and repair projects from FY 2003 to FY 2004.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
			<p>DOI's FY 2004 budget included \$294.9 million for school construction which provided funding for 8 replacement school projects as well as several major improvement and repair projects at Indian schools. The FY 2004 funding improved the facility condition index for BIA schools to .124 with 106 schools or 58% in fair or good condition as compared with 91 or 48% in fair or good condition in FY 2003. The FY 2004 budget also included \$520.6 million in school operations funding to continue to address the President's commitment to "Leave No Child Behind."</p> <p>Insular Affairs Insular Area governments generally lack the standard business practices essential to financial accountability. OIG audits have identified serious administrative and accounting deficiencies, including property management practices that were not sufficient to satisfactorily account for and safeguard equipment purchased with grant funds; improper procurement practices that allowed purchases without competition; poor records management; inadequate accounting practices that resulted in questioned costs, incorrect grant balances, and poor reporting practices to the Office of Insular Affairs (OIA) that unnecessarily delayed projects.</p> <p>Although the OIG is authorized to audit all revenues and expenditures of Insular Area governments, DOI does not have the authority to enforce audit findings and recommendations for funds provided by other Federal agencies or for funds provided by DOI that have Federally imposed entitlement conditions. While OIA has taken steps to strengthen controls over its grants, OIG's follow-up audits highlighted the necessity of continuing to urge other Federal agencies providing funds to the Insular Areas to become more involved in monitoring these funds and ensuring their proper use.</p> <p>DOI has reviewed and implemented improvements in the process used by the OIA to award and monitor grants to Insular Areas. OIA awards over \$50 million in grants each year that provide Insular Areas with technical and financial assistance to develop more dynamic economies and improve the quality of life for the citizens. While OIA properly processed grants, weaknesses in monitoring grants resulted in public projects that were not completed on time, essential services that were delayed or not provided at all, and Federal monies that were wasted.</p>	

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Resource Protection and Restoration	<p>DOI resource managers face the challenge of balancing the competing interests for use of the Nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI manages 542 national wildlife refuges, 388 units of the national park system, 70 national fish hatcheries, 15 national monuments in the national landscape conservation system, and 13 national conservation areas.</p> <p>Major contributors to the challenge of effective resource management include increased population, environmental issues, shortages of resources such as water, oil and gas, and demands for more recreational areas. DOI faces challenges in implementing policy goals for repairing and maintaining ecosystems within budget limitations. Of special concern are wildfires, water allocations, a changing land and recreation base, and invasive (non-native) species.</p>	Carryover	To achieve its Department-wide mandate for protecting and preserving the natural resources under its management, DOI has developed long-term goals of restoring the health of public lands and maintaining ecosystems. The Department has made significant progress in restoring significant national ecosystems to health by (1) addressing the growing wildland fire threat to communities and resources caused by the excessive buildup of fuels in forested ecosystems, such as those located in the interior Western States; (2) restoring the South Florida ecosystem, which includes the Everglades; and (3) controlling and eradicating invasive non-native species.	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Revenue Collections	DOI annually collects from \$6 to \$11 billion in revenues from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is MMS, which annually collects more than \$6 billion in mineral revenues from more than 84,260 onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management Program has collected and distributed approximately \$127 billion to Federal, State, and Indian accounts. The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate. Because of the amount of collections and the significant potential for underpayments, the OIG believes that revenue collections should be a management challenge for the Department.	Carryover	MMS has implemented comprehensive systems and other program improvements to address OIG audit concerns with the Minerals Revenue Management Program. MMS has assisted the OIG with investigations which have uncovered multi-million dollar royalty underpayments. One recent investigation resulted in a \$49 million settlement agreement with a major oil company for failure to pay royalties on natural gas production from offshore leases.	Ongoing
Procurement, Contracts, and Grants	DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to States and Indian organizations. Managing procurement activities is an unending challenge requiring constant attention.	Carryover	DOI has developed and implemented comprehensive plans to continue to address OIG-identified deficiencies such as: <ul style="list-style-type: none"> • BIA's acquisition management organization, policies, procedures, and guidelines; • The lack of management supervision by DOI bureaus and offices over purchases made with credit cards; and • Contract administration for construction projects such as the 12 procurements for interrogation, intelligence, logistics, and security services valued at \$81 million placed by the Southwestern Branch of the National Business Center's Acquisition Services Division (NBC) which were made under General Services Administration (GSA) schedules for Information Technology and Professional Engineering Services. 	Ongoing

Table 1-22 is a summary listing of all Interior program outlays by bureau. Although not required, the table is provided to disclose the Department's outlays and cite the major programs reviewed under the IPIA.

2. Department-Wide Functional Reviews (DFRs).

Interior conducted DFRs in FY 2004 for the following payment processes: vendor, travel, grants, purchase card, and payroll/time keeping. Using a proprietary automated assessment tool, the DFR included a review of internal controls surrounding all payment processes and collected responses from 70 finance office and program employees. The results of the DFRs indicated that internal controls were adequate and working as intended in the vendor, grant, travel, and purchase card processes. Additional opportunities for strengthening controls were identified in the payroll processing area; however, it was determined that payroll processing internal control requirements were sound based on a Statement of Auditing Standard 70 review conducted by independent audit.

3. Pre- and Post-Payment Audits and Recoveries.

A. Prepayment Audit of Government Bills of Lading (GBLs) - Interior has been conducting prepayment audits of its freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. We are continuing that effort and have worked with our bureaus to reasonably assure that all freight bills receive pre-payment audits. During FY 2004, pre-payment audit contractors identified \$611,813 in savings for about 18,500 bills of lading reviewed.

B. Single Audit Act - Under the provisions of the Single Audit Act, grantees' financial operations, management control structures, and level of compliance with applicable laws and regulations must be audited periodically. All Single Audit reports are submitted to the Federal Single Audit Clearinghouse (Clearinghouse), U.S. Bureau of the Census. Interior provides funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Those Single Audit reports, with findings and recommendations are forwarded to the Office of Financial Management for Audit Follow-up actions. Each bureau is responsible for meeting with grantees and negotiating a resolution of the deficien-

TABLE 1-22

FY 2004 Outlays by Major Program Area		
Bureau or Office	Major Program Area	FY 2004 Outlays (millions)
BIA	Operation of Indian Programs, Construction, Land and Water Settlements, Water Rights, and Habitat Acquisition	\$2,161
BLM	Management of Land and Resources, Fire	1,761
BOR	Water and Related Resources, Central Valley Project Restoration, California Bay Delta	1,101
FWS	Resource Management, Federal Aid in Wildlife Restoration, Cooperative Endangered Species Fund, Federal Aid in Sport Fisheries, Construction, Land Acquisition	1,999
USGS	Geologic Hazards Resources, Water Resources Investigation, Biological Research, National Mapping, Science Support	841
MMS	Mineral Leasing, Royalty and Offshore Management	923
NPS	Operation of the NPS, Construction and Maintenance, Land Acquisition and State Assistance, National Recreation and Preservation, Historic Preservation, Park Police	2,586
OSM	Abandoned Mine Reclamation, Regulation and Technology	317
OIA	Compact of Free Association, Payments to U.S. Territories, Assistance to Territories	397
OS	Payments in Lieu of Taxes (1)	216
Total		\$12,302

(1) Payments in Lieu of Taxes Program was transferred to the Office of the Secretary from BLM in FY 2004.

cies identified in the audit reports, as well as, determining the acceptability of any expenditure of Federal funds questioned by the auditors. Interior recovered \$570,079 in disallowed costs in FY 2004 identified via prior audits under the Single Audit Act.

C. Recovery Audits - In response to Section 831 of the Defense Authorization Act for FY 2002 (U.S. Code 31 USC 3561-3567), Interior contracted with a recovery audit firm near the end of FY 2003. A pilot program was conducted for the Office of the Secretary (Departmental Management) in early FY 2004. This effort recovered \$39,875 at a cost of \$7,975. A performance goal of the Department was to have recovery audit programs initiated in all bureaus by the end of FY 2004. This was accomplished and the contractor (PRG Schultz) has been engaged by task order and has initiated recovery audit recovery efforts in each bureau.

Additional detail on the Department's risk assessments, Departmental Functional Reviews, and recovery audits are contained in Appendix A of this report.

Interior Plans for FY 2005 – FY

2007. Annual performance goals are to maintain adequate controls over payment processes to ensure that erroneous payments are minimized. *Table 1-23* displays future plans and current year performance on measures to maintain a focus on recovery efforts. The Department will continue using contractor assistance to perform pre-payment audits of bills of lading and will proceed with post-payment audits (recovery audits) initiated in FY 2004.

In addition to the measures listed in *Table 1-23*, Interior will complete the following tasks in FY 2005 to ensure compliance with the IPIA:

First Quarter

- Issue management control guidance for FY 2005 requiring bureau annual risk assessments of all programs.

Second Quarter

- Complete recovery audit for vendor payments (FY 2001-2003) in all bureaus.

Third Quarter

- Continue recovery audits to include FY 2004 vendor payments and complete all bureau risk assessments.

Fourth Quarter

- Review and analyze bureau's risk assessment reports to determine if any corrective action plans are necessary, and if so, have the appropriate bureaus provide the plans.
- Prepare data to fulfill the reporting requirements of the Improper Payments Information Act and OMB for inclusion in Interior's Performance and Accountability Report for FY 2005.

TABLE 1-23

Erroneous Payments					
Performance Measure	FY 04 Plan	FY 04 Actual	FY 05 Plan	FY 06 Plan	FY 07 Plan
Federal Assistance - Percent of Audit Disallowances	.06%	.02%	.05%	.04%	.03%
Federal Assistance - Percent of Disallowances Returned to Government	60%	80%	70%	75%	80%

Federal Information Security Management Act (FISMA)

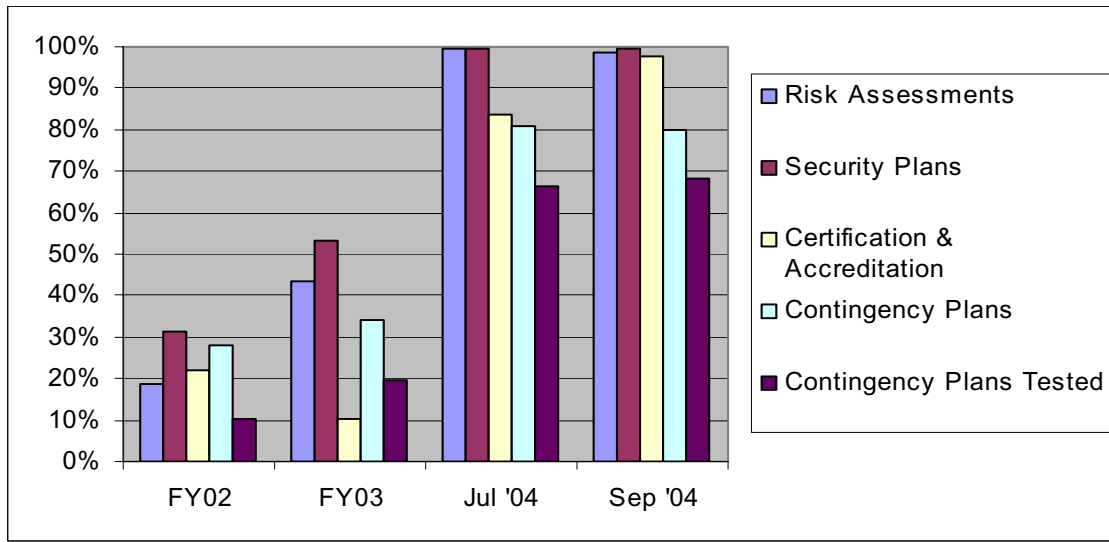
The inception of the Federal Information Security Management Act (FISMA), and the preceding Government Information Security Reform Act (GISRA) clarified a framework and relevant agency roles in ensuring the effectiveness of security controls with regard to information resources that support Federal operations and assets. The law gives latitude for OMB and the Department of Commerce through the National Institute of Standards and Technology (NIST) to identify minimum standards of operating information systems within the Federal government.

DOI quickly responded to the enactment of FISMA and prior guidance from OMB. Before FY 2002, the Department IT Security Program budget was approximately \$4 million per year. Additionally, in FY 2003 less than 10% of DOI systems had documented authorization to operate as required by OMB Circular A-130. In FY 2004, the annual IT Security Program budget had grown to \$30 million, or approximately 5% of total IT outlay. Twelve million dollars of that investment was focused directly on certification and accreditation activities (C&A), which largely address the requirements of FISMA with regard to assessing risk, demonstrating commensurate controls, and documenting agency official approval of operations (*Figure 1-20*).

The Interior IT Security Program has taken a comprehensive approach to meeting FISMA requirements and aligning with the prevailing guidance from NIST and OMB. DOI developed meaningful criteria for all elements of FISMA emphasis. Associated initiatives are active to (1) develop policy, (2) define procedures, (3) implement procedures, (4) train staff, and (5) validate systems against the established criteria. These

FIGURE 1-20

Certification and Accreditation Activities



five phases occurred for all FISMA areas and represent the required activities in creating organizational change.

Specific milestones achieved in FY 2004 include:

- **Assess Risk / Commensurate Controls / System Specific Plans (C&A).** C&A process guides finalized, 258 security staff trained in C&A procedures, Department-wide Blanket Purchase Agreement (BPA) with 10 qualified vendors established for C&A implementation, \$12 million in funding distributed to bureaus to provide for C&A activities, which resulted in 98% of systems completing certification and accreditation by September 2004. This includes all operational financial systems. Twenty-one percent of these C&A packages were quality assured by an independent contractor and all procedures are in strict compliance with NIST guidance.
- **Integration with Strategic and Operational Planning.** Interior includes all security program budget costs in appropriate OMB submissions. Furthermore, Enterprise Architecture (EA) is a means of capital asset control in which DOI has made substantial progress. Clear security architecture will enable system owners to build and change systems in accordance with pre-approved patterns. Benefits of architecture include operational consistency, cost-effective licensing, and ease of security control maintenance/validation. DOI received the E-Gov-

ernment Institute's Federal Civilian Leadership in Government Transformation Award for the DOI Enterprise Architecture.

- **Minimum Configurations.** Established a Technical Reference Model and approved Security Technical Implementation Guides (STIGS) for critical IT security components, such as operating systems, router configuration, data-base hardening, etc.
- **Process for Deficiency Resolution.** The Plan of Actions & Milestones (POA&M) is the OMB required, authoritative format for tracking identified deficiencies in operations. System owners must review this list and determine reasonable remediation schedules within their system release plans. DOI has identified a policy for maintaining POA&M entries and has deployed an automated support tool for collaborative entry of a single authoritative repository for deficiencies. Eighty-six IT security staff have been trained in procedures and the tool for resolving POA&M entries.
- **Incident Response.** Completed incident response policy definition within Departmental Manual (DM) 375.19. Continued outsourcing of agency incident response handling to the Department of Homeland Security (DHS) US Computer Emergency Readiness Team (US CERT). One hundred fifty-four DOI technical staff trained in incident response procedures.

- **Training.** Ninety-three percent of DOI employees and contractors (76,888) completed IT security awareness training by July 2004. Certification training programs for IT security professionals resulted in 56 DOI security staff attaining the ISC2 Certified Information System Security Professional (CISSP) including the agency CIO.
- **Periodic Testing.** In addition to C&A Security Test & Evaluations, Interior followed NIST guidance in conducting self-assessment reviews (NIST 800-26) for all systems. Independent technical testing was commissioned via monthly scanning of perimeter networks utilizing the SANS Top 20 vulnerability list as the standard. In September 2003, almost one hundred hosts had vulnerabilities that appeared on the SANS Top 20 list. By March 2004, Interior achieved no related vulnerabilities and has maintained that status to this day (*Figure 1-21*).

- **Continuity of Operations.** Established a contingency planning technical guide as part of security planning guidance. Eighty percent of systems have completed contingency plans with 68% completing annual testing requirements.
- **Critical Infrastructure.** Created a methodology for evaluating systems for relevance to critical infrastructure Presidential directives and identified five as relevant.

As demonstrated, the nearly \$100 million identified for DOI IT Security Program initiatives in FY 2003 - FY 2005 is both focused on the right objectives and achieving lasting results. In the FY 2004 FISMA Annual Report, the Inspector General observed that Interior has "...significantly improved its information security program..." and that it "... generally meets the requirements of FISMA ...".

Appropriately, the OIG and CIO recognize the need for improvement. C&A quality will continue to be reviewed and bolstered. Contingency plan tests must occur with greater frequency and the methods of information assurance must be demonstrably validated in contract organizations that maintain Interior information assets or services.

The Finance and Business Management System (FBMS) demonstrates the forward thinking Interior is applying to improve the level of mission performance using information management. This new system is applying FISMA principles on a recurring basis. C&A activities have been embedded in every phase of the life cycle with the IT security office participating in weekly reviews of progress and tracking towards the second quarter of FY 2005 initial deployment. The C&A will be updated as required for each subsequent deployment. Enterprise Architecture (EA), including reusable security patterns, are being applied and updated as the real project precipitates new scenarios and considerations. This feedback cycle between architecture, security, system development, and business stakeholders achieves the awareness of risk, application of commensurate controls, and support of business processes desired. FBMS is the largest case study to test organizational implementation of FISMA principles and is the prototype for DOI systems management going forward.

FIGURE 1-21

Count of Perimeter Servers with SANS Top 20 Listed Vulnerability

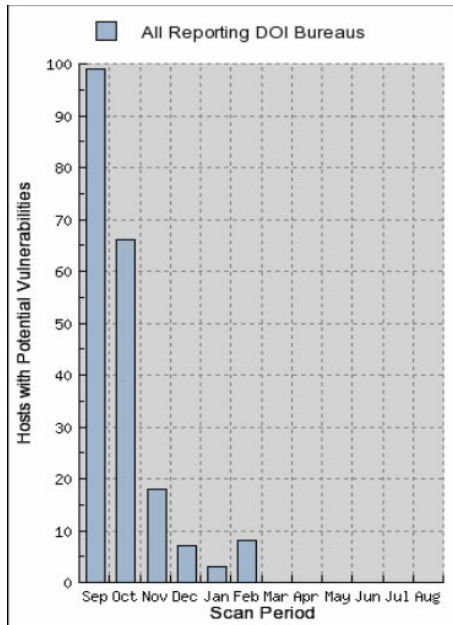


FIGURE 1-22

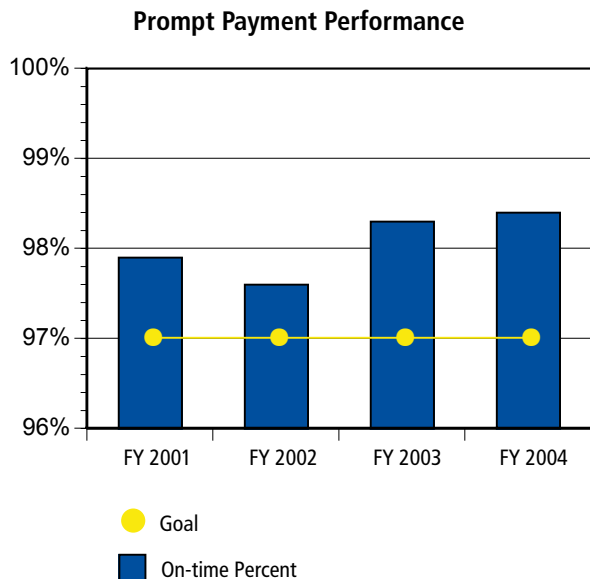
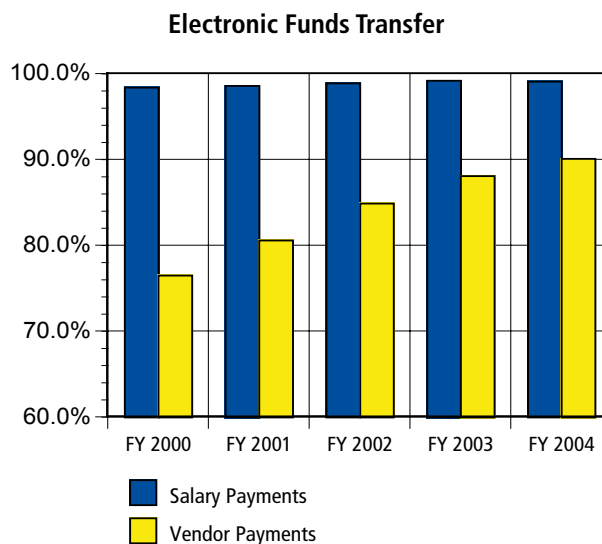


FIGURE 1-23



Compliance With Key Legal and Financial Regulatory Requirements

Interior is required to comply with several key legal and regulatory financial requirements, including the Prompt Payment Act, the Debt Collection Improvement Act, and the Independent Offices Appropriation Act (User Fees).

Based on the results of the FY 2004 independent financial statement audit, Interior was determined to be non-compliant with several legal and regulatory financial requirements, in addition to the three components of the FFMIA. As noted earlier in this section, *Table 1-20* presents a summary of the areas of non-compliance reported in the FY 2004 financial statement audit opinions, as well as planned corrective actions and target dates.

Prompt Pay, Debt Collection, and Electronic Funds Transfer (EFT)

The Department is continuing to strive to improve performance under the requirements of the Prompt Payment Act and the Debt Collection Improvement Act. The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest.

The Department's FY 2004 performance resulted in achieving goals for Prompt Pay (*Figure 1-22*) and

payments made by Electronic Funds Transfer (*Figure 1-23*).

The results of the FY 2004 consolidated financial statement audit indicated that Interior is not in compliance with the Debt Collection Improvement Act. This non-compliance is attributable to the BIA because its eligible delinquent debt represents a significant share of the Department's total. The BIA only referred 49% of its eligible delinquent debt to Treasury in FY 2004, which negatively impacted the overall performance of the Department and resulted in a Departmental referral rate of 62%. It is significant to note that by excluding the BIA, the Department's total referral performance would be 96%, exceeding the performance goal target of 94%.

OMB Memorandum M-04-10 dated April 19, 2004, requested agencies to disclose their debt management policies. Interior recently issued a Credit and Debt Management Handbook containing current policies in this area. The Credit and Debt Management Handbook can be found on the Internet at www.doi.gov/pfm (click on Policy and Financial Management Handbooks). The Handbook includes requirements for (1) referring delinquencies in excess of 181 days to the U.S. Treasury; (2) compromising, writing-down, forgiving or discharging debt; and, (3) preparing Internal Revenue Service Form 1099-C when debts are written-off.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal agencies of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries, as opposed to the American public in general. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value. This minimizes the general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

Interior conducted a biennial review of its user fee programs during FY 2004. This review was based on FY 2003 data and indicates Interior does not have any significant deficiencies in the bureaus. However, we will continue to strive to improve cost accounting methods including the use of ABC/PM concepts that were implemented Department-wide in FY 2004.

Financial Management Improvement Initiatives

The Department has several ongoing initiatives that address the President's Management Agenda goal to improve financial performance. These initiatives are discussed in the sections that follow.

Financial Management Systems

The Department shares the view of the government-wide CFO Council that a key to improved financial and program management is improved financial management systems. Improving financial management systems will provide for and strengthen decision-making capabilities and enable Interior program and financial managers to more effectively achieve the Department's missions. The Department recognizes the importance of its financial management systems as a part of its capital assets portfolio and uses sound information technology investment management principles to plan and monitor these systems. Interior's goal is to achieve and maintain the objective stated in OMB Circular A-127 for each agency to establish a single, integrated financial management system. In pursuing this goal, the Department will follow the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

Financial Management Systems Improvement Strategy

The Department's goal is to continue to improve financial transaction processing and to enhance financial management systems support through an effective partnership of program, information system, and financial managers.

The Department relies on a unified set of financial management systems planned for and managed together and operated in an integrated fashion to collectively support program and financial managers. These systems are managed at various levels within the Department. Some of these systems are managed on a Departmental level, others are maintained at a bureau or local level, and some are government-wide systems on which the Department relies on. Collectively, they represent the Department's financial management systems architecture. The current financial system architecture is shown in *Figure 1-24*, arrayed by the different types of management approaches being used. *Figure 1-25* lists the Department's current financial management systems and applications.

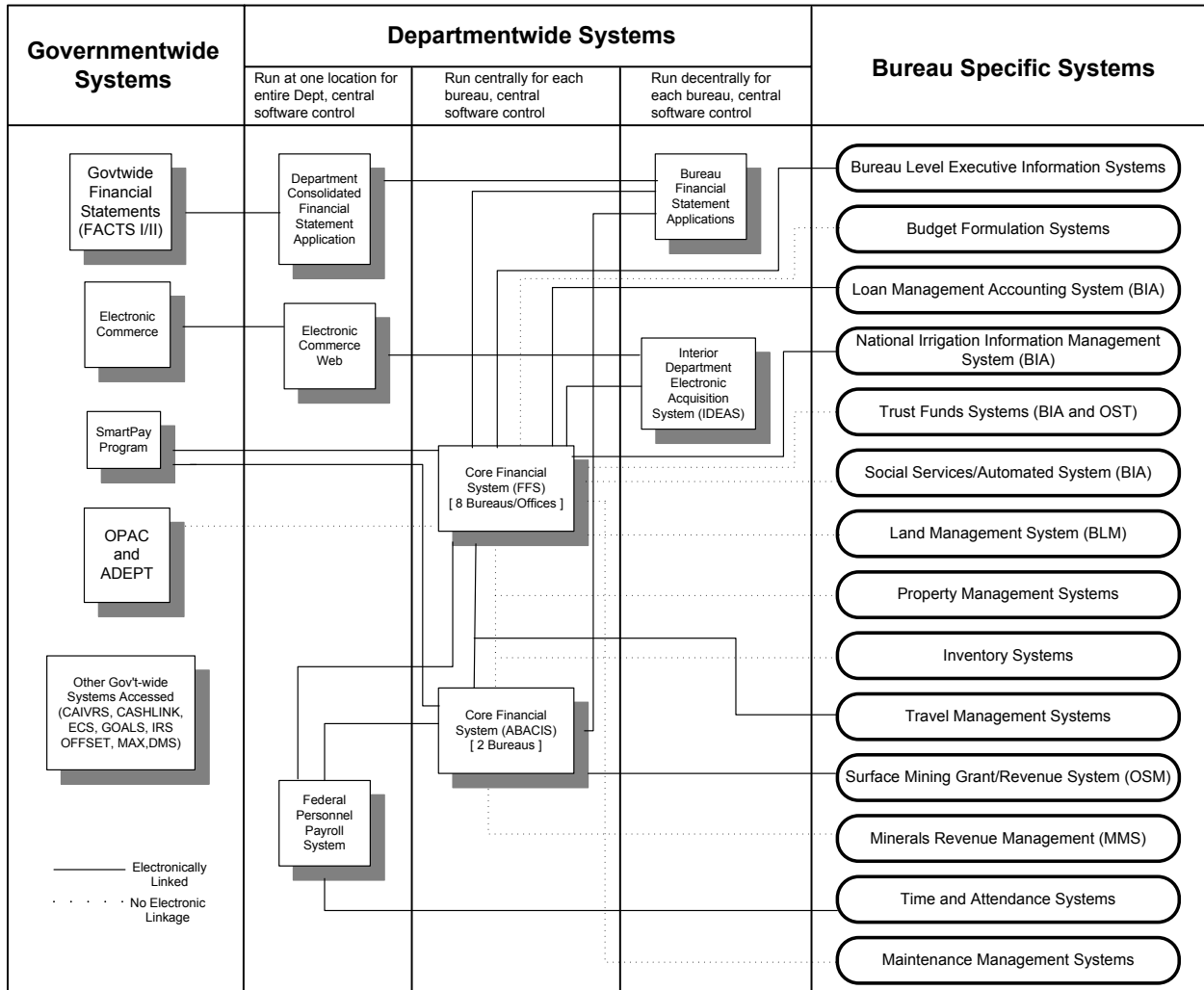
The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements: (1) migrating to and enhancing standard department-wide systems; (2) improving or replacing financial and mixed systems to take advantage of new technological capabilities (e.g., Internet browser and smart card technology); (3) effectively interfacing or integrating financial management systems through electronic transfer of data and establishing standardized financial data classifications for movement of data to support finance and program managers; and (4) following sound investment principles in selecting and evaluating its financial management systems and recognizing those systems as part of the Department's portfolio of capital assets.

The Department's current financial management system improvement efforts involve three major thrusts:

- **Financial and Business Management System.** Define, carefully plan, and implement a new generation of financial management systems to take advantage of new technology and processing opportunities.

FIGURE 1-24

Interior Financial Management System Architecture



- **Critical Programmatic/Financial Management Systems.** Continue to improve certain critical bureau-based programmatic/financial management programs: Minerals Revenue Management, and Indian Trust Funds.
- **Improve the Information Technology (IT) Infrastructure Supporting Financial Systems.** The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

Financial and Business Management System

The Department of the Interior is in the process of implementing the Financial and Business Manage-

ment System (FBMS). The FBMS will provide Interior with standard business practices supported by a single, integrated finance and administrative system for all bureaus. FBMS is an integrated suite of software applications that will help Interior to manage a variety of business functions, including core financials, acquisition, budget formulation, personal property and fleet management, real property, travel, financial assistance, and enterprise management information.

The financial systems and tools that are in place today do not meet the needs of the employees who report on key information, make decisions based on that information, and apply the limited resources that they have to serve each bureau’s mission. In many areas, redundant administrative tasks take away time that

could be better spent on mission-focused activities.

The FBMS is taking a comprehensive approach to improving the current business functions in its core systems by replacing the current computer systems with state-of-the-art software. The combination of business practices and new computer system functionality will enable the bureaus to improve service to their customers and to operate more efficiently. Benefits gained from implementing this suite of applications will include the ability to access and share real-time, accurate business information; support effective business decisions for mission delivery; issue accurate financial reports and analysis of managerial data; support timely decision-making in the field; free-up more time for mission-focused activities; focus on value-added analysis rather than data gathering; and eliminate redundant administrative tasks and multiple login screens.

Interior has adopted a multi-year, phased approach to implementing the FBMS in its bureaus/offices. The implementation of this enterprise system solution will enable the incremental retirement of at least five major administrative systems, as many as 30 bureau-specific systems, and hundreds of cuff records now used by individual managers to track their programs as individual bureaus implement the new software/solutions. The following is the current FBMS implementation schedule:

- 2/28/05 - Implement the financial assistance module in the Minerals Management Service, Office of Surface Mining, and the Fish and Wildlife Service (except for the Federal Aid Program.

FIGURE 1-25

Interior Financial Management Systems and Applications

DEPARTMENTWIDE SYSTEMS

Core Financial System (FFS)
- Federal Financial System (8 Bureaus/Offices)

Core Financial System
- Advanced Budget/Accounting Control and Information System (2 Bureaus)
- Accounting and Aircraft System (OAS)

Payroll Personnel System
- Federal Personnel/Payroll System (FPPS)

Interior Department Electronic Acquisition System

Consolidated Financial Statement System

BUREAU SPECIFIC SYSTEMS

Bureau Level Executive Information Systems
- Management Information System (BLM)
- Administrative Financial System III (NPS)
- Federal Aid Information Management System (FWS)
- Financial Reporting and Reconciliation System (NPS)
- Budget and Science Information System (GS)
- TSC Management Information System (BOR)

Budget Formulation Systems
- Budget Allocation System (FWS)
- Program and Budget System (BOR)
- Operations Formulation System (NPS)
- Project Management Information System (NPS)
- Budget Planning System (BLM)

Loan Management Accounting System (BIA)

National Irrigation Information Management System (BIA)

Social Services Automated System (BIA)

Trust Funds (BIA, OST)
- Trust Funds Accounting System
- Integrated Resources Management System

Land Management System (BLM)
- Collection and Billing System

Property Management Systems
- FFS Fixed Assets Subsystem (BIA, BLM, GS, NPS)
- Moveable Property System (BOR)
- Property Management System (MMS)
- Personal Property Management Information System (FWS)
- Federal Real Property Management (GS)
- Property Accountability Ledger System (OSM)
- Refuge Management Information System (FWS)

Inventory Systems
- FEDSTRIP System (BOR)
- DORRAN (GS)
- Peachtree 2000 Inventory System (GS)
- IBIS (GS)

Travel Management Systems
- Travel Manager Plus

Minerals Revenue Management (MMS)

Surface Mining Grant/Revenue System (OSM)
- Grant Information Financial Tracking System
- Fee Billing and Collection System
- Audit Fee Billing and Collection System
- Civil Penalty Accounting Control System

Time and Attendance Systems (Various)

Maintenance Management Systems (Various)

- 10/01/05 - Implement all remaining FBMS modules (except budget formulation) in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 11/01/05 - Implement the budget formulation module in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 10/01/06 - Implement all FBMS modules in the Fish and Wildlife Service, the National Park Service, and the Office of the Secretary.
- 10/01/07 - Implement all FBMS modules in the U.S. Geological Survey, the Bureau of Reclamation, and the Bureau of Indian Affairs.

FY 2004 Accomplishments

- Awarded a contract to BearingPoint, Inc. as the FBMS solution provider.
- Developed a Departmental blueprint which will govern the operation and configuration of the FBMS modules.

FY 2005 Planned Activities

- Decide on the FBMS hosting solution.
- Accomplish the necessary activities to ensure a successful February 2005 implementation of the financial assistance module as described above.
- Accomplish the necessary activities to ensure successful 10/01/05 and 11/01/05 implementations as described above.

Critical Programmatic/Financial Management Systems

The Department has two critical categories of programmatic/financial management systems that process financial data. They are the Minerals Revenue Management System and the American Indian Trust Funds Systems.

Minerals Revenue Management System

Minerals Revenue Management (MRM) is responsible for ensuring that all mineral revenues from Federal and Indian lands are efficiently, effectively, and accurately collected, accounted for, verified, and disbursed to recipients in a timely manner. These revenues average more than \$8 billion annually. To ensure revenues are properly collected and disbursed, MMS utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid. MRM also administers a robust Royalty-In-Kind (RIK) program, which utilizes an asset management approach to ensure the optimal value of mineral resources.

FY 2004 Accomplishments

- Received an unqualified opinion on MRM's portion of the FY 2003 DOI financial statements.
- In response to CFO audit recommendations, improved accounts receivable management, enhanced security policies, and implemented system software

changes to obtain substantial compliance with applicable standards.

- Reduced royalty error rates to the lowest level in three years.
- Initiated a multi-year Records Management Improvement Project (RMIP) to ensure MRM's Indian Fiduciary trust records and other Federal records are managed in accordance with Federal and Departmental policies.
- Developed and published a strategic Five Year Business Plan for implementation of a permanent and expanded RIK program.
- Continued to implement the President's November 2001 directive to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Gulf of Mexico Federal RIK Oil. The current full deployment delivery rate is 105,000 barrels per day and the initiative is targeted for completion by the end of FY 2005.
- Published the final rule amending Federal Oil Valuation regulations on May 5, 2004. A final Federal gas rule is anticipated to be drafted in FY 2005.
- Published a final Accounting and Auditing Relief for Marginal Properties rule on September 13, 2004. This rule implements accounting and auditing relief for marginal properties, as authorized by the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996.

FY 2005 Planned Activities

- Implement the 5-year RIK Business Plan and conduct the action items within the plan, which are anticipated to include actions involving organizational realignments, human resources, marketing strategies, and cost accounting measurements.
- Complete SPR Fill Initiative by the end of calendar year 2005, depending on crude oil production levels in the Gulf of Mexico.
- Establish an ongoing continuous improvement cycle for compliance processes and systems.
- Publish a final Federal gas valuation rule.

- Publish a rule for proposed pre-payments of royalty relief to marginal properties.
- Publish a proposed rule on late-payment and over-payment interest.
- Administrative services that (1) enable and empower the organization and workforce to be an effective fiduciary trustee, and (2) provide modern, appropriate systems and tools to manage the fiduciary trust.

American Indian Trust Funds Systems

The American Indian Trust Fund Management Reform Act of 1994 identified some of the Secretary's core responsibilities for trust fund management and established the Office of Special Trustee for American Indians (OST). The Act identified actions required for the Secretary's proper discharge of trust responsibilities, including providing adequate systems for accounting for and reporting trust fund balances; providing adequate controls over receipts and disbursements; providing periodic, timely account reconciliations; determining accurate cash balances; and preparing periodic statements of account performance and balances. The Act also addressed the need for developing systems for accounting and investing funds, for reporting to account holders, and for maintaining accurate data on ownership and leasing of Indian lands.

In FY 2001, the Department commissioned an independent review which concluded that the previous reform results were not satisfactory. Accordingly, the Department developed a more comprehensive and integrated approach—the Comprehensive Trust Management Plan, dated March 28, 2003. It sets forth a strategic framework, including six strategic goals (and various objectives) for the Department to meet, to fulfill its obligations to its fiduciary trust beneficiaries:

- Beneficiary services that are trusted, accurate, and responsive;
- Tribal self-governance and self-determination that increase participation in managing assets;
- Ownership information that is accurate, timely, and reliable;
- Land and natural resources management that maximizes return while meeting beneficiary desires;
- Trust fund assets management that meets fiduciary standards; and

The Plan identifies primary business lines: beneficiary trust representation, trust financial management and stewardship, and management of land and natural resources. Strategic goals and specific related objectives fit within these business lines. The As-Is Study/Business Process Documentation provides details on how trust business processes are now being performed. The court-ordered Fiduciary Obligations Compliance Plan addresses how the Department intends to comply with certain fiduciary obligations owed to IIM account holders; the accounting systems must maintain accurate account balances and report information to beneficiaries. In addition, the Historical Accounting Plan for Individual Indian Money Accounts is being implemented.

FY 2004 Accomplishments

- Completed the development of the “To-Be Business Process” re-engineering effort to standardize and streamline trust business processes.
- Worked on a Trust Asset and Accounting Management System (TAAMS) Title and Trust Funds Accounting System (TFAS) enhancement to produce performance statements that identify the source of income and list assets owned by each account holder. Finalized the technical design to distribute income from real property assets to owners; testing continues.
- Installed ProTrac, the new probate case management system; when fully operational, it will enable the Department to track cases within BIA, OHTA, and OST throughout their lifecycle.
- Completed Certification and Accreditation of TAAMS and TFAS in accordance with OMB Circular A-130, Appendix III.

FY 2005 Planned Activities

- Continue implementation of the “To-Be-Business Process” business model which is referred to as the Fiduciary Trust Model (FTM). Acquire the best automated systems to support the FTM trust business processes and fulfill beneficiary needs and fiduciary requirements.
- Utilize the MRM function, which collects, accounts for, and distributes mineral revenues, to identify incorrect information so beneficiary accounts can be corrected.
- Based upon metrics gathered from the pilot Beneficiary Call Center, prepare a Statement of Work and advertise for a nationwide call center.
- Seek a commercial off-the-shelf Land and Resource Management System.

Improve the Information Technology (IT) Infrastructure Supporting Financial Systems

The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

Interior Information Architecture Program

When the Department looked for management strategies for improving services to citizens and its business partners, one solution that presented itself was similar to what private corporations have been looking at when faced with similar problems: Enterprise Architecture. Under Interior’s Enterprise Architecture (IEA) Program, modernization blueprints have been developed for key lines of businesses (e.g., Wildland Fire, Recreation, Law Enforcement, and Financial Management) that outline a road map for leveraging information technology to meet strategic and programmatic goals and objectives efficiently and effectively. These blueprints identify gaps in Interior’s existing IT portfolio that hamper the successful achievement of goals and objectives as well as minimizing system redundancy, and improving data sharing. The IEA has proven to be so successful that Interior was recently awarded the prestigious ‘Excellence in Enterprise Architecture’ award.

FY 2004 Accomplishments

- Developed a modernization blueprint methodology to provide structure and consistency in Interior’s architecture development. The methodology encompasses analyses of organizational structures, business functions, processes, data requirements, existing systems, and planned investments to achieve improved performance in accomplishing Interior’s strategic and tactical goals.
- Developed Modernization Blueprints for the Financial Management, Recreation, Wildland Fire, and Law Enforcement lines of business. Each blueprint provides a detailed plan for improving internal efficiencies and end services, minimizing security and privacy risks, and reducing Interior’s total cost of ownership through elimination of redundant systems and investments. Combined, the four modernization blueprints have identified approximately 100 redundant systems that DOI will retire within the next 1-3 years, resulting in millions of dollars in savings.
- Developed the Department Enterprise Architecture Repository (DEAR). DEAR aligns with the Office of Management and Budget’s Federal Enterprise Architecture for improved information sharing with other Federal agencies. The repository unifies all development efforts and artifacts under one taxonomy in a centralized source accessible to all Interior bureaus and offices. The repository is “mined” throughout Interior to identify cross-cutting solutions, reduce redundancies, and identify reusable and sharable service components that ultimately reduce Interior’s infrastructure costs.

FY 2005 Planned Activities

- Implement a Department-level Business Process Re-engineering Lab to provide a methodology, facilities, and professional services support for intensive business process modernization.
- Provide support for the implementation of recommendations within the 2004 Line of Business Modernization Blueprints.

- Leverage the IEA Blueprint Methodology to develop additional Modernization Blueprints that are prioritized by the Interior Investment Review Board (IRB).
- Provide support for the DEAR tool including training for other architecture programs, user training within DOI, user feedback management, and the coordination of enhancement requests implementation.
- A strategic focus on new employee recruitment,
- Retention of employees who have (or can develop) needed competencies,
- Career paths to develop employees at all levels of experience with “workforce of the future” skills, and
- Training and professional development opportunities for both the technical/analytical and the business/organization skills to enhance competencies and develop employees with flexibility.

Financial Management Human Capital

The Department of the Interior’s financial management community is facing a number of critical human capital issues. The decade of the 1990s brought significant legislation and organizational rightsizing to the Federal community. Both rightsizing and the legislative requirements of the CFO Act, GPRA, and GMRA increased the demands on financial management personnel. With the advent of the 21st century, there are additional issues. The next 5 years (2005-2010) bring the potential for a major loss of financial management leadership and expertise as the baby boomers reach retirement age. At the same time, Interior is engaged in a Department-wide effort to implement a fully integrated information management system, the Finance and Business Management System (FBMS).

It is imperative that Interior have adequate numbers of qualified financial management personnel and that these individuals have the competencies required to successfully support both the transition to and implementation of the FBMS, and to lead a world-class finance organization in the future.

In 2003, the Department implemented a Financial Management (FM) Transformation Plan. In the summer of 2003, the Department began to develop a financial management workforce plan to support this transformation effort and to identify the critical competencies needed for future, world-class financial management. The FM Workforce Plan was completed in the summer of 2004. Interior’s CFO Council approved the Plan’s major recommendations and is responsible for implementing these recommendations in support of the Department’s FM Transformation Plan. These recommendations include:

Increase the Availability and Diversity of Qualified Accounting, Financial Analysis, Financial Systems, and Other Financial Personnel

A critical component of the Financial Management Human Capital Program is enhancing the Department’s ability to meet its need for qualified accounting, financial systems, financial analysis, and other personnel to fill anticipated vacancies from projected retirements and other attrition factors. In 2002, the Department established the Financial Management Career Intern Program (FMCIP) to recruit and train entry-level professionals in accounting and financial analysis for the Department and the bureaus. Both the FM Transformation Plan and the FM Workforce Plan stress the need for strategic recruitment and retention, with particular emphasis on using programs such as career intern programs and making use of existing recruitment and retention authorities and incentives.

FY 2004 Accomplishments

- Recruited 12 new interns as part of the 2004 class of the FMCIP.
- Graduated the 2002 FMCIP Class. The 2002 class was the first graduating class of the Department’s new 2-year developmental program for accountants and financial analysts.
- Expanded efforts to recruit for the FMCIP at various multi-school career fairs on the east coast, in the Midwest, Southwest, and in Colorado.

FY 2005 Planned Activities

- Develop a strategy for consolidated recruitment and retention efforts for critical financial positions.
- Recruit for the fourth Financial Management Career Intern class.
- Identify and recommend use of long-term recruitment and retention incentives.

Sponsor Comprehensive Training and Career Development Programs in Financial Management

The other critical component of the Financial Management Human Capital Program is to provide appropriate training and professional development opportunities to financial management personnel so that they are adequately prepared to carry out their growing responsibilities. The FM Workforce Plan noted specific competencies Interior's workforce must develop to support the implementation of the FBMS and the successful transformation to a world-class finance organization. The plan emphasized the need for a simultaneous focus on competency training and development for both the current transition period and for the future.

The Department plans to expand training and career development opportunities to support the career paths identified in the new FM Careers Program. The Careers Program will be built on the JFMIP published core competencies and those critical competencies identified in the FM Workforce Plan. Some of the critical competencies identified are change management, project management, problem solving, analysis, consulting, coaching, knowledge sharing, and interpersonal skills.

FY 2004 Accomplishments

- Conducted an FM Transformation Summit with participants from Departmental offices, bureaus, and the two FMCIP intern classes.
- Sponsored courses in the following subject areas:
 - Appropriations Law
 - Standard General Ledger
 - Problem Solving
 - Formal Mentoring
 - Budget Formulation and Execution
 - Effective Briefing and Presentation Skills

- FASAB Standards
- Analysis
- CGFM series
- Leadership

- Visited Proctor & Gamble and conducted an extensive interview with the Director of Proctor and Gamble's Finance and Accounting Learning Program.

FY 2005 Planned Activities

- Plan and conduct another Department-wide conference for finance, budget, acquisition, performance, property, and grants management participants.
- Plan and conduct training in support of the new FM Careers Program, with particular emphasis on the critically needed competencies identified in the FM Workforce Plan. This includes the FM Career Intern Program.
- Promote participation in government-wide training and career development opportunities, including interagency team efforts.

Financial Data Stewardship

Financial data stewardship is the process of managing information needed to support program and financial managers, and ensuring that data captured and reported is accurate, accessible, timely, and usable for decision-making and activity monitoring. The objective of data stewardship policy is to synchronize data collection processes, reduce data redundancy, and increase data accessibility, availability, and flexibility in a systematic manner. Effective data stewardship requires that (1) definitions clearly describe requirements and characteristics of data to be maintained in financial management systems; (2) data be created, recorded, and reported in compliance with definitions; and (3) feedback be provided when data are inadequate to meet user needs for information. Additionally, data assurance must provide attestation to, or comments on, the integrity of the information in the system.

The Office of Financial Management (PFM) provides overall coordination of data stewardship functions for financial data in the Department. The data steward-

ship function involves two levels of activities: (1) participation in setting government-wide financial data standard; and (2) setting financial data standards in coordination with the bureau's finance operations.

PFM has dedicated one staff person to focus on data stewardship functions, participate in government-wide financial data standard setting activities, and coordinate with the Standard Accounting Classification Advisory Team (SACAT) on setting standards for financial data for use throughout the Department. The PFM data steward monitors the department-wide data definition process, monitors data creation and compliance processes, ensures data usage relies on information derived from data consistent with the intended definition, and ensures adjustments are made to data definitions when data are inadequate to meet user needs. In addition, the PFM data steward will participate in the development and implementation of the Financial Business Management System. This function also coordinates Departmental financial data definitions with the two key government-wide financial data standard setting groups—the Financial Management Service's Standard General Ledger (SGL) and the Office of Management and Budget.

To coordinate the establishment and implementation of financial data standards in the Department, the bureaus and PFM have chartered the SACAT, under the leadership of the Finance Officers' Partnership, to establish and maintain a common approach among the bureaus for addressing SGL issues that relate to accounting policy and procedures, reporting requirements, internal controls, and SGL maintenance. The PFM data steward is a member of the SACAT.

FY 2004 Accomplishments

- Participated in the Standard General Ledger Board and Issue Resolution Committee to ensure that the Department's position is fairly presented and defended.
- Continued to participate in the Intragovernmental Eliminations Taskforce (IGET) to develop strategies and procedures to be applied by all Departments to identify and prepare proper intra-departmental and intragovernmental elimination accounting entries for the government-wide consolidated financial statements.

- Participated in the SACAT to ensure that the bureaus' data structure is consistent with the government-wide data model.
- Reviewed SGL voting ballots with SACAT to determine if proposed changes would meet the Department's data needs and formed consensus on voting ballots.
- Participated in the FBMS blueprinting to ensure that the data structure is consistent with the government-wide data model.

FY 2005 Planned Activities

- Continue to analyze and enhance the reporting process to support performance reporting under the GPRA and the timely preparation of the Annual Performance and Accountability Report.
- Work closely with the Decision Support System/ Executive Information System (DSS/EIS) Team to ensure that pertinent information is delivered to executives for decision-making purposes.
- Coordinate, on a Department-wide basis, critical financial data definitions necessary for reporting to OMB, the Department of the Treasury, and for Department-wide decision-making and management. This effort will be implemented by SACAT.
- Work closely with the FMBS Steering Committee to monitor implementation progress; address and resolve accounting and reporting issues; and ensure appropriate internal controls are planned, implemented, and functioning as intended.

Analysis of Financial Statements

The Department received, for the eighth consecutive year, an unqualified audit opinion on its financial statements. These financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of KPMG LLP. It is the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

Figure 1-26 illustrates a condensed version of the Department's Consolidated Balance Sheet and Statement of Net Cost.

Overview of Financial Position

Assets

In FY 2004, the Department's assets totaled \$56,946 million. This is an increase of \$2,980 million over the prior year's assets totaling \$53,966 million. Intragovernmental Assets are primarily the Fund Balance with Treasury and Investments in U.S. Treasury Securities. Intragovernmental Assets and General Property, Plant, and Equipment comprise 96% of total assets. The largest increase to assets relates to increased oil prices and sales volume for royalty revenue that relates to accounts receivable with the public. *Figure 1-27* summarizes the Department's assets as of September 30, 2004.

The increase in Intragovernmental Assets is primarily due to an increase in the Fund Balance with Treasury from advances with Federal agencies for the Interior Franchise Fund (IFF) and the Working Capital Fund (WCF) and because revenues exceeded transfers out and expenses for the Conservation Funds. A portion of the Fund Balance with Treasury includes Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund) reported as "restricted" since these conservation funds are not presently available to Interior.

Investments are largely composed of U.S. Treasury Securities invested on behalf of the various Interior programs such as the Environmental Improvement and Restoration Fund, the Abandoned Mine Land Fund, and the Aquatic Resources Trust Fund and other funds.

FIGURE 1-26

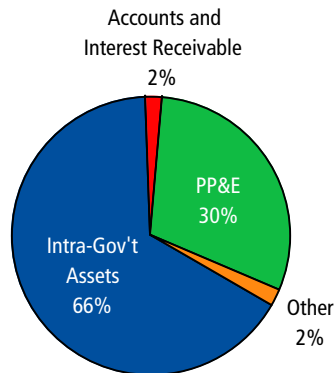
Condensed Balance Sheet
For the Fiscal Years Ended September 30, 2004 and 2003
(dollars in thousands)

	2004	2003	% Change
Assets			
Intragovernmental Assets	\$ 37,402,718	\$ 34,698,993	8%
General Property, Plant, and Equipment, Net	17,154,211	16,955,915	1%
Accounts and Interest Receivable, Net	1,347,641	1,226,984	10%
Other	1,041,708	1,084,511	-4%
Total Assets	<u>\$ 56,946,278</u>	<u>\$ 53,966,403</u>	<u>6%</u>
Liabilities			
Intragovernmental Liabilities	\$ 4,738,939	\$ 4,350,627	9%
Accounts Payable	1,024,845	965,509	6%
FECA	664,855	712,250	-7%
Contingent Liabilities	781,453	776,546	1%
Other	2,761,629	1,648,606	68%
Total Liabilities	<u>9,971,721</u>	<u>8,453,538</u>	<u>18%</u>
Net Position			
Unexpended Appropriations	4,080,359	3,929,302	4%
Cumulative Results of Operations	42,894,198	41,583,563	3%
Total Net Position	<u>46,974,557</u>	<u>45,512,865</u>	<u>3%</u>
Total Liabilities and Net Position	<u>\$ 56,946,278</u>	<u>\$ 53,966,403</u>	<u>6%</u>

Condensed Statement of Net Cost
For the Fiscal Years Ended September 30, 2004 and 2003
(dollars in thousands)

	2004		2003
Mission		Mission	
Resource Protection	\$ 2,435,401	Protect and Preserve the Environment	\$ 3,848,345
Resource Use	2,447,656	Provide Recreation	1,943,686
Recreation	1,901,519	Manage Natural Resources	2,773,058
Serving Communities	6,008,038	Provide Science	1,108,064
Non-Mission		Meet Our Trust Responsibilities	2,304,961
Reimbursable Activity and Other Costs	266,435	Non-Mission	
Net Cost of Operations	<u>\$ 13,059,049</u>	Reimbursable Activity and Other Costs	261,280
		Net Cost of Operations	<u>\$ 12,239,394</u>
Total Cost	\$ 17,793,034	Total Cost	\$ 16,101,375
Total Revenue	4,733,985	Total Revenue	3,861,981
Net Cost of Operations	<u>\$ 13,059,049</u>	Net Cost of Operations	<u>\$ 12,239,394</u>

FIGURE 1-27
FY 2004 Asset Categories



General Property, Plant, and Equipment are primarily composed of land, structures, and facilities that are used for general operations, power, wildlife enhancement, and recreation. Most of the Department's structures and facilities are composed of dams, power, and irrigation facilities managed by the Bureau of Reclamation. The remainder consists of buildings and facilities used in the Department's operations (e.g., visitor centers, fish hatcheries, and Bureau of Indian Affairs schools).

Stewardship Assets and Investments

Interior is the Federal government's largest land-managing agency, administering over 500 million acres of America's land mass and serving as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres managed by Interior are considered stewardship land (*Table 1-24*). The non-stewardship land managed by Interior consists primarily of Tribally and individually owned land held in trust status and non-federal land (i.e., private, state, or local) that are within the administrative boundaries of the National Park System and the National Wildlife Refuges.

Interior-administered stewardship lands encompass a wide range of activities including recreation, conservation, and functions vital to the health of the economy and to the American people. The stewardship assets managed by the Department remained constant with a slight net decrease due to a BOR land reconciliation effort.

Stewardship investments represent expenses charged to current operations that are expected to benefit the

TABLE 1-24

Stewardship Land (Federal Acres)				
	Beginning Acres	Additions	Withdrawals	Ending Acres
BLM	261,950,378	42,563	(144,821)	261,848,120
NPS	78,842,824	241,819	(61,970)	79,022,673
FWS	90,264,000	42,600	-	90,306,600
BOR	5,861,154	-	(136,156)	5,724,998
BIA *	205,205	465	(149)	205,521
Other	12,380	671	(320)	12,731
Total	437,135,941	328,118	(343,416)	437,120,643

* The BIA also administers approximately 56 million acres of Tribally and individually owned land held in trust status.

TABLE 1-25

Stewardship Investments (in millions)				
	FY 2004	FY 2003	Change	% Change
Non-Federal Physical Property	\$644	\$641	\$3	1.0%
Research and Development	981	952	29	3.0%
Human Capital	639	631	8	1.3%
Totals	\$2,264	\$2,224	\$40	2.0%

Nation over time. The Department's Stewardship Investments include research and development programs, investment in education, and the purchase or construction of assets for which State, local or tribal governments and insular areas retain title. Stewardship investments are summarized in *Table 1-25*. The decrease in the investments from FY 2003 to FY 2004 is due primarily to reduced available funding for stewardship investments.

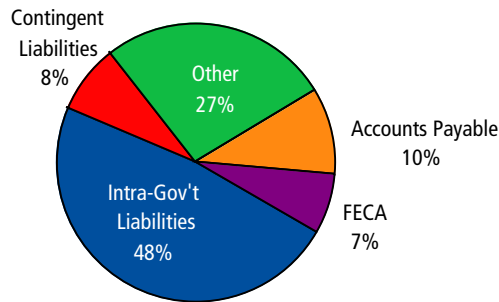
The Department's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Required Supplementary Stewardship Information section of the report.

Liabilities

In FY 2004, the Department's liabilities totaled \$9,972 million. This is an increase of \$1,518 million over the prior year's liabilities, which totaled \$8,454 million. Intragovernmental Liabilities is primarily debt to the U.S. Treasury and advances and deferred revenue.

FIGURE 1-28

FY 2004 Liability Categories



Intragovernmental Liabilities and accounts payable with the Public comprise 58% of the Department's total liabilities. The largest increase to liabilities relates to a change in accounting principle for the USPP Pension Plan. *Figure 1-28* summarizes the Department's liabilities as of September 30, 2004.

In FY 2004, the Interior was directed by the OMB to account for the liability of the USPP Pension Plan. This resulted in a change of accounting principle and the recognition of the USPP Pension Plan liability for future benefits. A liability was not previously recognized because the Department does not administer the pension plan. As a result of the change in accounting principle, the Department recorded an adjustment of \$649 million to establish the liability. This decreased Net Position by the same amount.

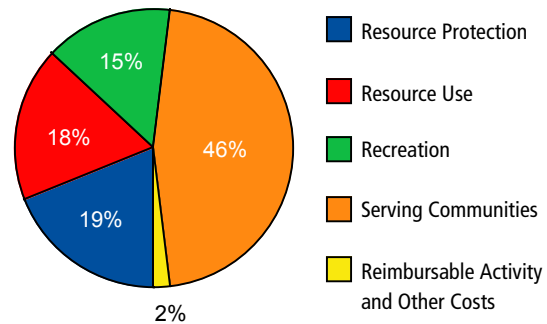
Federal agencies by law cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. The Department's unfunded liabilities consist primarily of environmental and legal contingent liabilities and unfunded employee compensation costs including FECA and annual leave. These liabilities will be paid from funds made available to the Department in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

Ending Net Position

The Department's Net Position at the end of FY 2004, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$46,974 million, an increase of about \$1,461 million or 3% from the previous year.

FIGURE 1-29

FY 2004 Net Cost of Operations



The Net Position of the Department consists of two components (1) Unexpended Appropriations of \$4,080 million and (2) Cumulative Results of Operations of \$42,894 million. The growth in Unexpended Appropriations is primarily due to the continued increase in budget authority received to achieve the mission goals of the Department.

Results of Operations

The Department's net cost of operations for FY 2004 was \$13,059 million. This is an increase of \$820 million from the previous year's net cost of \$12,239 million. Most costs incurred by the Department are directly related to providing services to the public. Costs associated with earning revenue from Federal agencies are approximately 14% of total expenses.

Interior updated its Strategic Plan in FY 2004 and replaced its previous five mission goals with the following four mission goals: Resource Protection, Resource Use, Recreation, and Serving Communities. Serving Communities represents 46% of the Department's net cost of operations (*Figure 1-29*).

Revenues

During FY 2004, Interior earned approximately \$2,208 million in revenues from the public and approximately \$2,526 million in revenue from other

Federal entities for a total of \$4,734 million. This is an increase of about \$872 million from September 30, 2003. The increase in revenue is due to an increase in intragovernmental revenue from the Interior Franchise Fund and the Working Capital Fund, as well as an increase in land sales. In FY 2003, approximately \$1,819 million was earned in revenues from the

public and approximately \$2,043 million was earned in revenue from other Federal entities for a total of \$3,862 million.

Interior classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park and wildlife refuge entrance fees, map sales, and other products and services that are directly related to Departmental operations. Revenues collected from other Federal agencies consist of reimbursable activities such as construction, engineering, and other technical services. A majority of the revenue received from Federal agencies is due to the IFF and the National Business Center providing shared administrative services and commonly required products to Federal agencies. The Department also collects mineral lease revenues on behalf of the Federal government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

The Department collects various non-exchange revenues. Examples of non-exchange revenues are taxes, fines and penalties which the Federal Government collects as a result of its sovereign powers rather than as a result of providing goods or service for a fee. Donations to the Department are also reported as non-exchange revenues. Non-exchange revenue increased from \$1,159 million in FY 2003 to \$1,202 million for FY 2004.

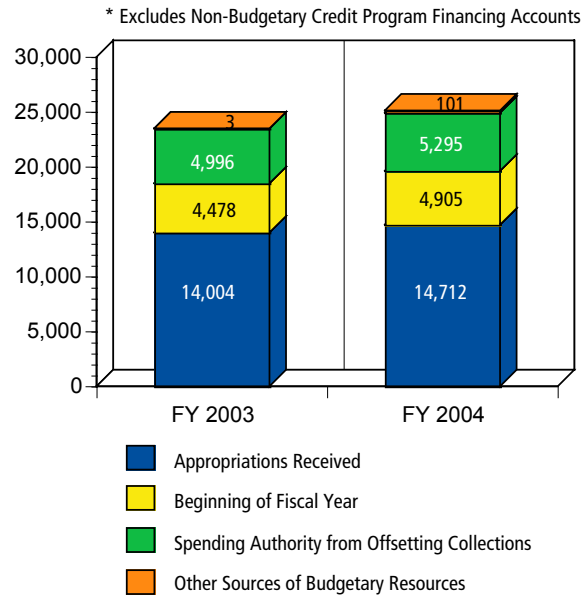
Revenues earned are either retained by the Department to further Interior's mission or returned to the General Fund of the Treasury. In either case, these revenues offset the taxpayer's investment in the Department. During FY 2004 and FY 2003, the Department returned to the General Fund of the Treasury, \$30 million and \$42 million, respectively.

Custodial Activity

In accordance with federal accounting standards, receipts from mineral leasing revenues are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal Government as a whole rather than the Department. Mineral leasing revenues were \$9,250 and \$8,247 million as of September 30, 2004 and 2003, respectively, and include Outer Continental Shelf and onshore oil, gas, and mineral sales and roy-

FIGURE 1-30

Budgetary Resources * (in millions)



alties. The large increase is due to large sales occurring near the end of FY 2004.

The Department collects a portion of revenue as royalties-in-kind for transfer to the Strategic Petroleum Reserve. Interior received approximately 38.4 and 38.2 million barrels of petroleum as in-kind mineral lease revenues for the periods ended September 30, 2004 and 2003.

Budgetary Resources

The Department receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (*Figure 1-30*). Other sources include special and trust funds such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Combined Statement of Budgetary Resources provides information on the budgetary resources that

were made available to the Department for the year and the status of those resources at the end of the fiscal year. Obligations of \$19,803 and \$18,570 million were incurred as of September 30, 2004 and 2003 on total budgetary resources of \$25,013 and \$23,475 million, respectively (*Figure 1-31*). The Combined Statement of Budgetary Resources is presented on a combined basis rather than a consolidated basis for consistency with budget execution information and to properly report obligations incurred by the entire Department.

Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of the Interior pursuant to the requirements of Chapter 31 of the U.S.C. section 3515(b).

While these statements have been prepared from the records of the Department in accordance with the formats prescribed in OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

FIGURE 1-31
Status of Budgetary Resources *
(in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts

