

Message from the Chief Financial Officer



This FY 2003 Performance and Accountability Report summarizes efforts of the Department of the Interior and its approximately 70,000 employees to protect and manage the Nation's natural and cultural heritage, provide scientific and other information about those resources, and honor special responsibilities and commitments to American Indians, Alaska Natives, and affiliated island communities. Through this report, we share with you our efforts to improve our accountability and performance consistent with the Department's Performance Plan, provide a discussion of our accomplishments and most serious challenges, and present our audited financial statements.

We are committed to excellence in mission performance, efficiently using the resources entrusted to us in accordance with applicable laws and regulations. A key to management excellence is the accelerated implementation of the President's Management Agenda, which establishes five governmentwide goals for delivering results that matter to the American people. Although we currently still have "reds" on status on the Office of Management and Budget scorecard, we have consistently been "green" on progress for competitive sourcing and strategic management of human capital. With the launch of activity-based cost management throughout the Department, the completion of our strategic plan, and better demonstration of how we are using performance information in our internal budget formulation process, we anticipate improvement on budget and performance integration. After making considerable progress in dealing with long-standing financial management issues, we have achieved "yellow" on financial management improvement. We have also shown improvement on the E-government front by achieving "yellow" for progress in implementation.

The linchpin that integrates Interior's budget, performance, and financial information is the Department's first-ever overarching strategic performance plan. Finalized in September 2003, it organizes our goals and Department-level performance measures into four new mission areas, with bureau inputs, outputs, and actions linked to these measures. The plan replaces eight distinct bureau plans with a single, cohesive framework supplemented by bureau plans that tier from this framework. The new mission areas and measures will be reflected in next year's Performance and Accountability Report (PAR).

In FY 2003, the Department met or exceeded 66% of the 323 performance measures monitored. Four percent of our measures were not reportable because of insufficient data at this time. Performance information for these measures will be reported in the FY 2004 PAR.

The Department continues to achieve audit success. For a seventh straight year, we received an unqualified ("clean") audit opinion on our consolidated financial statements. Moreover, all nine Interior bureaus and offices audited by the independent accounting firm received unqualified audit opinions. We are also proud to report that in FY 2003, the Department received the Association of Government Accountants prestigious Certificate of Excellence in Accountability Reporting award for its FY 2002 PAR. This is the third year in a row that we have received this award.

Realizing that sound financial management is a basic building block of good government, the Department has taken steps to ensure that it meets new quarterly financial statement reporting requirements as well as the accelerated due date for completing the annual financial statement audit. Specifically, we have developed a Financial Management Transformation Plan that will (1) link planning and budget with perfor-

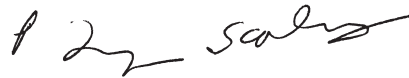
mance results; (2) perform efficient, reliable transaction processing; and (3) focus on analyses of data to provide managers and employees with timely, reliable information for delivering services to the public.

In FY 2003, we aggressively implemented the first phase of this transformation process by focusing on key areas such as revising policies and processes to improve financial operations; reducing vulnerability to unauthorized access, use, or loss of sensitive information in our financial management systems; implementing revised financial guidance and processes to meet accelerated deadlines for financial reporting; and addressing internal control findings and non-compliance issues reported in the FY 2002 audit reports.

A key to the long-term vigor of Interior's financial management infrastructure lies with the implementation of the Financial and Business Management System (FBMS) proposed in the President's FY 2004 budget. FBMS will enable us to consolidate or retire aging and non-supported systems and deliver financial and business information in a cost-effective and efficient manner.

The resolution of audit weaknesses is critical to maintain integrity and accountability in the Department's programs and operations. Interior corrected or downgraded 21 of the 34 material weaknesses carried forward from FY 2002. The Department has 16 material weaknesses to address during FY 2004, including 2 new material weaknesses identified in FY 2003. Our plans provide for correcting 13 of the 16 material weaknesses by the end of FY 2004 and the remaining 3 material weaknesses during the next fiscal years.

We are pleased with the improvements we have made during the past year, but we recognize that more can be accomplished to meet Interior's mission. Through the collaborative and dedicated efforts of Interior's employees, we will strive to achieve our planned goals as well as report on the results in a timely and accurate manner.



P. Lynn Scarlett
Chief Financial Officer

November 28, 2003