

# 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
  - Debt Collection Improvement Act
  - Biennial review of user fees

In addition, this section includes summaries of the Department's 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**

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," OMB 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 2005 Annual Assurance Statement is provided in *Figure 1-31*. The basis for the assurance statement conclusions is discussed in the following sections and is depicted in the chart in *Figure 1-32*.

#### Management Control Assessments

Interior conducted an annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's Annual Assurance Statement are based on the results of 166 management control reviews of programs and administrative functions conducted by bureaus and offices (68%), 38 OIG internal program audits (16%), 29 GAO program audits (12%), and the 10 financial statement audits (4%) conducted by the independent public accounting firm, KPMG LLP, under the auspices

FIGURE 1-31

### FISCAL YEAR 2005 ANNUAL ASSURANCE STATEMENT

*During FY 2005, 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 (FMFIA) and Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control." 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.*

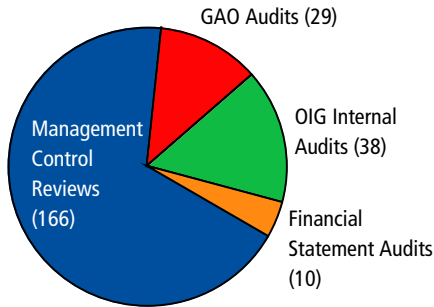
*The Department received an unqualified audit opinion from the independent audit of its FY 2005 financial statements. The audit did indicate that the Department achieved substantial compliance with the Federal Financial Management Improvement Act (FFMIA) component for Federal financial management systems requirements. However, the results of the audit indicated that several Department entities were not in substantial compliance with one or both of the other two components of the FFMIA based on OMB guidance and the component requirements of the FFMIA. As a result, the Department does not substantially comply with the FFMIA components for applicable Federal accounting standards and the U.S. Government Standard General Ledger. The Department has implemented a remediation plan to resolve the reported deficiencies and expects to complete corrective actions in FY 2006.*



**Secretary of the Interior**

FIGURE 1-32

Basis for FY 2005 Assurance Statement



of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. As in prior years, management control reviews performed by the Department and its bureaus provided the majority of the support (68%) for the Annual Assurance Statement. In addition, many of Interior's management control reviews and related accountability and integrity program activities focused on areas identified as major management challenges and on components of the President's Management

Agenda. Figure 1-33 presents a crosswalk of those activities.

Material Weaknesses and Accounting System Non-Conformances

Prior to FY 2005 and since the inception of the FMFIA in 1982, Interior identified and reported 173 material weaknesses and 65 accounting system non-conformances. Prior to FY 2005, Interior had corrected 169 of these material weaknesses (98%) and all of the accounting system non-conformances. During FY 2005, DOI had four material weaknesses pending correction carried forward from the previous year and one new material weakness was identified. One material weakness was corrected.

The Department's progress in correcting material weaknesses and accounting system non-conformances is presented in Tables 1-13 and 1-14. These tables present the number of new material weaknesses and accounting system non-conformances reported and corrected by fiscal year-end and the number pending at year-end. Table 1-15 presents the four mate-

FIGURE 1-33

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

Management Accountability and Integrity Program Activities in FY 2005 Related to Interior's Major Management Challenges and the President's Management Agenda	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	Budget and Performance Integration	Federal Real Property Asset 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 Managers' Financial Integrity Act Material Weaknesses														
- Corrected or Downgraded During FY 2005	✓				✓	✓					✓			
- Pending and Carried Forward to FY 2006	✓	✓	✓		✓		✓				✓			

TABLE 1-13

Number of Material Weaknesses Reported and Corrected or Downgraded			
Reporting Period	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	170	153	17
FY 2002	2	8	11
FY 2003	0	1	10
FY 2004	1	7	4
FY 2005	1	1	4
Total	174	170	4

rial weaknesses that were pending correction at the beginning of FY 2005, including those designated as “mission critical weaknesses,” the status (correction or downgrade) of these weaknesses, and the material weakness identified in FY 2005. Interior will carry only four bureau-level material weaknesses into FY 2006 to correct. *This is the first year the Department has no material weaknesses at the Departmental level.*

#### Government Performance Results Act (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 2005 was to complete 100% of the material weaknesses targeted for completion in FY 2005.

The Department was scheduled to correct one of the four FMFIA material weaknesses carried forward from FY 2004, BIA’s Indian Detention Facilities. Although correction of that weakness was not completed as planned, another pending FMFIA material weakness, Maintenance Management Capability, was substantially completed and downgraded a year early (*Table 1-15*). As a result, the Department was able to meet its performance goal in FY 2005 for correcting or downgrading material weaknesses.

#### Mission Critical Material Weaknesses

OMB Circular A-123, “Management Accountability and Control,” requires that each agency identify

TABLE 1-14

Number of Material Non-Conformances Reported and Corrected or Downgraded			
Reporting Period	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	65	64	1
FY 2002	0	0	1
FY 2003	0	0	1
FY 2004	0	1	0
FY 2005	0	0	0
Total	65	65	0

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 1-34*. 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.

#### Interior’s Implementation of OMB’s Revised Circular A-123 Appendix A

The Office of Management and Budget issued a revised Circular A-123, “Management’s Responsibility for Internal Control,” that strengthens internal control requirements over financial reporting in Federal agencies. The revised circular, which became effective October 1, 2005, provides updated internal control standards, as well as new requirements, for conducting management’s assessment of the effectiveness of internal controls over financial reporting. To implement the new financial reporting requirement and ensure compliance with the circular, the Department has performed the following tasks to date:

- Expanded the existing DOI Internal Control and Audit Follow-up Council to include the Department’s Chief Information Officer and Procurement Executive as encouraged by the circular, and established a Senior Assessment Team.
- Provided training on the requirements of the new Circular at a DOI-wide conference.

**TABLE 1-15**  
**Pending FMFIA Material Weaknesses as of September 30, 2005**

Bureau	Date First Reported	Description	Corrective Actions	FY 2005 Progress	FY 2004 PAR Target Date	Status
OST BIA OS/OHTA	FY 1991	<p>Indian Trust Assets: The OST's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls ensure that all collected trust funds are properly accounted for. The remaining items to correct this material weakness include: OHTA's historical accounting; and strengthening the existing system of controls to ensure that BIA ownership and distribution information is correct.</p>	<p>Departmental trust policies, procedures, systems and internal control will continue to be improved and training provided to achieve the goals of the Comprehensive Trust Management Plan.</p>	<p>Improvements and corrective actions to date have resulted in systems, processes, procedures and internal controls that ensure cash receipts are received, accounted for, and distributed in a timely and effective manner. Major improvement and corrective action milestones include: hired six Regional Trust Administrators and over 48 Fiduciary Trust Officers as primary points of contact for trust beneficiaries and to supervise field accountants; completed work on enhancements to produce performance statements that identify the source of income and list real property assets owned by each account holder; implemented financial lookboxes nationwide to receive trust-generated receipts and designed to enable distribution of funds within 24 hours of receipts at pilot agencies; implemented a toll-free Trust Beneficiary Call Center to answer trust-related beneficiary inquiries; and, the most recent audited financial statement opinion that did not include any material weaknesses that adversely affected the audit opinion.</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 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. However, in the absence of material evidence to the contrary, OST currently asserts that the beginning balances in the trust fund accounts are fairly portrayed.</p>	FY 2007	Delayed. A targeted correction date of FY 2008 has been assigned.

TABLE 1-15

Pending FMFIA Material Weaknesses as of September 30, 2005						
Bureau	Date First Reported	Description	Corrective Actions	FY 2005 Progress	FY 2004 PAR Target Date	Status
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, AND does not comply with Department management Directives.	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 NPS/BIA 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 transition.  BIA has hired an executive level manager to lead program; performed site surveys to determine equipment needs; purchased and consolidated radio equipment; and, established a secured system sharing agreement with the State of South Dakota.  NPS has reviewed and analyzed individual park radio conversion plans to ensure conformity with its narrowband conversion timelines identified in the Master Implementation Plan. NPS has also participated in DOI consolidated buys.	FY 2005	Delayed. A targeted correction date of FY 2010 has been assigned by BIA. A targeted correction of FY 2009 has been assigned by NPS.
USGS NPS FWS	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.	USGS - Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting.  NPS and FWS - conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to establish goals (5 percent or less of replacement cost).	Interior adopted MAXIMO as the core management enterprise software system to manage its facilities inventories, condition assessments, work management, and reporting requirements. Interior established the Facilities Condition Index as a standard performance measure for bureau management programs. This enables Interior to effectively determine at what pace its facilities condition is improving and how effectively the bureaus are using their maintenance funding. Interior has also developed a 5-year Deferred Maintenance Plan and Capital Improvement Plan based on condition assessment data compiled to date and other estimates. The phased comprehensive condition assessment is underway in all bureaus. Three of four bureaus have completed 100% implementation of the Facilities Maintenance Management System. This area of the weakness will be downgraded to the bureau level for USGS. The weakness will be downgraded to the bureau level for NPS and FWS for completion of their condition assessment.	FY 2006	Downgraded

**TABLE 1-15** Pending FMFIA Material Weaknesses as of September 30, 2005

Bureau	Date First Reported	Description	Corrective Actions	FY 2005 Progress	FY 2004 PAR Target Date	Status
BIA	FY 2004	Indian Detention Facilities: 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>BIA will immediately commence the implementation of corrective actions that will improve the security, safety, management, and operating efficiency of detention facilities. These actions include:</p> <ul style="list-style-type: none"> <li>• The Deputy Assistant Secretary for Law Enforcement will become actively engaged in overseeing the detention program;</li> <li>• The Department's Office of Law Enforcement will conduct frequent scheduled and unscheduled compliance inspections;</li> <li>• Clear "serious incident" reporting and follow-up protocols will be established and implemented;</li> <li>• Facility staffing models will be developed, and shortages related to officer safety should be immediately identified and corrected;</li> <li>• Recruiting standards and guidelines for detention officers will be developed and adhered to;</li> <li>• A system for identifying and prioritizing facilities repairs impacting inmate and officer safety will be implemented;</li> <li>• Internal controls and other improvements for budgeting, cost tracking and reporting purposes will be developed and implemented;</li> <li>• Strategic plans for jail replacement and renovation based on comprehensive condition assessments will be developed;</li> <li>• Training standards and models for detention offices will be developed and compliance/certification reviews will be conducted; and,</li> <li>• Regular regional meetings of detention administrators will be held to identify best practices and address and resolve emerging issues.</li> </ul>	BIA completed restructuring of the Office of Law Enforcement; issued the Indian Country Detention Strategic Planning summary; obtained funding to hire detention manager and additional staff; developed a policy prioritizing repairs to detention facilities; and developed training standards for detention officers.	FY 2005	Delayed. A targeted correction date of FY 2007 has been assigned by BIA.

TABLE 1-15

Pending FMFIA Material Weaknesses as of September 30, 2005						
Bureau	Date First Reported	Description	Corrective Actions	FY 2005 Progress	FY 2004 PAR Target Date	Status
BOR DO	FY 2005	Controls Over Implementing New Accounting Policies and Procedures: Interior had not fully developed accounting policies and procedures to change its processes for recognizing the transfer of funds between Federal entities and had not fully developed posting models by September 30, 2005.	During FY 2005, Interior had developed some accounting policies and procedures. Interior will further develop the policies and procedures and implement them once approved.	Interior applied significant resources and effort, including coordinating with the U.S. Treasury and OMB to implement OMB's guidance in a relatively short time period.	N/A	Ongoing



- Developed an implementation plan that identifies milestones, responsible organizations, and target completion dates; submitted plan to OMB in August 2005.
- Revised the Departmental Handbook on Internal Control and Audit Follow-up to reflect the revised Circular A-123's new financial reporting requirements.
- Defined a methodology and determined the materiality level for each of the Department's financial statements.
- Identified DOI's significant financial reports and business processes.
- Hired a contractor to assist the Senior Assessment Team in carrying out its responsibilities such as documenting and assessing significant financial reporting processes and related internal controls, and developing a detailed assessment plan. A draft detailed assessment plan was completed September 30, 2005.

We believe this new OMB financial reporting requirement will help instill a culture of accountability in our Departmental managers that will support efforts to strengthen program and accounting internal controls, as well as improving the quality and reliability of the DOI's financial information. Additionally, Interior's policymakers and program managers continuously seek ways to achieve our missions, meet program goals and measures, and enhance operational processes, and implement new technological developments.

## Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act builds upon and complements the CFO Act, the GPRA, and the GMRA. The FFMIA requires that Federal agencies substantially comply with applicable Federal accounting standards, the government-wide Standard General Ledger (SGL), and Federal financial management system requirements that support

FIGURE 1-34

**Material Weakness Guidelines**

The Department defines a mission critical material weakness as:

- 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.

The Department will remove a mission critical designation or report a material weakness corrected or downgraded when:

- 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.

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 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.

The FY 2005 bureau financial statement audit reports identified reportable conditions concerning applicable Federal accounting standards and the SGL at the transaction level. With the exception of those reportable conditions, based on corrective actions taken to improve internal controls, the Department determined that substantial compliance with Section 4 of the FMFIA and the Federal Financial Management Improvement Act was achieved. However, the financial statement auditors, KPMG, reported the Department did not substantially comply with Federal accounting standards and the SGL at the transaction level components of the FFMIA. Accordingly, the inclusion of the bureaus reported as noncompliant continues in *Table 1-22* to further improve our compliance with the requirements of FFMIA. The highlights of this effort in FY 2006 follow this section.

#### Highlights of FFMIA Improvement Plan

The extraordinary burden placed on Interior by the ongoing *Cobell vs. Norton* litigation to produce over 4 ½ million pages of documentation, testifying throughout a 59-day evidentiary hearing, and responding to the court, impacted a number of information technology (IT) security initiatives to include many of the previously planned improvements outlined below.

**Information Technology Security.** Under the leadership of the Office of the Chief Information Officer, the Department will continue the substantial progress achieved at both the Department and bureau levels during FY 2005. Updated and improved policy guidance reflecting current National Institute of Standards and Technology (NIST) standards and FISMA evaluation requirements will be completed and provided to bureaus and offices for implementation. Bureau compliance will be aggressively monitored. The Departmental Manual will be updated by the third quarter of FY 2006 with updates to the IT Security Handbook, Certification and Accreditation (C&A) standards, and Plan of Action and Milestones (POA&M) standards being completed early in the second quarter of FY 2006. The Department recognizes that additional improvements in these areas are needed to raise all aspects of the IT security program to targeted performance levels.

**Separation of Duties.** The Department will complete and issue updated policy guidance in this area by the

end of the first quarter in FY 2006. The Department will also continue to work with those bureaus with reportable conditions or other weaknesses in this area to review and restructure employee roles and responsibilities to achieve a higher degree of separation of duties in information technology system-related operations where it is cost-effective.

**Access Controls.** The Department has taken actions to mitigate the weakness in the National Business Center identified during the OIG's FY 2005 access control testing. Additional actions and tools will be considered to further secure any remaining network vulnerabilities or weaknesses and improve access controls.

**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. Policy guidance in this area will be updated and forwarded to the bureaus for implementation by the end of the third quarter in FY 2006.

**Service Continuity.** Although 94% of Interior systems have tested Contingency Plans, as noted in the FY 2005 FISMA evaluation, Interior will continue to aggressively monitor all systems to ensure that updated plans are in place and tested to minimize the risk of loss from unplanned interruptions, and to protect data should disruptions occur.

**IT Security Training.** Updated IT security training policy, incorporating requirements for role-based training for individuals with significant IT security roles and responsibilities, will be completed and distributed to the bureaus for implementation by the end of the second quarter of FY 2006. This policy will include current training requirements for both Interior employees and contractors. Compliance with training policy will continue to be aggressively monitored during FY 2006.

#### 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 ac-

countability 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 2005, Interior monitored a substantial amount of new Single Audit, OIG, and GAO audits, including 292 Single Audits, 26 OIG audits, and 19 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.

TABLE 1-16

FY 2005 GPRA Performance Goal for Implementation of OIG and GAO Audit Recommendations			
Bureau/Office	Number of Recommendations Meeting GPRA Goal Criteria	Number of Recommendations Implemented Within Planned One Year Target	Percentage Implemented
BIA	32	29	91%
NPS	49	34	69%
FWS	8	8	100%
BLM	36	36	100%
MMS	9	9	100%
OSM	4	4	100%
BOR	17	19	112%
USGS	9	9	100%
OS (Dept)	73	63	86%
PIA (Dept)	0	N/A	N/A
OST (Dept)	6	0	0%
<b>TOTAL</b>	<b>243</b>	<b>211</b>	<b>87%</b>

#### 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 has continuously raised the performance goal for timely implementation of audit recommendations for consecutive fiscal years. For FY 2005, the performance goal was 85%, which was higher than its FY 2004 goal of 80%.

Interior exceeded its GPRA performance goal with a composite implementation rate of 87% (*Table 1-16*). The primary reason for Interior's success in achieving the GPRA performance goal for the third consecutive year was the aggressive progress monitoring plan implemented at the direction of the Assistant Secretary – Policy, Management and Budget. Quarterly management control and monthly audit follow-up program and financial statement progress scorecards were prepared by each bureau and office to ensure audit recommendation implementation commitments were being met, and that immediate senior management attention was directed to slippage when

it occurred. Interior will employ the same aggressive progress monitoring plans in FY 2006 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 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. 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 1-17*, Interior closed 17 of 50 (34%) audits in tracking during FY 2005. There was a substantial decrease in the number of audits referred for tracking with disallowed costs (12 audits with \$3.1 million in disallowed costs). The \$3.9 million in disallowed costs recovered represented about 23% of total disallowed costs in tracking during the year. Of the 33 audits in tracking at the end of the year, 25 (76%) had management decision dates greater than 1 year old, with most attributable to BIA. As in previous years, the Department plans to continue its aggressive monitoring and follow-up activities during FY 2006 to close the number of audit reports with disallowed costs.

### Internal Audits

Internal audits are OIG-conducted audits of Interior's programs, organizations, and financial and administrative operations. During FY 2005, 59 audits were being tracked (42 audits carried over from FY 2004 and 17 new audits were referred for tracking during FY 2005), and 39 (66%) of those audits were closed. A total of 496 recommendations from OIG internal audit reports were in tracking during the year, of which 295 were completed or closed during FY 2005. For the 20 audits pending at the end of FY 2005, 201 recommendations await 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 in *Table 1-18*, 2 audits with \$38.2 million in FBU dollars were carried over from FY 2004 for tracking during FY 2005.

TABLE 1-17

FY 2005 Summary of Actions Taken on Contract, Grant, and Single Audits with Disallowed Costs				
		Number of Reports	Disallowed Costs	
(A) Opening balance as of October 1, 2004, restated		38	\$13,275,890	
(B) FY 2005 Audits		12	\$3,149,975	
(C) Amounts reinstated		-	\$425,577	
Total tracked during FY 2005		50	\$16,851,442	
(D) Final actions taken during FY 2005		(17)	(\$4,284,673)	
Collected	15*		(\$3,159,537)	
Written Off	1*		(\$873)	
Offset	1*		(\$698,686)	
Reinstated	0*		(\$425,577)	
Referred to Treasury for Collection Action	0	0		
(E) Ending balance as of September 30, 2005		33	\$12,566,769	
Mgmt Dec < 1 yr old	8		\$3,054,444	
Mgmt Dec > 1 yr old	25		\$9,512,325	
Mgmt decision under formal appeal	0	0		

Note - Data on opening balances for number of reports and disallowed costs as of October 1, 2004, was restated to present information only on reports with sustained costs.

\* During FY 2005, final actions taken for some of the 17 reports with disallowed costs were cross-cutting—instances occurred where amounts were collected, offset, reinstated, and/or waived for the same report.

TABLE 1-18

FY 2005 Summary of Actions Taken with Funds to be Put to Better Use (FBU)				
		Number of Reports	FBU Dollars	
(A) Reports on hand at beginning of report period		2	\$38,219,271	
(B) New reports received during report period		0	0	
Total reports in tracking		2	\$38,219,271	
(C) Reports closed during report period		0	0	
(D) Reports in progress at end of report period		2	\$38,219,271	
Mgmt Dec < 1 yr old	0	0		
Mgmt Dec > 1 yr old	2		\$38,219,271	
Mgmt Dec under formal appeal	0	0		

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

### GAO 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 29 GAO reports with 86 recommendations were carried over from FY 2004. During FY 2005, GAO issued a total of 19 new reports with 27 recommendations. The Department was successful in closing 26 of the 48 (54%) reports in tracking during FY 2005, along with 44 of the reports' 113 (39%) recommendations (*Table 1-19*).

### Audited Financial Statement Results

As required by the GMRA, Interior prepares consolidated financial statements. Beginning in FY 2001, these financial statements have been audited by KPMG LLP, an independent public accounting 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 2005 and FY 2004 financial statement audit process are summarized in *Table 1-20*. As shown in the table, Interior again achieved unqualified audit opinions for each bureau and the Department's consolidated financial statements.

In only a few instances, exceptions on internal controls or accounting standards were noted as material weaknesses or reportable conditions, or instances where noncompliance with laws and regulations other than compliance with FFMA occurred.

#### Resolution of Internal Control Weaknesses and Noncompliance Issues Reported in FY 2004 Audited Financial Statements

*Tables 1-21 and 1-22* summarize the status of material weaknesses and noncompliance issues reported in the FY 2004 audited financial statements. The Department has established an internal goal of completing corrective actions for material weaknesses and noncompliance issues by the end of the following fiscal year, unless the magnitude of the corrective action plans involves a multiyear effort.

While the Department made progress in correcting material weaknesses reported in the FY 2004 audits, delays in completing corrective actions in some bureaus and several multiyear corrective action plans precluded the achievement of the internal goal in FY 2005. In summary, 9 of the 15 (60%) total material weaknesses reported in FY 2004 financial statements were corrected or downgraded to reportable conditions during FY 2005. The increase in the correction percentage over the prior year was directly attributable to the Department's aggressive approach to substantially correct material weaknesses.

The Department made progress in correcting noncompliance issues reported in the FY 2004 audits. In summary, 5 of the 19 (26%) (based on completed issues to date and current correction dates) noncompliance issues reported in FY 2004 financial statements were corrected or downgraded during FY 2005. The Department has taken steps to continue its aggressive monitoring of remedial actions during FY 2006 in order to substantially correct all of the material weaknesses and noncompliance issues reported in FY 2005 by June 30, 2006.

*Tables 1-23 and 1-24* present summaries of each of the material weaknesses and noncompliance issues reported in the Department's consolidated and the bureaus' FY 2005 financial statement audit opinions. A total of 12 material weaknesses were reported, with 6 being carried over from FY 2004. Only one Departmental weakness was carried over. A total of 16 noncompliance issues were reported, with 14 carried over from FY 2004. Three Department-level weakness noncompliance issues were carried over.

### Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress on what they consider to be the major management challenges facing the Department. *Table 1-25* presents a summary of the major management challenges identified by the OIG and GAO and actions taken to address these challenges to date.

TABLE 1-19

Summary of Actions Taken in FY 2005 on Reports Issued by the GAO					
				Number of Recommendations	Number of Reports
In tracking as of October 1, 2004				86	29
Issued during FY 2005				27	19
Subtotal				113	48
Closed during FY 2005				(44)	(26)
In tracking as of September 30, 2005				69	22
Code	Status of final reports in tracking	No. of Recommendations	No. of Reports		
D1	Mgmt decisions < 1 yr old	8	4		
D2	Mgmt decisions > 1 yr old	61	18		
D3	Mgmt decisions under formal appeal	0	0		

Note - Data on GAO at the beginning of FY 2005 was restated to exclude data on 10 recommendations and four reports actually closed during FY 2004.

TABLE 1-20

Summary of FY 2005 and FY 2004 Financial Statement Audits											
	Unqualified Opinion on Financial Statements		Material Weakness in Report on Internal Controls		Substantial Compliance with Laws and Regulations (Non-FFMIA)		Substantial Compliance with Laws and Regulations (FFMIA)		Substantial Component Compliance with Laws and Regulations (FFMIA) Systems, Accounting, and SGL		
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005 Systems	FY 2005 Accounting	FY 2005 SGL
Dept	Yes	Yes	Yes	Yes	No (1,2,3,4)	No (1,2,3)	No	No	Yes	No	No
FWS	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes
USGS	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes
BIA	Yes	Yes	Yes	Yes	No (1,3,4)	No (1,3)	No	No	Yes	No	No
BLM	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes
MMS	Yes	Yes	No	Yes	No (1)	No (1,2)	Yes	No	Yes	Yes	Yes
NPS	Yes	Yes	No	No	Yes	No (3)	No	No	Yes	No	Yes
BOR	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	Yes
OSM	Yes (a)	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DO	Yes	Yes	Yes	Yes	No (3)	No (2,3)	No	No	Yes	No	Yes

(a) Balance sheet audit only.  
(1) Debt Collection Improvement Act

(2) Prompt Payment Act  
(3) Single Audit Act

(4) OMB Circular A-25

TABLE 1-21

FY 2004 Audited Financial Statements Status of Material Weakness Corrective Actions (as of September 30, 2005)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
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.	9/30/05	Downgraded
DEPT	Process for Year-End Closing	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	Corrected
DEPT	Controls Over Trust Funds	Implement and revise controls and procedures to ensure 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	Delayed
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	Downgraded
BLM	Accounting for Mineral Leases	Implement procedures to ensure mineral lease 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	Downgraded
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	Corrected
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	Delayed
DO	Budgetary Transactions	Improve controls to ensure that budgetary transactions are promptly recorded, properly classified and accounted in order to prepare timely and reliable financial reports.	9/30/05	Downgraded
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	Downgraded
MMS	Controls Over 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.	6/30/05	Corrected

TABLE 1-21

FY 2004 Audited Financial Statements Status of Material Weakness Corrective Actions (as of September 30, 2005)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, probate backlogs, and appraisal compacts.	9/30/05	Delayed
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	Corrected
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	Delayed
OST	Reliance on Processing of Trust Transactions at BIA	Work collaboratively with BIA to correct weaknesses in the following areas so that OST may fulfill its fiduciary responsibility to the trust fund beneficiaries: trust fund systems, segregation of duties, accounts receivable, probate backlog, untimely deposits, supervised and restricted accounts, and appraisal compacts.	9/30/05	Delayed
OST	Resolution of Financial Reporting Issues from Prior Years	Continue to work to resolve matters in the following areas as soon as practical: Investments - Lack of Reliable Balance Available for Investing (Individual Indian Monies - IIM), Trust Fund Balances (Tribal and IIM), Cash (Tribal), Special Deposit Accounts - Inconsistent Practices (IIM), and Trust Fund Balances (IIM).	9/30/05	Delayed



TABLE 1-22

FY 2004 Audited Financial Statements Noncompliance with Laws and Regulations (as of September 30, 2005)				
Bureau	Noncompliance Description	Corrective Action	Target Date	Status
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	Delayed
DEPT	Federal Financial Management Improvement Act	Improve controls to comply with Federal financial management system requirements, accounting standards, and the SGL at the transaction level.	12/31/05	Delayed
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	Delayed
DEPT	Prompt Payment Act of 1982	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving report are correctly transferred to the payment voucher and correctly entered into the FFS.	9/30/05	Corrected
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	Delayed
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.	9/30/05	Delayed
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	Delayed
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	Delayed
BOR	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	Delayed
DO	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	Delayed
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	Delayed
DO	Prompt Payment Act of 1982	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.	9/30/05	Corrected
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	Delayed
MMS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	6/30/05	Corrected
MMS	Prompt Payment Act of 1982	Ensure payment data from voucher into FFS in order to properly calculate and pay prompt pay interest due.	6/30/05	Corrected
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.	6/30/05	Delayed
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	Delayed
NPS	Single Audit Act Amendments	Develop controls to ensure grantees complete, report on, and implement timely corrective actions for single audits.	9/30/05	Delayed
USGS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	9/30/05	Corrected

TABLE 1-23

FY 2005 Audited Financial Statements Material Weakness Corrective Action Plan (as of September 30, 2005)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	New Weakness or Carryover from FY 2004
DEPT	Controls Over Trust Funds	Implement and revise controls and procedures to ensure 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 Implementing New Accounting Policies and Procedures	Improve policies and procedures related to recording assets and liabilities in accordance with OMB guidance.	9/30/06	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
DO	Controls Over Obligations	Improve controls to ensure that budgetary transactions are promptly recorded, properly classified and accounted in order to prepare timely and reliable financial reports.	9/30/06	New
DO	Controls Over Leases	Implement procedures to ensure transactions are accurately recorded.	9/30/06	New
DO	Controls Over Implementing New Accounting Policies and Procedures	Improve policies and procedures related to recording assets and liabilities in accordance with OMB guidance.	9/30/06	New
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, probate backlogs, and appraisal compacts.	9/30/05	Carryover
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
BIA	Controls Over Revenue	Implement and revise controls and procedures over the revenue process to ensure that transactions are promptly recorded for timely and reliable financial reporting.	9/30/06	New
BOR	Controls Over Implementing New Accounting Policies and Procedures	Improve policies and procedures related to recording assets and liabilities in accordance with OMB guidance.	9/30/06	New
OST	Reliance on Processing of Trust Transactions at BIA	Work collaboratively with BIA to correct weaknesses in the following areas so that OST may fulfill its fiduciary responsibility to the trust fund beneficiaries: trust fund systems, segregation of duties, accounts receivable, probate backlog, untimely deposits, supervised and restricted accounts, and appraisal compacts.	9/30/05	Carryover
OST	Resolution of Financial Reporting Issues from Prior Years	Continue to work to resolve matters in the following areas as soon as practical: Investments - Lack of Reliable Balance Available for Investing (Individual Indian Monies - IIM), Trust Fund Balances (Tribal and IIM), Cash (Tribal), Special Deposit Accounts - Inconsistent Practices (IIM), and Trust Fund Balances (IIM).	9/30/05	Carryover

TABLE 1-24

FY 2005 Audited Financial Statements Noncompliance with Laws and Regulations				
Bureau	Noncompliance Description	Corrective Action	Target Date	New or Carryover from FY 2004
DEPT	Federal Financial Management Improvement Act	Improve controls to comply with Federal accounting standards and the SGL at the transaction level.	12/31/05	Carryover
DEPT	Debt Collection Improvement Act	Establish a process to ensure bureau receivables are referred to the U.S. Department of the Treasury in a timely manner.	9/30/05	Carryover
DEPT	Single Audit Act	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
DEPT	OMB Circular No. A-25, "User Charges"	Implement policies and procedures to ensure compliance with the requirements of OMB Circular No. A-25.	9/30/06	New
BIA	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards and the SGL at the transaction level.	9/30/05	Carryover
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.	9/30/05	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
BIA	OMB Circular No. A-25, "User Charges"	Implement policies and procedures to comply with OMB Circular No. A-25 and properly charge Federal entities for reimbursable administration costs.	9/30/06	New
BLM	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	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
DO	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/05	Carryover
DO (OIA)	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
FWS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/05	Carryover
MMS	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.	9/30/05	Carryover
NPS	Single Audit Act	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	Improve controls to comply with the Federal accounting standards and the SGL at the transaction level.	9/30/05	Carryover

TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
Financial Management	Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational effectiveness. Although DOI has made some progress, internal control weaknesses continue to hinder the Department's financial management systems.	Carryover	<p>DOI has a diverse and decentralized operating environment that is very challenging. In addressing the internal control issues associated with this environment, the Secretary provides strong support and active leadership that embodies sound financial management. As a result of her efforts to actively engage executives throughout the organization, DOI has made significant progress in improving internal controls in FY 2005, as evidenced by the reduction in Departmental-level audited financial statement material weaknesses from 4 to 1, correction of 3 of 4 noncompliance issues, and the elimination of Departmental-level FMFIA weaknesses. Internal control systems include the underlying information technology systems as well as manual processes and procedures, all of which are subjected to rigorous control reviews and reporting. DOI will continue its aggressive management control and audit follow-up program, and align it with Revised OMB Circular A-123. In addition, DOI is implementing an integrated enterprise system for finance and business management, which will further enhance the control environment.</p> <p>DOI began implementing the Financial and Business Management System (FBMS), the enterprise system, in FY 2005 and completed the first phase of the project in April 2005 with the launch of the financial assistance module for grant and cooperative agreement programs at MMS, OSM and selected programs at FWS. DOI selected the National Business Center (NBC) to host FBMS, established the training and production infrastructure and completed system Certification and Accreditation for the financial assistance deployment. DOI also updated the FBMS requirements, began configuration of the FBMS core systems and key departmental interfaces and completed initial testing of the core system configurations. On September 29, 2005, DOI severed its relationship with the system integration contractor. The vision and goals of the project remain the same. Although DOI is currently revising the implementation timelines and related schedules for the project, the vision and goals of the project remain the same.</p>	Ongoing
Information Technology	Since the enactment of FISMA in 2002, the DOI IT Security Program has seen increased management awareness, involvement, focus, and funding. However, after a thorough evaluation to assess compliance with FISMA, the OIG determined that there was a need for continued improvement in the DOI IT security program and compliance with FISMA's requirements.	Carryover	<p>Interior made significant progress in improving its overall security posture in FY 2005, in spite of the extraordinary burden placed on Interior by the ongoing Cobell vs. Norton litigation. In the Cobell case, Interior produced over 4 ½ million pages of documentation, and testified throughout a 59 day evidentiary hearing. The significant demands placed on Interior to respond to the court impacted a number of IT security initiatives.</p> <p>In spite of these challenges, the following progress demonstrates Interior's commitment and attention towards continuous improvement of Interior's IT security program by:</p> <ul style="list-style-type: none"> <li>• Completing management control reviews (MCRs) for IT systems and IT security programs: Bureaus and offices completed MCRs for 163 of 166 major applications and general support systems.</li> <li>• Implementing the DOI-wide Enterprise Services Network (ESN) that provides a more secure computing and networking environment by providing multiple layers of firewalls, intrusion detection and prevention systems, and "24x7" security monitoring for connected bureaus' connection to the Internet, consolidating 13 networks into a single Departmental network, and performing proactive vulnerability discovery and management on a continuous basis.</li> <li>• Enhancing the DOI Vulnerability Scanning Program by testing of over 5,000 Internet-accessible systems and network devices against 7,400 types of known vulnerabilities, including the SANS Top 20 list of vulnerabilities.</li> <li>• Performing internal and external penetration testing of networks and major applications.</li> </ul>	Ongoing

TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
			<ul style="list-style-type: none"> <li>• Implementing Active Directory and the use of group policy for consistent implementation and enforcement of Microsoft- based security configurations.</li> <li>• Significantly improving content and usability of the DOI end-user IT security training and awareness program and achieving over a 98% completion rate of all employees and contractors requiring annual awareness training.</li> <li>• Entered into an agreement with USALearning.gov to deliver standardized curriculum for Role-based training to individuals with significant IT security roles and responsibilities and achieving over a 66% completion rate.</li> <li>• Improving the Plan of Action and Milestones process implementing changes recommended by the OIG.</li> <li>• Completing independent third-party reviews of C&amp;A packages to continuously improve them.</li> <li>• Completing its E-Authentication risk assessments.</li> <li>• Received the highest rating from OMB among 25 EA programs reviewed for DOI's EA that incorporates a security standards profile, and aligned to the Technical Reference Model.</li> <li>• Completed an independent IT security program assessment to evaluate Interior's level of compliance against Federal laws, regulations, policies, standards and guidelines ranging from the Federal Information Security Management Act (FISMA), to OMB, to NIST, among others. Interior achieved a 3.6 maturity level out of 5 from this assessment.</li> <li>• Initiated plans to update IT security policies, C&amp;A standards, and further enhance the POA&amp;M process standards to remain current with new emerging and constantly evolving security standards frequently being issued by NIST.</li> <li>• Implementing a significant number of corrective actions based on weaknesses identified by IG audits, penetration test, and monthly internal/external vulnerability scans further reducing risks to Interior's IT security programs and systems.</li> </ul> <p>IT security has been, and will continue to be, one of Interior's highest priorities, as evidenced by the major improvements made throughout the DOI during FY 2005. This progress builds on accomplishments of the past. The percentage of IT systems certified and accredited increased from 83% for FY 2004 to over 98% in FY 2005. With better accountability and standardization, DOI, and ultimately the taxpayers, avoided \$17 million in C&amp;A costs. Interior continues to benefit from the OIG's efforts to continuously raise the bar for evaluating the IT security program, based on DOI's increasing maturity, by identifying opportunities to further strengthen and enhance its overall security posture.</p> <p>The OCIO enlisted the support of, and provided \$1.1 million in funding to, the OIG to perform penetrations tests to augment the Department's compliance and continuous monitoring efforts. The enhanced monitoring program provided critical information needed to prioritize further improvements to Interior's operational security posture.</p> <p>Although Interior recognizes that the C&amp;A process is not perfect, particularly in light of the many new or revised standards published by the National Institute of Standards and Technology (NIST) within the past year, some of which are still in draft, Interior recognizes that adequate security involves managing risks by striking a balance between implementing security controls commensurate with the sensitivity of IT systems and associated information and the operational necessity for those systems that enable effective and efficient delivery of services supporting Interior's mission.</p>	

TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
Health, Safety, and Emergency Management	Annually, DOI has over 275 million visits to national parks, 69 million visits to recreational sites provided by BLM, and 39 million visits to 545 national wildlife refuges. In addition, there are 90 million visitor days of use at 308 BOR recreation sites. 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. DOI continues to be slow to change its mission and priorities to reflect its new security responsibilities and commitment. Specifically, enhancements are needed in DOI's radio communications, DOI's hazardous material program, and security surrounding national icons and BOR dams.	Carryover	<p>In summary, DOI actions on areas of concerns and actions have been focused on the following areas:</p> <ul style="list-style-type: none"> <li>• Radio Communications. In FY 2005, the Department was granted waivers from NTIA to continue wide-band operation in support of mission-critical operations such as fire, law enforcement and emergency services. The Department initiated development of plans to maximize radio system sharing and minimize supporting infrastructure requirements; and initiated an enterprise contracting option to maximize the use of wireless commercial services. BIA completed an assessment of 155 radio communication sites, to be used to guide future investments and corrective actions. BLM reduced the number of unsafe radio towers from 57 in FY 2003 to 17 at the end of FY 2005, which are scheduled for repair or replacement in FY 2006 and FY 2007. NPS made significant investments in upgrading radio facilities in FY 2005.</li> <li>• NPS's Structural Fire Program. A comprehensive structural fire program has been substantially implemented.</li> <li>• NPS's Hazardous Material Program. A comprehensive corrective action plan on the safety of the public, employees, concessionaires, and park resources was completed that ensures compliance with applicable laws, regulations, Executive Orders, and policies.</li> <li>• Security Surrounding National Icons. DOI has taken actions to put in place a security professional and improve security at national icons.</li> <li>• DOI Law Enforcement. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. A Department-wide policy to provide guidance on internal affairs was also issued.</li> </ul>	Ongoing
Maintenance of Facilities	<p>DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, telecommunication facilities, roads, bridges, dams, irrigation systems, and reservoirs. These assets include some deteriorating facilities that lack adequate funding for repair and maintenance.</p> <p>In FY 2004, this effort was still a challenge for the Department. For example, in the FY 2004 Annual Report on Performance and Accountability, the Department reported that exact estimates of deferred maintenance are difficult to determine due to the variety of assets entrusted to the Department. The FY 2004 estimates for DOI's deferred maintenance were between \$8.9 billion and \$15.3 billion. The lack of concrete data makes it difficult to ascertain if the deferred maintenance backlog has even been reduced. The Department also stated that bureau estimates of deferred maintenance were based on data from a variety of systems, procedures, and data sources; therefore the reliability of these sources as a basis for deferred maintenance estimates is variable.</p>	Carryover	<p>DOI has taken aggressive action to develop a life cycle management approach to its facilities. In FY 2005, the first Department-wide Asset Management Plan was developed to address facilities and other assets. In addition, DOI revised its performance measures and is in the process of updating and revising its inventory data.</p> <p>At the end of FY 2005, 75% of the DOI inventory (all buildings and most structures) have 'Comprehensive Condition Assessments'. This is a 5-year cycle that will eventually look at all constructed assets with a Current Replacement Value (CRV) of over \$50,000. All constructed assets with a CRV of \$5,000 and above receive an 'Annual Condition Assessment'. As an outgrowth of Executive Order 13327, the Federal Real Property Profile (FRPP) data elements have been changed. One of the data elements to be reported is 'Condition Index' (CI) for each constructed asset reported in the FRPP. For each asset this is the ratio of deferred maintenance of the asset divided by the CRV of the asset. Through FY 2005, the bureaus have been calculating CIs. It is estimated that 25% of constructed assets in the FRPP have a CI value by the end of FY 2005.</p> <p>By the end of FY 2006, all bureaus will have completed their first round of "Comprehensive Condition Assessments" on all buildings and most structures. During the second round, all buildings will be reviewed again as well as all structures. Complete CI data for all constructed assets will be in the data base for the issuance of the FY 2006 report.</p> <p>BIA completed an assessment of 155 radio communication sites. Specific problems, overall condition, and recommendations for improvements of these sites were included in the assessment. BIA's facilities capital investment plan will use this assessment as a guide to direct investments to correct the serious issues identified. The Department negotiated an agreement with the State of South Dakota to provide Interior's access to State radio systems, allowing BIA to abandon 21 unsafe radio facilities. Although BLM has not yet completed correctives actions for identified safety issues identified in FY 2001 – FY 2003 radio facility site assessments, BLM reduced the number of unsafe radio towers from 57 in FY 2003 to 17 by the end of FY 2005. BLM has scheduled the remaining unsafe towers to be replaced during FY 2006 and FY 2007. During FY 2006, the Department will review an OIG report regarding health and safety issues related to telecommunication infrastructure.</p>	Ongoing

TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
			<p>As a part of the FBMS implementation, the Department will standardize its software, asset data, and business practices. Currently, there are more than 25 instances of MAXIMO being operated as the Facility Maintenance Management System (FMMS). In addition, BIA Education continues to use their own version of FMMS. With the FBMS implementation, the Department will have a much more reliable source of information relating to its assets and their condition.</p> <p>Although considerable action has been taken on maintenance of facilities, these additional actions will provide management with additional tools to prioritize and address deferred maintenance and asset management.</p>	
Responsibilities 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. Over the years, GAO and OIG have reported on DOI's poor management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls, as well as other weaknesses, prevent DOI from ensuring that trust and program funds are properly managed. The single audit is the mechanism to ensure financial compliance with funding agreements; however, during FY 2005, 86 tribes were delinquent in submitting their audit reports.</p> <p>We continue to be concerned about Indian schools that remain in poor condition (70 out of 184 schools), but those numbers have been steadily declining as replacement schools are built and other schools are renovated.</p> <p>DOI also 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>Interior has improved its collection of Indian trust funds and has placed a high priority on further improvements. In the historical accounting for Individual Indian Monies (IIM), the work done as of today represents over 55% of individual account balances and has not identified any significant differences or errors in accounts. Based on the results of this work and other activities, Interior is in a position to draw conclusions with a high degree of confidence about the overall accuracy of the transactions in the Land-Based IIM accounts covering the 1985-2000 period. Additionally, current BIA program funds have been subjected to financial audits and have received clean audit opinions for the last 5 years. Based on these results and other control reviews conducted, noted improvements have been achieved in developing, implementing and improving Departmental trust policies, procedures, systems, and internal controls and achieving the goals of the Comprehensive Trust Management Plan.</p> <p>Records Management. An updated work plan with strategies, tasks, time lines and resource requirements was developed by the Office of Trust Records. Significant progress has been achieved in implementing the work plan and many of the previously identified deficiencies have been resolved. The completion of the work plan will result in an active and comprehensive records management program for BIA and OST.</p> <p>Single Audits. BIA has made tremendous improvements in responding to single audit report findings. The bureau had 85 responses delinquent at the end of the fiscal year which is a 47% decrease from the prior year. BIA has issued warning and sanction letters to entities that have not filed single audits timely. BIA also has provided audit resolution training and revised its Indian Affairs Manual to provide policies and procedures to be followed for resolution and closure of single audit reports.</p> <p>Education. A strong focus was placed on school management and monitoring to ensure student proficiency improvements and that BIA schools were making "Adequate Yearly Progress" in accordance with "No Child Left Behind" legislation. A comprehensive strategic operating plan and major improvement plan was developed and submitted to the U.S. Department of Education for review. The immediate benefit of the plan is streamlining the functions to address P.L. 100-2097 grant control and the chain of command throughout the program will be evident.</p> <p>Indian Country Detention Facilities. The U.S. Department of Justice has partially funded the construction of nine new detention centers in Indian Country. Justice is also funding another 14 facilities that are in various stages of planning and construction. BIA will provide funds for staffing and operation.</p> <p>Interior is assisting the island communities in developing more efficient and effective government by providing financial and technical assistance and helping manage Federal-island relations by promoting appropriate Federal policies.</p>	Ongoing

TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
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 protects thousands of wetlands, aquatic parcels and native plant and animal species, including more than 1,260 with special status under the Endangered Species Act.</p> <p>DOI has made progress in addressing the Nation's wildland fire threats by increasing funding committed to addressing wildland fire problems, improving data and research on wildland fire problems and developing fire management plans that identify actions for addressing wildland fire threats at the local level. However, a recent GAO report, Wildland Fire Management, Timely Identification of Long-Term Options and Funding Needs is Critical, (GAO-05-923T, July 14, 2005) states that despite producing numerous planning and strategy documents, DOI, in conjunction with the Forest Service, has "yet to develop a cohesive strategy that explicitly identifies the long-term options and related funding needed to reduce the excess vegetation that fuels fires in national forests and rangelands."</p> <p>In addition, DOI has improved its planning for the South Florida ecosystem restoration by refining the strategic plan and developing a land acquisition plan. However, DOI, through its South Florida Ecosystem Restoration Task Force, has not yet completed action to develop a conflict resolution process and a science plan.</p>	Carryover	<p>DOI has made progress in addressing the Nation's wildland fire threats by increasing funding committed to addressing wildland fire problems, improving data and research on wildland fire problems and developing fire management plans that identify actions for addressing wildland fire threats at the local level.</p> <p>Interior and the Forest Service are developing the LANDFIRE vegetative imaging and mapping technology which provides geospatial data on fuel loadings, vegetation type and structure and other variables at a 30 meter resolution. This, along with the National Wildland Fire Management Policy, the National Fire Plan, the 10-year Comprehensive Strategy Implementation Plan, and the Healthy Forests Initiative are designed to improve wildland fire management. In response to a 2005 GAO report on wildland fire management issues, Interior and the Department of Agriculture produced and delivered a Cohesive Strategy to OMB in September 2005.</p> <p>For the South Florida ecosystem restoration efforts, Interior has worked with State and Federal partners to: (i) establish the legal framework, including a binding agreement between the State and Federal Government and Federal regulations and technical guidance for ecosystem restoration projects over the next four decades; (ii) set up an independent scientific review panel, established by the National Academy of Sciences, to provide agencies and the Congress with information to ensure successful adaptive management of the project so that ecosystem restoration goals are realized; (iii) undertaken efforts to remove invasive exotics on park and refuge lands and recover endangered species; and (iv) develop and implement a science plan for DOI science programs to identify the gaps in scientific information needs and a strategy to fill those gaps within existing funding levels to ensure that science supports the needs of the land managing agencies. Further, Interior has worked with its State partners to implement on-the-ground restoration work for two early-start projects, including the Prairie Canal backfill project within Southern Golden Gates estates that will benefit more natural flows of water to Ten Thousand Islands NWR and Everglades National Park.</p> <p>The South Florida Ecosystem Restoration Task Force, chaired by Interior, continues to host quarterly meetings to discuss and coordinate State and Federal efforts to restore the Everglades. The Task Force is charged by law with consulting on a variety of requirements for the Comprehensive Everglades Restoration Plan, including project specific designs and the development of interim goals and interim targets to measure the success of implementing the Plan. In the last year, the Task Force established an intergovernmental group to coordinate scientific research and is preparing a report to Congress on how science coordination may be improved. To ensure improved water deliveries for Everglades National Park and to reduce conflict among stakeholders, the Task Force established an advisory body to provide input to the Task Force on the development of a combined structural and operational plan for the Modified Water Deliveries and C-111 Projects. The Task Force provides a valuable forum for the restoration partners to engage in collaborative decision-making and to reduce and avoid conflicts among State and Federal programs. Lastly, in the last year, the Task Force submitted its integrated Biennial Report and Strategic Plan to the Congress, as required by law.</p> <p>Interior is coordinating with the National Invasive Species Council to conduct programs to assist in the research, early detection, rapid response, and control of invasive species.</p>	Ongoing



TABLE 1-25

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2004	Interior Actions to Date	Status at end of FY 2005
Revenue Collections	<p>DOI revenue collected in FY 2004 was about \$11.4 billion and includes revenue from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is by far the MMS. For FY 2005, MMS estimated that they will collect over \$12 billion in mineral revenues alone, representing a \$2.8 billion increase in collections from FY 2004. The revenues are collected from companies with onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management (MRM) Program has collected and distributed about \$139 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.</p> <p>Because of the amount of revenues collected by MMS can have a significant potential for underpayments, the OIG believes that revenue collections should continue as one of the top management challenges for DOI.</p>	Carryover	<p>Based on controls in place and the results of reviews completed in MMS's MRM Program, Interior believes that the potential risks have been mitigated and does not consider the risk of underpayment as significant.</p> <p>MMS has implemented comprehensive systems and other program enhancements to address OIG audit concerns. MRM continually implements and refines its internal evaluation criteria for self assessment to meet the challenge of accomplishing its responsibilities and to maintain a high level of efficiency. Program managers take reasonable and necessary precautions to protect the revenue stream through MRM-wide strategic plans, organizational specific business plans, risk initiatives, internal control enhancements, comprehensive compliance policies, rulemakings, and continued movement toward a robust royalty-in-kind (RIK) program.</p> <p>Of FY 2004's \$9.2 billion of identified reported royalties, approximately \$3.6 billion, or one-third of the royalty stream, came directly from the RIK program. MRM engaged an outside contractor to identify business activity risks and implement risk management processes within the RIK framework to assess the effectiveness of existing internal control and to ensure their proper level and location.</p> <p>The remaining \$5.6 billion is subject to a comprehensive compliance strategy. Compliance and audit initiatives have specific goals that must be achieved in order to meet mandated legislation and mission objectives as stated in GPR. MRM conducts strategy audits to achieve its compliance goals and has an internal control program to assure substantial compliance with Generally Accepted Government Auditing Standards. MRM recently received an unqualified opinion from its external peer review, conducted by an outside CPA firm. Peer Reviews are required every 3 years for audit programs.</p> <p>For any detected underpayments, MMS pursues collection by issuing orders to pay. The resulting collections are subject to late payment interest representing the time value of money associated with the underpayment, thereby assuring that the government is made whole. MMS also has substantial statutory penalty authority further minimizing the risk of underpayments.</p>	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. Procurement has historically been an area subject to fraud and waste government-wide, and managing procurement activities is a continuing challenge requiring constant attention.	Carryover	<p>DOI developed and implemented comprehensive plans to address identified deficiencies. To improve internal control over the issuance and administration of orders by the NBC for franchised services provided to Department of Defense military operations, DOI merged its franchise organizations and transferred the GovWorks organization to the NBC. To ensure compliance with Federal Acquisition Regulations, DOI assigned a Senior Procurement Policy Advisor to participate with the franchise organizations in the development of consistent policies and practices. The first of three policy development meetings is scheduled for November 2005. Also, DOI anticipates assigning additional resources to provide dedicated policy development and oversight to continuously address weaknesses.</p> <p>To address deficiencies in grants management, the Office of Acquisition and Property Management participated in Government wide initiatives related to Grants.gov, Grants Line of Business, and P. L. 106-107 streamlining. Through coordinated efforts with Bureau Federal Assistance Liaisons, DOI will address inconsistency issues via standardized forms, policies, and practices, some of which are being accomplished by implementing FBMS and Grants.gov. Additionally, continued emphasis will be placed on quality control in data entry into automated systems to ensure the data's accuracy and completeness. Also, training and oversight will be administered to further address inconsistencies and to improve our responsibility for ensuring that Federal funds are used for their intended purpose.</p>	Ongoing

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

### Summary of Risks Assessments and Payment Audits Performed during FY 2005

Based on a series of internal control review techniques, Interior determined that none of its programs is risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. These reviews were conducted in addition to audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by Interior's Inspector General. Different techniques were used to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs; and (2) pre-payment and post-payment audits and recoveries. Each of the two techniques is summarized in the sections that follow.

TABLE 1-26

FY 2005 Outlays by Major Program Area	
Department Bureaus and Offices (Major Programs Listed in Parenthesis)	FY 2005 Outlays (millions)
<b>Indian Affairs</b> (Office of Self-Governance and Self-Determination, Law Enforcement and Security, Indian School Equalization, New School Construction, Facilities Improvement and Repair, Indian Reservation Roads, Contract Support Funds)	\$1,471
<b>Land Management</b> ( Management of Land & Resources, Fire Management, and Oregon and California Grant Lands)	1,702
<b>Reclamation</b> (Water and Related Resources)	1,027
<b>Fish and Wildlife</b> (Resource Management, Federal Aid in Wildlife Restoration, Cooperative Endangered Species Fund, and Federal Aid in Sport Fisheries)	1,770
<b>Geological Survey</b> (Survey, Investigations, and Research)	897
<b>Minerals Management</b> (Mineral Leasing, Royalty and Off-shore Management, Interior Franchise Fund)	2,897
<b>National Parks</b> (Operation of NPS, Construction & Maintenance, Land Acquisition and State Assistance, Recreation Fee Permanent Appropriations, and Other Permanent Appropriations)	2,581
<b>Surface Mining</b> (Abandoned Mine Reclamation)	120
<b>Departmental Management</b> (Payment in Lieu of Taxes)	226
<b>Insular Affairs</b> (Compact of Free Association and Payments to US Territories)	326
Total	\$13,017

**1. Risk Assessments.** Interior's Management Control Guidance for FY 2005 required managers to conduct risk assessments of all programs with outlays in excess of \$100 million to determine if any were risk-susceptible for making significant improper payments. In all, 28 major programs were assessed with annual payments totaling \$13 billion. The assessments were used to establish risk profiles for these programs. The results of these reviews concluded that none of these programs poses a high-risk of making significant improper payments based on OMB's criteria.

Table 1-26 presents a summary listing of Interior program outlays reviewed by bureau. Although not required, the table is provided to disclose the Department's FY 2005 outlays and cite the major programs where risk assessments were performed.

### 2. 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 2005, prepayment audit contractors identified \$114,033 in savings in the 4,786 government bills of lading reviewed; this amounts to approximately .7% in savings to the government.

The Department coordinated the hiring of an independent recovery audit contractor in May 2003 to be used by all bureaus to conduct a vendor statement review, disbursement audit, and contract compliance audit to ensure compliance with the Improper Payments Improvement Act. The review included payments from Fiscal Years 2002 - 2004. Due to limited recovery data availability for the Federal Government, a benchmark for the DOI recovery levels against other Federal agencies is not available. However, the recovery audit process in the private sector generally identifies and recovers in the range of .05% to .1% of the audit base. The audit base for DOI was \$4.79 billion; actual monies identified and recovered were \$.47 million through June 30, 2005. The contractor noted that the lower recoveries were related to the strength of DOI's disbursement and contract compliance control environment.

*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, 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 deficiencies identified in the audit reports, as well as determining the acceptability of any expenditure of Federal funds questioned by the auditors. Interior recovered \$3,858,223 in disallowed costs in FY 2005 identified via prior audits under the Single Audit Act.

TABLE 1-27

Erroneous Payments					
	FY 2005 Actual	FY 2005 Plan	FY 2006 Plan	FY 2007 Plan	FY 2008 Plan
Federal Assistance - Percent of Audit Disallowances	23%	5%	4%	3%	3%
Federal Assistance - Percent of Disallowances Returned to Government	90%	70%	75%	80%	80%

*Interior Plans for FY 2006 – FY 2008.* Annual performance goals are to maintain adequate controls over payment processes to ensure that erroneous payments are minimized. *Table 1-27* 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 prepayment audits of bills of lading and will proceed with postpayment audits (recovery audits) initiated in FY 2004.

In addition to the measures listed in *Table 1-27*, Interior will complete the following tasks in FY 2006 to ensure compliance with the IPIA:

*First Quarter*

- Issue management control guidance for FY 2006 requiring bureaus to conduct annual risk assessments of all programs.
- Continue to perform recovery audits.

*Second Quarter*

- Continue to perform recovery audits.

*Third Quarter*

- Complete bureau risk assessments.
- Continue to perform recovery audits.

*Fourth Quarter*

- Review and analyze bureau risk assessment reports to determine if any corrective action plans are necessary, and if so, have the appropriate bureaus provide the plans.

- Continue to perform recovery audits.
- Prepare data to fulfill the reporting requirements of the Improper Payments Improvement Act and OMB for inclusion in Interior's Performance and Accountability Report for FY 2006.

## Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides 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 for operating information systems within the Federal Government.

During FY 2005, Interior's key areas of emphasis for further improving and strengthening the IT security program focused on:

- Conducting independent third-party reviews of Certification and Accreditation (C&A) packages, and updating C&A documentation to improve quality;
  - Developing new and revised IT security policies;
  - Developing new and revised security configuration standards in the form of Security Technical Implementation Guides (STIGs);
  - Revising C&A standards and guidelines;
  - Improving the Plan of Action and Milestones (POA&M) process implementing the changes recommended by the IG;
  - Implementing continuous monitoring programs based on more frequent and robust automated vulnerability scanning of systems and network resources to detect and correct potential new vulnerabilities and weaknesses; and,
  - Performing internal and external penetration testing of networks and major applications.
- Interior made significant progress in improving and strengthening its overall security posture during FY 2005, in spite of the extraordinary burden on the Chief Information Officer's (CIO's) office, the OIG and other Department staff associated with the ongoing *Cobell vs. Norton* litigation. The highlights are:
- Interior initiated state-of-the-art penetration testing, independently conducted by the OIG, for all bureaus and offices. The enhanced monitoring program provided critical information to help identify potential vulnerabilities and how to better prioritize further improvements to our operational security posture.
  - Interior was successful in thwarting 677 incidents, detecting and preventing over 660 million potential attacks or probes, and cleaning and deleting over 4 million viruses. This contrasts with fewer than 70 successful incidents. None of the successful incidents resulted in any known compromise of sensitive data.
  - Interior continued integrating its IT security program with enterprise architecture, capital planning and consolidated operations. Enterprise Architecture (EA) is a means of capital asset control in which DOI has made substantial progress. Clear security architecture enables system owners to build and change systems in accordance with pre-approved patterns. The benefits of EA include operational consistency, cost-effective licensing, and ease of security control maintenance/validation.
  - OMB rated Interior's EA the highest maturity score (4.06 out of 5.0) among the 25 EA programs reviewed. The DOI EA was noted as incorporating a security standards profile, and aligned to the Technical Reference Model.
  - The DOI CIO contracted an independent IT security assessment to evaluate DOI against the myriad of security policies and guidance. The assessment concluded that DOI achieved a 3.63 maturity level on a 5-point scale.
  - Substantial progress towards a single Departmental Enterprise Services Network (ESN) was achieved. The ESN architecture includes robust network perimeter security controls and enables Interior

to manage perimeter controls more consistently, effectively, and cost-efficiently. Ten bureau networks were consolidated and the three remaining bureau networks are targeted for consolidation in early FY 2006. This enhanced network perimeter architecture significantly reduces network attack vectors and enables security resources to focus on further enhancing perimeter security controls and monitoring for potential intrusions in a more cost-effective manner.

- The Department entered into an agreement with USALearning.gov to deliver a standardized curriculum for individuals with significant IT security roles.

Interior measures the progress of implementing required security controls using five levels of effectiveness as follows:

- Level 1 – control objective documented in a security policy.
- Level 2 – security controls documented as procedures.
- Level 3 – procedures have been implemented.
- Level 4 – procedures and security controls are tested and reviewed.
- Level 5 – procedures and security controls are fully integrated into a comprehensive program.

Consistent with results from independent reviews of Interior's IT security program, the policies, processes, and procedures implemented by Interior have resulted in Interior achieving a Level 3.63 maturity when measured against the assessment criteria.

Specific milestones achieved or initiated in FY 2005 include:

- **Control Objectives Documented in Security Policy**

Interior has been updating the Departmental Manual (DM 375 19), IT Security Program Plan, IT Security Handbook, and OCIO Directives relating to IT security policy to reflect new emerging policy requirements and to address new threats due to

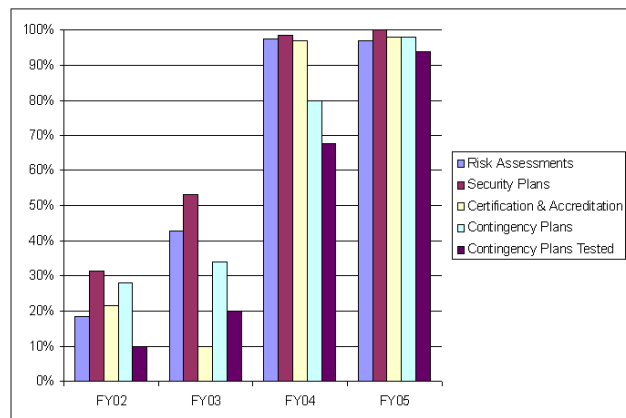
evolving challenges introduced by new technologies.

- **Security Controls Documented as Procedures**

*Certification and Accreditation (C&A).* Interior has been updating C&A process guides to address rapidly evolving requirements based on new NIST standards. A Department-wide Blanket Purchase Agreement with 10 qualified vendors is being maintained for C&A implementation and ongoing maintenance and \$12 million in funding was distributed to bureaus to provide for C&A activities resulting in 98% of systems maintaining full Authority to Operate (ATO) certification and accreditation status by September 2005. This includes all operational financial systems.

Senior management commitment towards ensuring FISMA compliance and continuous improvement with regard to assessing risk, demonstrating commensurate controls, and documenting agency official approval of operations is demonstrated by Interior's C&A performance metrics (*Figure 1-35*).

**FIGURE 1-35**  
**Certification and Accreditation Activities**



*Minimum Standards for Security Configurations.*

Interior maintains an inventory of approved STIGS for critical IT security components, such as operating systems, router configuration, database hardening, etc., and has created/revised STIGS reflecting the current "best-practices" such as securing wireless technologies and managing inventories of wireless enabled devices.

- **Implemented Procedures**

*Plans of Action & Milestones (POA&M).* The POA&M is the OMB-required, authoritative format for tracking identified weaknesses in IT security programs and systems. Designated Approving Authorities (DAAs), CIOs, and System Owners must review POA&Ms and determine reasonable remediation milestones, schedules, resources, and priorities within their system release plans. DOI implemented a policy for maintaining POA&M entries and has developed POA&M management standards to further strengthen this process.

*IT Security Awareness, Education, and Training.* Ninety-eight percent of DOI employees and contractors with access to DOI IT systems (82,848 out of 84,159) completed annual IT security awareness training. Interior also deployed an IT security role-based training capability for use by all bureaus. Sixty-six percent of DOI employees and contractors (1,736 out of 2,611) with significant IT security responsibilities received specialized training.

*Incident Response.* Policy is established within the Departmental Manual (DM) 375.19. In FY 2005, Interior continued outsourcing of agency incident response handling to ensure timely reporting of potential incidents to the Department of Homeland Security (DHS) US Computer Emergency Readiness Team (US-CERT). DOI-CIRC routinely tracks and reports potential incidents to US-CERT. Interior was successful in thwarting 677 incidents, detecting or preventing 668,467,544 potential attacks or probes, and cleaning/deleting 4,128,571 viruses in contrast to only 68 incidents that were not prevented (*Table 1-28*). None of the successful incidents resulted in any known compromise of sensitive data.

- **Procedures and Security Control Testing and Review**

In addition to C&A Security Test & Evaluations, Interior followed NIST guidance in conducting security self-assessment reviews (NIST SP 800-26) for all systems. Independent technical testing was commissioned via monthly scanning of perimeter network Internet-accessible systems against the SANS Top 20 vulnerability list. In September 2003,

TABLE 1-28

FISMA Statistics		
Type of Incident	Number Blocked	Number Successful *
Intrusion	7	2
DoS/DDOS	4	0
Virus/Malicious Code	159	32
System Misuse	27	7
Social Engineering	36	0
Web Defacement	2	6
Root Compromise	6	2
User Compromise	4	2
Hoax	0	0
Scanning/Probes	187	4
Trojan/Backdoor	2	1
Other (Incidents N/A to above categories)	243	12
Total	677	68

\* No successful incident resulted in any known compromise of sensitive data

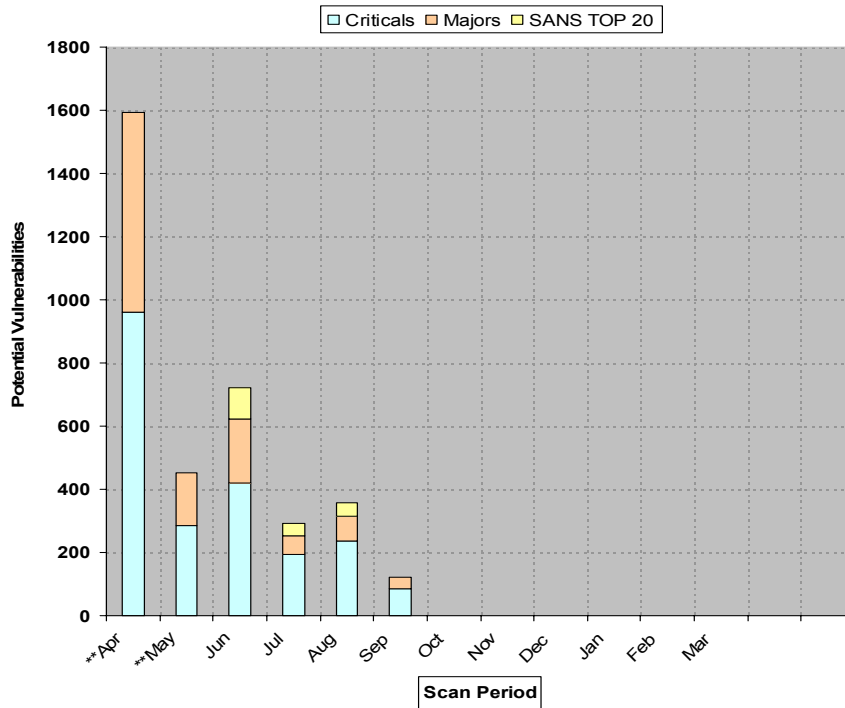
almost 100 hosts had vulnerabilities on the SANS Top 20 list. By March 2004, Interior achieved no related vulnerabilities and has maintained that status to this day. In addition, in FY 2005, Interior initiated more robust automated vulnerability scan testing of over 5,000 Internet-accessible systems and network devices against 7,400 types of known vulnerabilities, including the SANS Top 20 vulnerability list. Interior has been aggressively addressing newly identified potential vulnerabilities resulting from the more rigorous monthly scanning efforts (*Figure 1-36*).

Ninety-eight percent of systems have completed contingency plans with 94% completing annual testing requirements.

Independent third-party contractor reviews indicate that existing IT security policies, C&A standards, oversight reviews, and POA&M management processes are effective in improving the overall quality of C&A packages, enhancing the effectiveness of management, operational, and technical security controls, and ensuring senior management attention towards correcting weaknesses identified on the POA&Ms.

FIGURE 1-36

Potential Vulnerabilities



• **Security Controls Integrated into a Comprehensive Program**

Interior includes all security program budget costs in appropriate OMB submissions. Furthermore, 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. In FY 2005 DOI received the highest score (4.06 out of 5.0) for its EA out of 25 agencies reviewed by OMB.

In FY 2005, Interior made substantial progress towards implementing a single Departmental ESN. The ESN architecture includes robust network perimeter security controls and enables Interior to manage perimeter controls more consistently, effectively, and cost-efficiently. A total of 13 bureau networks are to be consolidated; three remaining bureau networks are targeted for consolidation in early FY 2006. This enhanced network perimeter architecture significantly reduces network attack

vectors and enables security resources to focus on further enhancing perimeter security controls and monitoring for potential intrusions in a more cost-effective manner. Interior systems are also migrating to Interior’s Enterprise Directory System (Active Directory) which enables more consistent implementation of security control configurations relating to authentication, access, and authorization.

Interior has integrated IT security costs as part of the Capital Planning and Investment Control (CPIC) process. IT security costs for maintenance of security patches, anti-virus, and other routine maintenance of security controls are included as part of the operational and maintenance (O&M) costs for each system. Costs for implementing planned corrective actions to resolve identified weaknesses within each system are also budgeted for as part of each investment’s OMB Exhibit 53 and 300.

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. The annual FISMA evaluations of both the OIG and CIO appropriately recognized that IT security at Interior is not perfect, that risks and vulnerabilities still remain, and that improvements need to be made. Nonetheless, Interior believes the policies and processes in place to address those risks are adequate, that improvements have been and will continue to be made in a timely and cost-effective manner, and that DOI substantially complies with FISMA.

### Compliance with Key Legal and 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 2005 independent financial statement audit, Interior was determined to be noncompliant with several legal and regulatory financial requirements in addition to the Federal accounting standards and the U.S. Government SGL components of the FFMIA. As noted earlier in this section, *Table 1-24* presents a summary of the areas of noncompliance reported in the FY 2005 financial statement audit opinions, as well as planned corrective actions and target dates.

#### Prompt Pay, Debt Collection, and Electronic Funds Transfer

The Department is continuing 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 if more than \$1.

The Department's FY 2005 performance resulted in achieving goals for Prompt Payment (*Figure 1-37*), Debt Collection Improvement Act (*Figure 1-38*), and payments made by Electronic Funds Transfer (*Figure 1-39*).

FIGURE 1-37

#### Prompt Payment

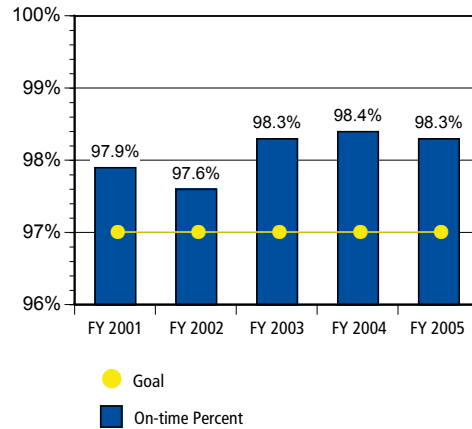


FIGURE 1-38

#### Debt Referral

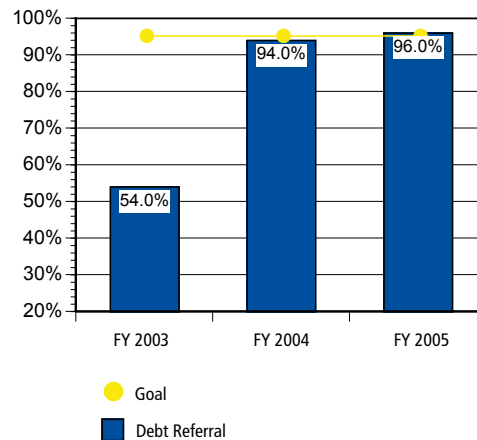
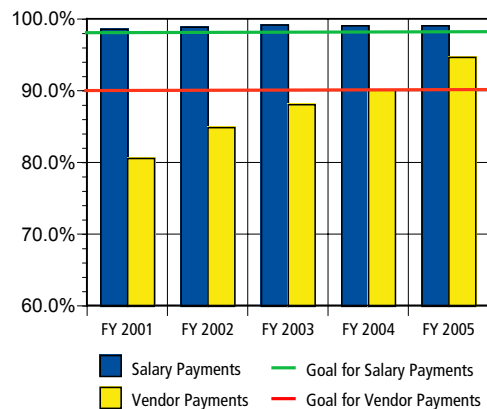


FIGURE 1-39

#### Electronic Funds Transfer





## 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. Enhanced financial management systems 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 IT 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 its financial transaction processing and to enhance its financial management systems support through an effective partnership among its program, information system, and financial managers.

The Department relies on a unified set of financial management systems planned for and managed together that operate 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 the Department relies on. Collectively, they represent the Department's financial management systems architecture.

As part of its financial management systems improvement strategy, the Department views the movement toward a single, integrated financial system as encom-

passing 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.
- **Critical Programmatic/Financial Management Systems.** Continue to improve critical bureau-based programmatic/financial management programs: Minerals Revenue Management and Indian Trust Funds.
- **Improvement of the IT Infrastructure Supporting Financial Systems.** Continue to improve the IT infrastructure that 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 Management System (FBMS), which 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 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 applies 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 40 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.

#### FY 2005 Accomplishments

- Implemented the FBMS financial assistance module in MMS, OSM, and selected FWS programs.
- Selected Interior's National Business Center as the FBMS hosting provider.
- Established the training and production environments for FBMS and completed system Certification and Accreditation for the financial assistance deployment.

- Updated the FBMS Departmental blueprint, which will govern the operation and configuration of the FBMS modules.
- Began configuration of the FBMS core systems and key Departmental interfaces and completed initial testing of the core system configurations.

#### FY 2006 Planned Activities

- Award a contract for FBMS implementation.
- Accomplish the necessary activities to ensure successful FY 2007 FBMS implementation. Activities include, but are not limited to the following:
  - Complete all system configuration, business process procedures, and test scripts for core financials, acquisition, property, permanent change of station, and enterprise information management.
  - Complete the development and testing of conversion and interface programs, including e-travel and other external interfaces.
  - Conduct integration testing.
  - Conduct user acceptance testing.
  - Conduct user training.
- Finalize the FBMS cutover plan for core financials, acquisition, and property.

#### Critical Programmatic/Financial Management Systems

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

#### MMS's Minerals Revenue Management System

The Minerals Revenue Management (MRM) program 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 in-

cludes 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 receipt of optimal value for mineral resources.

#### FY 2005 Accomplishments

- MRM developed its Strategic Business Planning Initiative (Initiative), which will be the platform for charting the course and direction of future MRM business through the year 2012. The new Initiative will focus on identifying and implementing best-value services with high quality and integrity. Key outcomes include an MRM program-wide strategic plan and business plans that emphasize market-based regulatory guidance, valuation certainty, and improved business processes and systems with effective performance measures and strong internal controls. Importantly, the Initiative will support and fully integrate with, Department and MMS strategic planning guidelines and respond to the Administration's management improvement goals and objectives.
- MMS's Indian outreach team was presented with the Secretary's 4C's Award on February 2, 2005, in Washington, D.C., because of the strong and effective relations it has established with Indian Tribes and individual Indian mineral owners. The Indian outreach team organizes and participates in over 70 outreach sessions in Indian Country and resolves 6,000 Indian inquiries every year, reaching out to approximately 30,000 individual Indian mineral owners.
- In a joint effort with the Department of Energy (DOE), MMS completed filling the Strategic Petroleum Reserve (SPR) to the 700-million-barrel capacity level in 2005, thus fulfilling the Presidential directive. In filling the SPR, two specific dates were notable: July 31, 2005, which was the last day of routine royalty oil deliveries to the Department of Energy (DOE), and August 31, 2005, which was the last day of oil deliveries by DOE's contractors into the SPR. As of August 1, 2005, MMS had completely converted SPR contracts to outright sales agreements for the remaining 2 months of their terms.
- MMS completed an analysis that examined the performance of the RIK program during FY 2004, the first full year the program was in an operational status following 6 years of pilot testing. Among the highlights of the report were that RIK sales of oil and gas generated a revenue gain that was \$17.2 million more than what would have been received if MMS had taken the royalties in value, or as cash payments. Additionally, administrative costs were from 26% to 36% less than the costs that would have been incurred under a universal royalty in value approach.
- MMS established a RIK internal control and performance/risk monitoring framework to support the RIK operational program and MMS policy oversight functions. A conceptual framework has been developed that can qualitatively monitor and measure the combined impact of the Risk, Reward and Control parameters in relation to the risk drivers of the RIK program. The different exposures in the RIK program can be classified into four main categories of risk: market, operational, credit, and oversight.
- MRM completed the Competitive Sourcing Study of 40 MRM Yellow Book Auditor functions in Denver, Dallas, Houston, Farmington, Oklahoma City, and Tulsa and determined that these activities should be retained in-house. The results of the streamlined cost comparison indicated that the government's adjusted in-house cost estimate was almost \$7 million less than the estimated cost for contract performance over the next 5 years. This determination was made pursuant to the Streamlined Cost Comparison procedures in OMB Circular A-76 (revised).
- During FY 2005, MMS completed implementation of all 39 actions in MMS's Audit Quality Improvement Action Plan, a comprehensive plan to improve MRM's compliance and audit activities and related internal controls.
- MMS completed the initial phase of a Risk Management Initiative. The MMS evaluated internal controls within and across the organization and identified 29 recommendations program-wide. Corrective action for 20 recommendations will be implemented in FY 2006. The remaining nine high-

risk processes have been scheduled for Alternative Management Control Reviews in the next 3 years as part of MMS's 3-year Internal Review Plan.

- MMS published the final Federal Gas Valuation rule on March 10, 2005. This rule, effective June 1, 2005, provided consistency on allowable and non-allowable transportation deductions from gas royalty payments.
- MMS held three public workshops in March 2005 and five consultations in June 2005, with Indian Tribal leaders and individual Indian mineral owners. The sessions provided preliminary comments and discussion opportunities in anticipation of publishing a draft new proposed Indian Oil Valuation Rule by January 2006.

#### FY 2006 Planned Activities

- Implement an effective risk management and performance metrics program to support asset management decision-making for Royalty-In-Value/RIK conversions.
- Expand RIK portfolio through diversification after enhancing internal controls, risk policy framework, and human resource skill sets.
- Continue to implement the MRM Strategic Business Planning Initiative.
- As part of MRM's Risk Management Initiative, MRM will take corrective action for 20 program-wide recommendations.
- Publish a final Indian Oil Rule.
- Publish a proposed Takes vs. Entitlements Rule.
- Publish a proposed rule for Prepayment of Royalties on Marginal Properties.
- Publish a proposed rule on Late-Payment and Overpayment Interest.

#### American Indian Trust Funds Systems

The American Indian Trust Fund Management Reform Act of 1994 (the Act) 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 that concluded 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—that sets forth a strategic framework, including six strategic goals (and various objectives) for the Department to meet in fulfilling 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
- 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.

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. In addition, the Historical Accounting Plan for IIM Accounts is being implemented.

### FY 2005 Accomplishments

- Received Secretarial approval of the “To-Be Business Process” re-engineering effort to standardize and streamline trust business processes. This resulted in a project to implement these processes through the Fiduciary Trust Model.
- Completed work on enhancements to the Trust Asset and Accounting Management System (TAAMS) Title module and the Trust Funds Accounting System (TFAS) to produce performance statements that identify the source of income and list real property assets owned by each account holder. Asset statements were implemented at the pilot agencies. Testing continued on the use of this enhancement to distribute trust income.
- Implemented financial lockboxes nationwide to receive trust generated receipts and implemented enhanced lockboxes, designed to enable distribution of funds within 24 hours of receipt, at the pilot agencies.
- Established ProTrac, the new probate case management system, as the source of probate data. The system will enable the Department to track cases within BIA, OHTA, and OST throughout their life-cycle. BIA continued encoding new cases, examining “initial load” cases, and making corrections.
- Designed and implemented a trust portal.
- Established a toll-free Trust Beneficiary Call Center.
- In historical accounting work on IIM accounts to date, digitally imaged and coded over 8 million pages of Indian records for search and retrieval, and fully reconciled 25,800 out of a total of 42,218 judgment and per capita IIM accounts—those based on payments to Tribal members—with December 2000 balances (representing 56% of account balances) and over 17,000 transactions in land-based ac-

counts—those that derive income from sale or use of land assets and resources (10% of the dollars in such accounts); only about one percent of transactions reconciled differed from expectation (dollar total is less than one percent of all dollars reconciled). Since the end of 2000, more than 57,000 judgment and per capita accounts have been added to the population of accounts to be reconciled.

- Historical IIM account work has disclosed: documents and records needed to conduct the historical accounting are accessible and most can be found, reconciliations of transactions show very low rates of differences (mostly of small value and without bias to favor or disfavor IIM account holders), and there is no evidence of fraud or major systematic error in handling the accounts.

### FY 2006 Planned Activities

- Continue implementation of the Fiduciary Trust Model (FTM). Acquire the best automated systems to support the FTM trust business processes and fulfill beneficiary needs and fiduciary requirements.
- Expand the functionality of the Trust Portal to provide access to additional trust information.
- Utilize the MRM, an MMS program for collecting, accounting for, and distributing mineral revenues from both Federal and Indian mineral leases. BIA maintains individual Indian ownership records, and OST uses this information for disbursement of lease revenues to individual Indian beneficiaries. Incorrect information will be identified so beneficiary accounts can be corrected.
- Evaluate responses from potential vendors for acquisition of a Departmental Land and Resource Management System.
- Implement enhanced lockboxes and expand the Trust Beneficiary Call Center Nationwide.
- Expand the TAAMS/TFAS enhancement to provide complete trust asset data to beneficiaries.

### Improve the 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 Enterprise Architecture Program.

#### Interior Enterprise Architecture Program

The Interior Enterprise Architecture (IEA) program has proven that its approach is indeed an “actionable” one. Three of the four modernization blueprints, or roadmaps for change, developed in 2004 were approved by the Investment Review Board (IRB) and are presently in the implementation phase. Collectively, these blueprints identify approximately 100 redundant systems that are targeted for retirement over the next few years, resulting in millions of dollars in cost savings to DOI. Blueprints are helpful for identifying gaps in Interior’s existing IT portfolio that hamper the successful achievement of strategic and programmatic goals and objectives, as well as for pointing out system redundancies and opportunities for data sharing. In order to help business leaders within the DOI conform to the OMB mandate to plan and carry out their own business transformation projects, the IEA extended its architecture methodology to encompass not only steps for the development, but also for the implementation and maintenance of modernization blueprints. This Methodology for Business Transformation (MBT) provides bureau enterprise architects with a structured, logical and integrated way of ensuring that planning efforts have measurable results and that they are in step with Capital Planning and OMB requirements. As a result of these efforts, Interior was awarded the highest maturity score for its enterprise architecture program out of 25 assessed agencies in July 2005.

#### FY 2005 Accomplishments

- Created an encompassing MBT for the development, implementation, and maintenance of modernization blueprints in support of line-of-business, Bureau- and Department-sponsored business transformation efforts for an overall goal of enterprise modernization. Guidance documents that accompany each of the methodology’s steps contain detailed instructions and work document templates (see <http://www.doi.gov/ocio/architecture/mbt/guidance.htm>).
- Moved three IRB-approved modernization blueprints (Wildland Fire Management, Recreation, and Financial Management) to the implementation phase, and set up implementation teams and meetings.
- Held workshops to train Interior enterprise architects and capital planners in the applications of the MBT and the Department’s Enterprise Architecture Repository (DEAR).
- Used MBT to lead and work with the DOI bureaus/offices to begin development of enterprise modernization blueprints for Human Resources, Geospatial Services, Water Management, Minerals Royalty Management, Land Planning, Indian Trust, Education, and Aviation Management.
- Set up an online Business Process Transformation Lab (BPTL) to introduce DOI business leaders to the services of the IEA program. (See [http://www.doi.gov/ocio/architecture/mbt/mbt\\_services.htm](http://www.doi.gov/ocio/architecture/mbt/mbt_services.htm)). These services are offered to help business organizations streamline and enhance the productivity of their activities while improving overall service to the public. The BPTL leverages the MBT.
- Launched Phase IV of DEAR. In Phase IV, a bureau’s IT systems inventory is associated with the data categories in a Federal reference model. Appropriately categorizing data helps identify data sets that may be candidates for sharing, thereby reducing data collection and maintenance burdens while simultaneously optimizing use of the data.
- Created a special DEAR Web site that provides a variety of reports in different formats to support executive decision-making—e.g., Executive Charting, Dynamic Visual Querying, User-Driven Data Entry Tools, Hyperlinked Analytical Reports, and Integrated Data and Business Modeling.
- Provided Outreach Services to:
  - the Environmental Protection Agency
  - the Departments of State, Energy, Defense, Education, and Homeland Security
  - a delegation of the Japanese Ministry of Economy, Trade, and Industry
  - the National Computerization Agency of the Korean Government

- Held workshops to train Interior enterprise architects and capital planners in the applications of the MBT and DEAR.
- Conducted stakeholder interviews to determine focus of IEA Web site update efforts.

#### FY 2006 Planned Activities

- Provide coordination and planning support for DOI E-Gov initiatives.
- Complete development of IRB-approved blueprints and begin implementation efforts.
- Continue the implementation of IRB-approved blueprints.
- Analyze lessons learned and continue to refine the MBT to show alignment with Version 2.0 of the OMB EA Maturity Assessment Criteria.
- Build out and refine DEAR.
- Perform business process re-engineering for the OCIO offices to improve alignment of Security, Capital Planning, Architecture, and other OCIO services.
- Support creation of an enterprise information exchange forum for DOI architects and blueprint teams.
- Update the IEA Web site to provide business owners and other main user groups with easier access to needed information and, where applicable, to frequently used tools.
- Continue outreach and provide training to programs and business owners.
- Develop Enterprise Security Architecture for the DOI Security office.

### 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 to the Federal community. The legislative requirements of the CFO Act, GPRA, and GMRA increased the demands on financial management personnel. Then came the requirements of the President's Management Agenda and, more recently, OMB's revised Circular A-123. The next 5 years (2006-2010) 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 FBMS.

It is imperative that Interior have adequate numbers of qualified financial management personnel. These individuals must have the competencies required to successfully transition to and implement the FBMS, as well as the ability to lead a world-class finance organization in the future.

The financial management workforce plan was completed and published at the end of 2004. Interior's CFO Council approved the Plan's major recommendations, established a Workforce Steering Committee in early 2005, and is responsible for implementing these recommendations in support of the Department's financial management transformation plan. The four major recommendations include:

- 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 technical/analytical skills and business/organization skills to enhance competencies and develop employees who are flexible and versatile.

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

A critical component of Interior's 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. In FY 2005, the Department renamed the FMCIP program to the R. Schuyler Leshner Financial Management Career Intern Program.

Both the financial management transformation plan and the workforce plan stress the need for strategic recruitment and retention, with particular emphasis on using programs such as career intern programs. The two plans also recommend making better use of existing recruitment and retention authorities and incentives.

#### FY 2005 Accomplishments

- Hired six new interns as the 2005 Class of FMCIP.
- Continued the 2004 Class as a second year of training and development began.
- Graduated the 2003 FMCIP Class with 11 members. The 2003 class is the second 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 and diversity career fairs on the East Coast, in the Midwest, and Southwest, and in Colorado.
- Adopted a financial management workforce action plan to implement the major recommendations of the FY 2004 workforce report.
- Established a Workforce Steering Committee to oversee the action plan implementation effort with subgroups working in each of the three identified areas: recruitment, retention, and competency development through a broad careers program.

#### FY 2006 Planned Actions

- Implement a Department-wide, cross-bureau financial management recruitment strategy, providing tools for managers and supervisors.
- Implement a Department-wide, cross-bureau financial management retention strategy, providing tools for managers and supervisors.
- Develop competency models based on identified workforce needs.

#### Sponsoring 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 both the implementation of the FBMS and a 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.

Both the financial management transformation plan and the workforce plan highlight plans for a comprehensive Financial Management Careers Program, with career paths defined at multiple levels. The Department has already implemented an entry-level phase of the Financial Management Careers Program with the FMCIP. Initial work has also begun on the design and development of mid-level, senior-level, and executive-level components of this comprehensive careers program; the Department has already benchmarked private and public sector practices. The careers program will integrate the goals of the Department's financial management transformation plan with the recommendations made in the financial management workforce plan.

The Department plans to expand training and career development opportunities to support the career paths identified in the new Careers Program. The Careers Program will be built on the Joint Financial Management Improvement Program published core competencies and the critical competencies identified



in the financial management workforce plan. Some of the critical competencies identified are change management, project management, problem solving, analysis, consulting, coaching, knowledge sharing, and interpersonal skills.

#### FY 2005 Accomplishments

- Sponsored courses in the following subject areas:
  - Working Across Multigenerational Workforces
  - Dollars and Sense
  - Governmental Budget and Accounting Concepts
  - Appropriations Law
  - Standard General Ledger
  - Problem Solving
  - Formal Mentoring
  - Budget Formulation and Execution
  - Effective Briefing and Presentation Skills
  - FASAB Standards
  - Essentials of Analysis
  - CGFM series
  - Process Improvement
  - Leadership Development
- Conducted a survey of the FMCIP interns, supervisors, managers, and Finance Officers with evaluation and analysis in the summer 2005, and recommendations to be implemented in 2006.
- Coordinated on-line training through DOI University.
- Sponsored graduating interns for certification in Financial Management, Accounting and Leadership Development through Management Concepts, Inc.

#### 2006 Planned Actions

- Conduct a Department-wide financial management competency assessment based on critical competencies identified in the workforce plan as being necessary for the workforce of the future.
- Plan and conduct another Department-wide conference for finance, budget, acquisition, performance, and grants management participants.
- Plan and conduct training in support of the new Financial Management Careers Program with particular emphasis on the critically needed competencies identified in the financial management work-

force plan. This includes the Financial Management Career Intern Program.

- Continue to sponsor courses such as those sponsored in FY 2005 and continue to coordinate on-line training through DOI University.

#### 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 stewardship function involves two levels of activities: (1) participating in setting government-wide financial data standard; and (2) setting financial data standards in coordination with the bureaus' 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 FBMS. 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 and OMB.

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 2005 Accomplishments

- Participated in the government process to update OMB guidance for the Form and Content of Agency Financial Statements.
- Coordinated efforts to reconcile intra-DOI financial balances and to reconcile DOI transaction balances with other Federal agencies. Continued to participate in the Intra-governmental Eliminations Taskforce (IGET) to develop strategies and procedures to be applied by all Departments to identify and prepare proper intra-departmental and intra-governmental elimination accounting entries for the government-wide consolidated financial statements.
- Participated in FBMS blueprinting and development to ensure that the data structure is consistent with the government-wide data model.
- Participated in the Standard General Ledger Board and Issue Resolution Committee to ensure that the Department’s position is fairly presented and defended.
- 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.

#### FY 2006 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.
- Continue to coordinate and prepare Department responses to draft FASAB, OMB, and Treasury financial reporting guidance.
- Continue to coordinate the reconciliation of intra-DOI financial balances and the reconciliation of DOI transaction balances with other Federal agencies.
- Update intra-Department financial statement preparation guidance.
- Work closely with the FBMS 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.