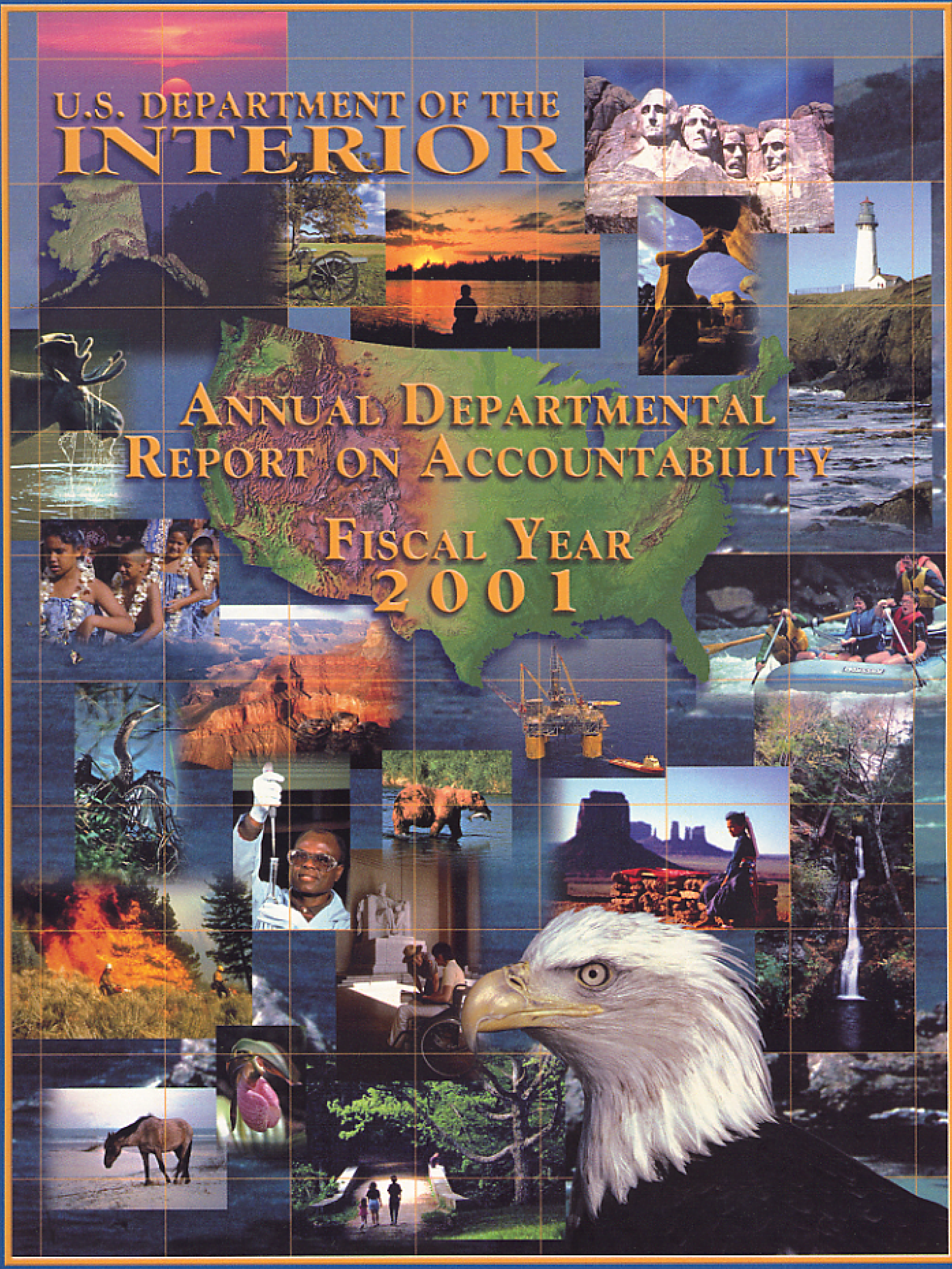
U.S. DEPARTMENT OF THE INTERIOR

ANNUAL DEPARTMENTAL REPORT ON ACCOUNTABILITY

FISCAL YEAR 2001



U.S. DEPARTMENT OF THE INTERIOR

The Nation's Principal Conservation Agency

Established in 1849, the Department of the Interior is the Nation's principal conservation agency and is responsible for wise stewardship of lands and natural and cultural resources, honoring trust responsibilities to Native Americans, and conducting scientific research.

- **Land** - Interior manages over 500 million acres or about one-fifth of the land area of the United States and 700 million acres of subsurface minerals. The Department has jurisdiction over an additional 1.76 million acres of the Outer Continental Shelf.

- **Parks, Refuges, Public Lands** - Interior manages 385 units of the national park system, 537 national wildlife refuges, 70 national fish hatcheries, 13 national conservation areas, and 89 national monuments.

- **People** - Interior has over 70,000 employees located in approximately 2,400 locations across the United States, Puerto Rico, U.S. Territories and freely associated states.

- **Volunteers** - Interior benefits from over 200,000 volunteers who provide in excess of seven million hours of service, valued at over $95 million per year.

- **Youth Programs** - Interior employs over 4,000 youth in youth-related programs annually. Since 1970, the Department has used the Youth Conservation Corps to employ young adults ages 15-18.

- **Revenues** - Revenues collected annually vary from $6 to $11 billion, including revenues from energy, minerals, grazing, timber, land sales, and other revenue producing activities.

- **Water** - The Department is the largest supplier and manager of water in the 17 western states, managing 550 dams and 348 reservoirs that deliver irrigation water to 31 million people and one of every five western farmers.

- **Energy** - Interior manages lands, subsurface rights, and offshore areas that produce approximately 28 percent of the Nation's energy, including 35 percent of natural gas, 29 percent of oil, 35 percent of coal, 17 percent of hydropower, and 47 percent of geothermal.

- **Visitation** - Annually, 52 million visits are made to Bureau of Land Management public lands, 286 million visits to national park units, and 41 million visits to national wildlife refuges and fish hatcheries. In addition, there are 90 million visitor days of use at Bureau of Reclamation recreation sites.

- **Native Americans** - The Department maintains relationships with 558 federally-recognized tribes in the lower 48 states and Alaska, and provides support to a service population of 1.4 million people. The Bureau of Indian Affairs provides education services to over 48,000 students in 23 states attending 185 elementary and secondary schools and supports 25 tribally controlled community colleges.

The Department also has a broad range of other responsibilities that are vital to the health and management of our natural resources including:

- Wildfire management
- Scientific research and information to describe and understand the earth
- Management of mineral resources on the Outer Continental Shelf

The front cover provides examples of the broad scope of the Department's conservation and stewardship responsibilities. The Accountability Report provides in-depth information about the Department and its performance during Fiscal Year 2001.

U.S. DEPARTMENT OF THE INTERIOR

Fiscal Year 2001 Annual Departmental Report on Accountability

http://www.doi.gov/pfm/acctrpt2001

February 27, 2002

MESSAGE FROM THE SECRETARY

On behalf of the Department of the Interior, I am pleased to present the Department's fiscal year 2001 Accountability Report. The Report chronicles our achievements during the first year of the Bush Administration and shows how our resources were spent in pursuit of our mission. To inform the Congress and the public, this Report also integrates results-oriented performance data, information on the Department's stewardship responsibilities, audited financial statements, and the independent auditor's report.

As a Department, we are cognizant of the huge impact our programs and services have on the lives of Americans. Our responsibilities are vast. We manage more than one of every five acres of land in this Nation, including some of the most beautiful and pristine places on earth. We are entrusted with some of the most patriotic symbols of our Nation, from the Statue of Liberty to Independence Hall. We provide approximately one-third of the Nation's domestic energy and supply the water that has made the arid West bloom. We serve visitors from around the world who take delight and find recreation through nearly half-a-billion visits to our lands each year. Our exemplary volunteer program, totaling over 200,000 individuals and outnumbering our own employees by nearly three to one, provides valuable assistance in protecting our Nation's natural and cultural resources. In fiscal year 2001, we collected approximately $11 billion in revenue from the lands and waters we manage, more than $1 billion more than we had appropriated to us. We also shared $1 billion of the revenue from the onshore petroleum leasing program with the states.

Our vision for effective management at the Department is organized around the "Four C's:" consultation, cooperation, and communication, all in the service of conservation. At the heart of the "Four C's" is the belief that for conservation to be successful, we must involve the people who live on, work on, and love the land. To that end, we will actively solicit the assistance of the Nation's citizens, state and local governments, and non-government and private sector organizations as we undertake the difficult challenges of managing America's public lands and the species that reside on them. We believe that good ideas are found in communities throughout America. Working together in collaborative partnerships, we can leverage the resources available to carry out joint conservation and management programs. Partnerships are the best way to invite others to join the Department as participants in the stewardship and management of resources.

We realize there is still much to do. Our blueprint for continuing to improve the management of resources entrusted to us is our "Plan for Citizen-Centered Governance." Based on "The President's Management Agenda" for management reform, this plan lays out our strategy to improve the delivery of programs and services; implement new practices with appropriate use of innovative technologies; invest in human capital by expanding programs to attract, train, and retain a diverse team of professionals committed to excellence and public service; and maintain accountability throughout the Department to continue its tradition of stewardship.

Our responsibilities and performance are etched in America's landscape, an enduring legacy of what the Department of the Interior protects on behalf of its citizens. I invite you to read this Report as a record of our accomplishments in carrying out the magnificent mission that has been entrusted to us.

Gale A Norton

Gale A. Norton
Secretary of the Interior

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The fiscal year 2001 Accountability Report represents the culmination of Interior's financial management process, which begins with mission/program planning, continues through the formulation and justification of Interior's budgets to the President and the Congress, and ends with this Report of the use of the resources entrusted to us. The Report was prepared pursuant to the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act of 2000, and covers activities from October 1, 2000 to September 30, 2001.

We are proud to report that for a fifth year in a row, the financial statements included in this Report received an unqualified (clean) audit opinion. Further, as part of Interior's accountability process, all bureaus were required to prepare audited financial statements for 2001. Of the nine entities preparing financial statements, eight received unqualified audit opinions. This year is the first year that the entire Department was audited by an independent Certified Public Accounting firm under contract to the Office of Inspector General.

The Department is firmly committed to implementing the "President's Management Agenda" through its "Plan for Citizen-Centered Governance." Our management reform strategy is based on four key principles:

- *Customer Value* - Ensuring that all of our activities add value and ensure the effective use of resources.
- *Accountability* - Establishing clear performance measures and holding our managers and employees accountable for results.
- *Modernization* - Using technology to work smarter and provide single points of access to our services.
- *Integration* - Identifying opportunities to avoid duplication and achieve economies to enhance customer service and efficiency.

As part of a continuing effort to improve management accountability, we are reinvigorating a departmentwide management control program to correct weaknesses identified in audits or management reviews. This 2001 Accountability Report identifies 17 departmentwide material weaknesses. We have commenced a systematic process to develop specific timelines and actions that will resolve these weaknesses.

The Department has also established a performance measure for completing corrective actions for material weaknesses and implementing Inspector General recommendations in a timely manner and for resolving any longstanding audit findings in a more expeditious manner. I am pleased to report that we have made some progress on both fronts, but more remains to be done.

The Department is committed to providing the best management of the resources under its stewardship. Through the teamwork and dedicated efforts of many Interior employees, including program, financial management, and audit staff, we continue to be successful in achieving desired objectives and reporting on the results. The dedication and professionalism of individuals throughout the Department is outstanding. We will call upon that talent in the coming year to implement the Secretary's "Four C's" approach to environmental protection, guided by our "Plan for Citizen-Centered Governance."

P. Lynn Scarlett

P. Lynn Scarlett
Chief Financial Officer

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GENERAL NOTE
All years referred to are fiscal years, unless otherwise noted.

Interior At A Glance

The Department of the Interior is America's principal conservation agency. Interior administers over 500 million acres (over one-fifth of America's land mass) and serves as steward for the natural and cultural resources associated with these lands. These assets are valued for their environmental resources, recreational and scenic opportunities, cultural and historical resources, vast open spaces, and the resource commodities and revenue they provide to the federal government, states, and counties. Interior also supervises mineral leasing and operations on approximately 700 million acres of mineral estate that underlie both federal and other surface ownerships.

Since Congress created the Department in 1849, Interior's role has evolved from being a general housekeeper for the federal government to becoming the steward for its natural and cultural resources and the administrator of its trust responsibilities to American Indians and Alaska Natives.

The mission of the Department of the Interior is to protect and provide access to our Nation's natural and cultural heritage and honor our trust responsibilities to Indian tribes and our commitments to island communities. This mission is achieved through hundreds of programs and activities carried out principally by Interior's eight bureaus. Interior's bureaus have separate but often related missions, programs, and customers (*Figure 1*). Departmental Management provides leadership, management, and coordination as well as support services used by all bureaus to accomplish their work.

Mission
"To protect and provide access to our Nation's natural and cultural heritage and honor our trust responsibilities to tribes and our commitments to island communities."

Organization

Most of the public lands under the purview of Interior management were once a part of the 1.8 billion acres of public domain lands acquired by the United States between 1781 and 1867. Each of America's 50 states, the U.S. associated Pacific insular areas, the Virgin Islands, and Puerto Rico contain lands administered by the Department of the Interior.

Interior-administered lands include the National Wildlife Refuge System, the National Park System, and the vast expanses of public land managed by the Bureau of Land Management (BLM). The Fish and Wildlife Service (FWS or Service) manages lands primarily to conserve and protect fish and wildlife and their habitats. The National Park Service (NPS or Park Service) manages 385 parks to conserve, preserve, protect, and interpret the Nation's natural, cultural, and recreational resources. The Bureau of Land Management is guided by the principles of multiple use and sustained yield in managing its public lands. Congress has defined multiple-use management of the public lands and their various resources as that which best meets both the present and future needs of the American people. The resources and uses embraced by the multiple-use concept include energy and mineral resources; natural, scenic, scientific, and historical values; outdoor recreation; range; timber; and wildlife and fish habitat.

Opposite Page: Glen Canyon Dam, Arizona.

Figure 1

<table>
<tr><th colspan="4">U.S. Department of the Interior
"To protect and provide access to our Nation's natural and cultural heritage and honor our trust responsibilities to Indian tribes and our commitments to island communities"</th></tr>
<tr>
<td>BUREAU OF INDIAN AFFAIRS
<u>Mission:</u> Enhance the quality of life and to promote economic opportunity in balance with meeting the responsibility to protect and improve the trust resources of American Indians, Indian tribes, and Alaska Natives.
• Administers federal Indian policy for 559 American Indian and Alaska Native tribal governments
• Manages about 56 million acres of Indian land held in trust status</td>
<td>NATIONAL PARK SERVICE
<u>Mission:</u> Preserve unimpaired the natural and cultural resources and values of the National Park System for the enjoyment, education, and inspiration of this and future generations. The Park Service cooperates with partners to extend the benefits of natural and cultural resource conservation and outdoor recreation throughout this country and the world.
• Manages 385 park units that encompass about 84 million acres</td>
<td>FISH AND WILDLIFE SERVICE
<u>Mission:</u> Conserve, protect and enhance fish and wildlife and their habitats for the continuing benefit of the American people.
• Manages 876 wildlife conservation units, including the National Wildlife Refuge System, that encompass approximately 95 million acres</td>
<td>BUREAU OF LAND MANAGEMENT
<u>Mission:</u> Sustain the health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations.
• Manages approximately 262 million acres (about 1/8 of the U.S. land mass) and a total of 700 million acres of subsurface mineral estate underlying both federal surface ownerships and privately owned lands</td>
</tr>
<tr>
<td>BUREAU OF RECLAMATION
<u>Mission:</u> Manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.
• One of the largest suppliers of water in the 17 western states; manages about nine million acres of Reclamation project lands</td>
<td>U.S. GEOLOGICAL SURVEY
<u>Mission:</u> Provide the Nation with reliable, impartial scientific information to describe and understand the earth.
• Largest U.S. natural science and mapping agency contributing to public/environmental health and safety</td>
<td>MINERALS MANAGEMENT SERVICE
<u>Mission:</u> Manage the mineral resources on the Outer Continental Shelf in an environmentally sound and safe manner and collect, verify, and distribute mineral revenues from federal lands and Indian lands in a timely manner.
• Collects billions of dollars annually from the mineral leasing program</td>
<td>OFFICE OF SURFACE MINING
<u>Mission:</u> Carry out the requirements of the Surface Mining Control and Reclamation Act in cooperation with states and tribes.
• Regulates coal mining to protect the environment and reclaims abandoned mine sites</td>
</tr>
</table>

The Department has significant responsibilities related to energy and minerals production and use. The Minerals Management Service (MMS) manages the resources on the Outer Continental Shelf (OCS); collects mineral revenues generated from federal and Indian lands; and accounts for and distributes these revenues to states, tribes, individual Indian mineral owners (allottees), and the U.S. Treasury. The Office of Surface Mining Reclamation and Enforcement (OSM) is responsible for ensuring that coal mines are operated in a safe and environmentally sound manner, lands are restored to beneficial use following mining, and the effects of past mining are mitigated by reclaiming abandoned mine lands. The Bureau of Reclamation (BOR or Reclamation) is one of the largest suppliers of water in the West and is the Nation's second largest producer of hydroelectric power.

The U.S. Geological Survey (USGS or Survey) provides science for a changing world by delivering reliable and impartial information that describes the Earth, its natural processes, and its natural species. USGS's primary science disciplines include biological resources, geology, geography, and water resources.

The Bureau of Indian Affairs (BIA) carries out the federal government's trust responsibilities to American Indian and Alaska Native tribes. The BIA also administers approximately 56 million acres of Indian land held in trust status.

Resources

In 2001, Interior's full-time equivalent (FTE) usage rate was an estimated 68,680, an increase of 1,420 or 2.1 percent compared to 2000. *Figure 2* shows 2001 FTE usage rates by bureau. The Department's operations are funded primarily by congressional appropriations of the general funds of the United States government. In 2001, Interior's current appropriations budget was approximately $10.4 billion. The Department's other 2001 budgetary resources were provided primarily from (1) permanent appropriations (i.e., budget authority that is available as the result of previously enacted legislation and which does not require any new legislation for the current year); (2) prior year unobligated balances; and (3) spending authority from offsetting collections. These budget amounts do not include certain exchange revenues as well as other amounts not included in Interior's budget such as allocation transfers from other federal agencies.

Interior is responsible for collecting billions of dollars in receipts, fees, and other revenues. In 2001, the MMS alone collected approximately $10.2 billion from mineral activities on federal and American Indian lands. The distribution of this mineral leasing revenue is summarized in *Figure 3*.

Figure 2

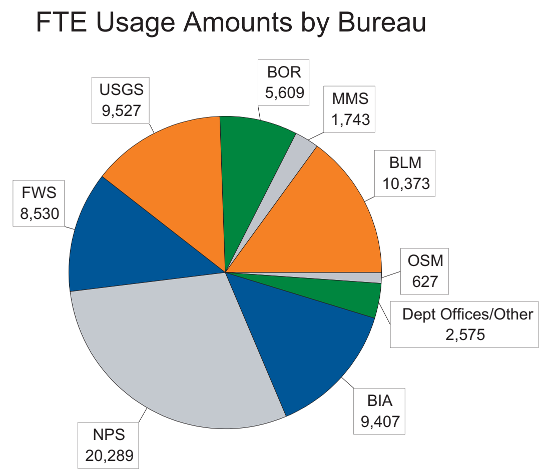
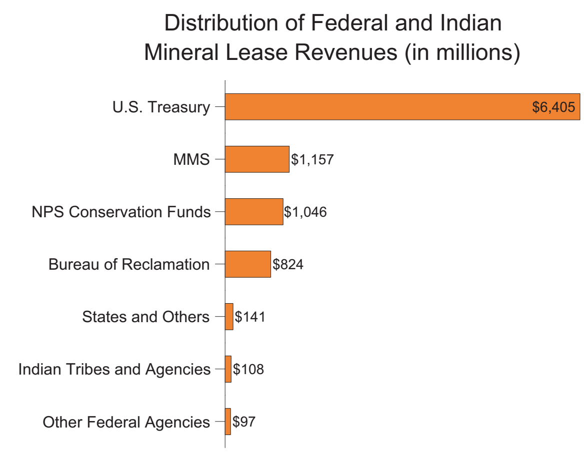


Figure 3



Reporting Results

The *2001 Annual Departmental Report on Accountability* is authorized by the Reports Consolidation Act of 2000. The purposes of the Act are: (1) to authorize and encourage the consolidation of financial and performance management reports; (2) to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public; (3) to improve the quality of agency financial and performance information; and (4) to enhance coordination and efficiency in reporting financial and performance information.

The Accountability Report streamlines reporting requirements by consolidating or incorporating the various reports required by Congress in separate legislation into a single report. The Report not only presents the financial condition of the Department, but also reports on the performance accomplishment of the Department in achieving its program missions, goals, and objectives.

The Accountability Report does not present all of the Department's approximately 350 GPRA performance measures (available at *http://www.doi.gov/gpra/*). Instead, this report provides commentary on performance results for key program goals and measures that are linked to Interior's five strategic goals (see Management’s Discussion and Analysis). The performance data reflected in this report are based on information provided by Interior bureaus and offices at the time of report publication. Updated GPRA performance data will be available in the Department’s 2003 Annual Performance Plan and 2001 Annual Performance Report, scheduled for publication in March 2002.

In addition to providing key program results, the Accountability Report:

- Details the uses of budgetary resources, obligations incurred, outlays, and the balance of budgetary resources available;

- Shows the net cost of operations and programs;

- Reports on operating assets available for use in providing goods, services, and benefits as well as all liabilities incurred, with special displays of liabilities that would require future funding by the Congress; and

- Reflects assets and investments for which there is a federal stewardship responsibility.

Management's Discussion and Analysis

Strategic Goals and Performance Reporting

The Department of the Interior continuously seeks to improve performance, provide customers with responsive service, and produce concrete, measurable results. The Department measures success in pursuit of its mission against five strategic goals:

Strategic Goal 1 - *Protect the Environment and Preserve Our Nation's Natural and Cultural Resources*

Strategic Goal 2 - *Provide Recreation for America*

Strategic Goal 3 - *Manage Natural Resources for a Healthy Environment and a Strong Economy*

Strategic Goal 4 - *Provide Science for a Changing World*

Strategic Goal 5 - *Meet Our Trust Responsibilities to American Indians and Our Commitments to Island Communities*

These strategic goals are the broad outcomes the Department seeks to produce—they are the way Interior fulfills its mission.

To measure progress in moving toward these strategic goals, the Department has developed a set of performance goals that reflect its most critical challenges. Each year, targets are established for these goals—the highest level of performance achievable given the challenges faced by the Department and the resources at hand. In addition to achieving these annual targets, the Department is also concerned with creating long-term, positive performance trends. Interior's efforts to achieve its 2001 performance targets and improving long-term trends is presented in the Management's Discussion and Analysis (MD&A) section of this report.

Interior's strategic and performance goals are achieved through the many programs and activities carried out by the Department's bureaus and departmental offices. Interior's bureaus have separate but often related legislated missions, programs, customers, and stakeholders. Working with the Department, Interior bureaus and offices establish goals and performance measures for their programs and link them to Government Performance and Results Act (GPRA) program activities and departmental goals. The Department provides leadership, management oversight, and administrative support services for this planning process.

As part of the process for integrating performance, budget, and financial data, the Department has elected to categorize its numerous bureau missions and programs into GPRA program activities, which are directly linked to Interior's five strategic goals. This alignment facilitates the cost accounting process, and most importantly, brings Interior's themes into sharp focus: restoring landscapes, watersheds, and natural systems; guarding and restoring America's natural and cultural landmarks; providing access to the Nation's vast public lands for sustainable economic development and recreation; applying Interior's best scientific information and knowledge; working in partnerships with governments, tribes, industry, nonprofit groups, and ordinary citizens; and meeting the Department's trust responsibilities to tribes and Alaska Natives, and commitments to island communities.

For each GPRA program activity, the Department has selected key performance measures from Interior's Annual Performance Plan (*http://www.doi.gov/gpra/00apr02app.html*) that demonstrate progress towards meeting the long-term goal established for the GPRA program activity goal. In addition to providing commentary on these selected GPRA performance measures, MD&A also reports on selected measures for Departmental Management and reimbursable support activities. Departmental Management includes Departmental Offices that provide the executive leadership, policy, guidance, independent program evaluation, and coordination needed to manage the diverse, complex, and nationally significant programs that are Interior's responsibilities. Reimbursable support activities include reimbursable operations and interagency agreements used by bureaus to accomplish their missions and goals. These operational entities include Interior's National Business Center, the Interior Franchise Fund, and individual bureau Working Capital Funds.

A total of 43 program activities and 114 performance measures are discussed in the MD&A section of this report (Note: GPRA program activities under Strategic Goals 1 and 5 reflect a subgoal grouping. Due to the number of GPRA program activities and performance measures reported for these two strategic goals, the Department believes the outcome-oriented subgoal category provides useful information to the reader for understanding Interior's varied and complex programs and desired results).

The Department has accumulated cost information for GPRA program activities and the five strategic goals in accordance with the Statement of Federal Financial Accounting Standard No. 4 (Managerial Cost Accounting Concepts). As shown in *Figure 4*, the Department's 2001 expenses for the five strategic goals were approximately $13.9 billion, an increase of about $1 billion, compared to 2000.

Figure 4

* Due to prior period adjustments and the reclassification /addition of GPRA program activities, 2000 expense totals may differ from amounts shown in last year's report.

Note - For accounting purposes, expenses are defined as the outflow of resources or incurrence of liabilities (or both) during a period as a result of rendering services, delivering or producing goods, or carrying out other normal operating activities. Total expenses may exceed budget authority and outlays because of non-cash items such as depreciation, amortization, and accrued annual leave.

By linking the key programs and outcomes of individual Interior bureaus to the Department's priorities and initiatives, Interior's stewardship of critical resources is reinforced, which is especially important in light of increasing developmental pressures, evolving public wants and needs, and accelerating changes in science and technology. Interior is responding to the increasing demands on the vital resources the Department oversees by efficiently using and managing its resources.

During 2002, the Department will revise its GPRA Strategic Plan in order to refine performance goals and measures so that they more commonly focus on meaningful results and outcomes. As part of this process, the Department is actively seeking public comment and participation in the development of the new strategic plan (to submit comments, please email *doistratplan@usgs.gov*). The Department has set an aggressive timetable for revising the strategic plan in order to allow the results to help drive Interior's 2004 budget formulation process.

The goals set by Interior, like the missions behind them, are a critical part of the Department's continuous efforts to provide the best results to its customers—the American public.

Goal 1: Protect the Environment and Preserve Our Nation's Natural and Cultural Resources

Because people and the environment are interdependent, the Department of the Interior ensures that our lands, waters, and other resources remain healthy. Resource-dependent communities can only be sustained by lands in a healthy condition. As we have learned more about the factors that affect the land, Interior has made significant strides in developing and applying sustainable management practices. The Department must continue to learn more and develop cost-effective methods to monitor and improve the resources under its care. To the maximum extent possible, Interior consults, communicates, and cooperates with stakeholders and affected parties and uses their input, along with scientific and technical knowledge, to make decisions.

The Department is committed to protecting and conserving our national parks, wildlife refuges, wilderness areas, and natural/cultural heritage resources. Federal lands contain exceptional geological formations, rare and vulnerable plant and animal communities, wilderness areas, wild and scenic rivers, and numerous historical, paleontological, and archaeological sites. These resources are scientifically, educationally, and historically important and represent a significant part of our Nation's national and cultural heritage.

The Department employs the following strategies to achieve the goal of protecting the environment and preserving the Nation's natural and cultural resources:

- Involve partners and stakeholders in the decisionmaking process.
- Cooperate with states, tribes, and local partners.
- Use watershed or ecosystem approaches to land management.
- Use scientific research to support informed decisionmaking.
- Develop comprehensive data sets, including data standards and inventory monitoring, as key components of a science-based approach to management.
- Use multi-species approaches to habitat management.
- Use habitat conservation plans to protect threatened and endangered species.
- Incorporate natural processes, such as fire and floods, into the overall management approach.
- Eradicate invasive non-native species as a threat to land health.
- Closely monitor the progress of goal-specific programs.

"Our natural and cultural resources are more than just an American heritage, they are an inheritance that we must and can conserve to ensure that future generations can enjoy the benefits of these resources."

The major departmental activities to achieve the goal of protecting the environment and preserving our Nation's natural and cultural resources are presented in *Figure 5*.

Figure 5

Goal 1 – Protect the Environment and Preserve Our Nation's Natural and Cultural Resources		
Subgoal and GPRA Program Activity	**2001 Expenses (in millions)**	**2000 Expenses (in millions)**
A. Protect and Restore Natural and Cultural Resources		
A1. Preserve Natural and Cultural Heritage on Public Lands	$152	$138
A2. Understand the Condition of Public Lands	139	107
A3. Preserve Park Resources	700	698
Subtotal 1.A	*991*	*943*
B. Restore the Health of America's Lands		
B1. Environmental Restoration Related to Mined Lands	162	181
B2. Restore At-Risk Resources and Maintain Functioning Systems	191	137
B3. Environmental Protection Related to Mining Operations	62	104
Subtotal 1.B	*415*	*421*
C. Maintain Healthy Natural Systems		
C1. Habitat Conservation	1,029	934
C2. Environmental Activity	16	41
Subtotal 1.C	*1,045*	*975*
D. Protect and Recover Imperiled Species		
D1. Fish and Wildlife Management and Development Affected by Reclamation Projects	172	154
D2. Sustainability of Fish and Wildlife Populations	598	597
Subtotal 1.D	*770*	*751*
Total - Goal 1	**$3,221**	**$3,090**

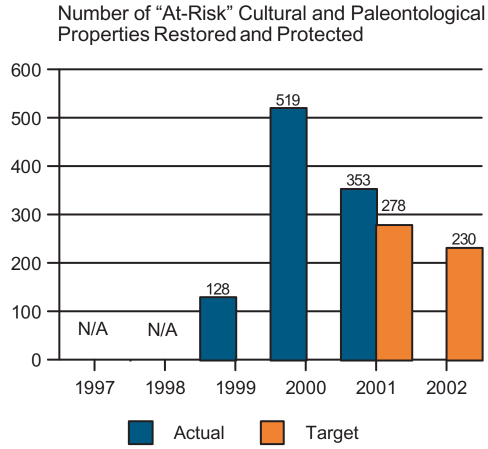
Subgoal 1.A: Protect and Restore Natural and Cultural Resources

GPRA Program Activity 1.A.1: Preserve Natural and Cultural Heritage on Public Lands *(Preserve and protect natural, historic, landscape, and cultural resource values for current and future generations)*

Background: The public lands contain exceptional geologic formations; rare and vulnerable plant and animal communities; wild free-roaming horse and burro herds; wilderness areas and wild and scenic rivers; and innumerable paleontological, archaeological, and historical sites. The array of diverse biological, cultural, and scenic resources managed by the Bureau of Land Management are scientifically, ecologically, educationally, and recreationally important, representing a significant part of our Nation's natural and cultural heritage.

Performance Measure - *Number of "At-Risk" Cultural and Paleontological Properties Restored and Protected.* The BLM's archaeological and paleontological sites continue to be targeted for theft by pothunters, looters, and commercial collectors who "mine" these areas for commercially valuable artifacts and fossils, many of which can be sold to private collectors for thousands of dollars. Contributing to the overall decline in the condition of these resources is development, overuse, weathering, and, increasingly, recreational activities.

2001 Results: The Bureau of Land Management restored and protected 353 "at risk" cultural and paleontological properties on the public lands in 2001, exceeding its target of 278. This is the second year in a row that the annual target was exceeded.



Performance Measures *- Number of Herd Management Areas Reaching Appropriate Management Levels and Number of Titles Issued to Adopters:* The Wild Free-Roaming Horse and Burro Act of 1971 requires the protection and management of wild horses and burros to assure a thriving, natural ecological and multiple-use relationship on the range. The BLM is responsible for implementing this Act and assuring healthy, viable wild horse and burro populations within Herd Management Areas (HMAs).

2001 Results: The BLM attained Appropriate Management Levels on 77 (or 38.5 percent) of the Herd Management Areas and issued 4,861 titles within six months of eligibility, essentially meeting one of its performance targets but falling short on the number of titles issued. External factors, such as drought and fire, negatively impacted wild horse and burro gather strategies.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of Herd Management Areas reaching Appropriate Management Levels	N/A	58	51	52	79	77	110
Number of titles issued to adopters for excess animals	N/A	5,954	6,763	6,050	7,500	4,861	7,500

GPRA Program Activity 1.A.2: Understand the Condition of Public Lands

(Comprehensively assess and report the condition of lands administered by the Bureau of Land Management and ensure the adequacy of land use plans)

Background: Public lands are diverse, geographically dispersed, and intermingled with lands owned and managed by many other entities. The BLM has a complex mission, involving all landowners and users in common watersheds, plant and animal populations, and human use issues. The BLM's land use decisions affect adjacent landowners and state, local, and tribal governments, along with the myriad users of public lands. The BLM is dedicated to understanding socioeconomic and environmental trends, cooperating in decisionmaking, and implementing appropriate on-the-ground activities.

Performance Measure *- Number of Land Use Plans Evaluated.* Land use plans provide the basis for nearly all decisions affecting public lands. Recent activities and events have focused renewed attention on land use plans and National Environmental Policy Act (NEPA) documents. The BLM's planning workload is focused on emerging national issues such as energy development, urban growth, early resolution and/or avoidance of litigation, wildfire protection and suppression, and collaborative planning efforts with local communities, states, and tribal governments.

2001 Results: The BLM met two of its performance targets by evaluating 89 of 165 existing land plans and associated NEPA documents, developing one new land use plan, and completing amendments for 16 existing land use plans to reflect new information and management strategies. A new performance measure to track high priority, time-sensitive plans will be implemented in 2002.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of land use plans evaluated (cumulative)	N/A	N/A	13	30	81	89	162
Number of land use plans prepared (cumulative)	N/A	N/A	N/A	3	6	4	11
Number of land use amendments completed (EIS level)	N/A	N/A	N/A	N/A	5	16	Measure to be revised

GPRA Program Activity 1.A.3: Preserve Park Resources *(Conserve the scenery and the natural and historic objects and wildlife therein)*

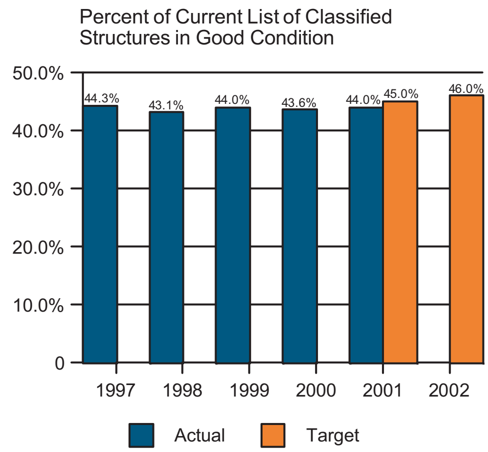
Background: Several years after Congress created the National Park Service (NPS) in 1916, the Park Service conducted an official study on the purpose of the national parks. The report declared: "America's national heritage is richer than just its scenic features. Perhaps our greatest national heritage is nature itself, which when combined with great scenic beauty as it is in the national parks, becomes of unlimited value."

Interior has renewed emphasis on preserving unimpaired, for the benefit and enjoyment of all people, the many diverse natural elements, the cultural resources, and the great scenic beauty of America's national parks.

***Performance Measure** - Percent of Current List of Classified Structures (LCS) in Good Condition.* Historic and prehistoric structures, and the events surrounding them, are key cultural resources in parks; they form the basis for 225 parks and are integral to many others. National Park Service standards define structure condition in terms of the character, material, and stability of the structure. Condition is not an indication of the amount of work required to maintain a structure. "Good condition" is where the structures and significant features need only routine or cyclic maintenance, although that maintenance may be significant.

The List of Classified Structures is the National Park Service's inventory of historic and prehistoric structures and is conducted by trained teams (photo by Interior).

2001 Results: The NPS improved the condition of 411 structures, bringing the number of structures on the LCS in good condition to 11,535 out of an increased base of 26,223 LCS structures, or 44 percent. This fell just short of the target of 45 percent.



Performance Measures *- Acres of Disturbed Lands Restored and Acres of Disturbances Contained.* The NPS has identified the adverse effects of disturbed lands on natural systems as a significant resource management concern. Presently, over 195 parks contain lands that have been disturbed by modern human developments, including abandoned roads, dams, canals, railroads, campgrounds, mines, and other abandoned sites. In 1998, the parks identified 241,000 acres of NPS-managed lands in damaged condition as a result of development. Over 190 parks contain exotic vegetation that has crowded out thousands of acres of native vegetation, reducing habitability for wildlife and despoiling or eliminating critical water resources. The long-term goal is to control these nonnative species so that healthy functioning ecosystems are restored and maintained.

2001 Results: The NPS restored 7,500 acres of disturbed lands, exceeding the performance target by approximately 160 percent. The NPS also restored 33,300 acres of exotic species impacted acres, approximately 99.4 percent of its performance target.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of restored acres since base year	3,800	8,700	35,380	36,410	4,500	7,500	8,900
Number of contained acres since base year	46,500	48,100	155,869	206,500	33,500	33,300	66,400

* The baseline was changed for 2001.

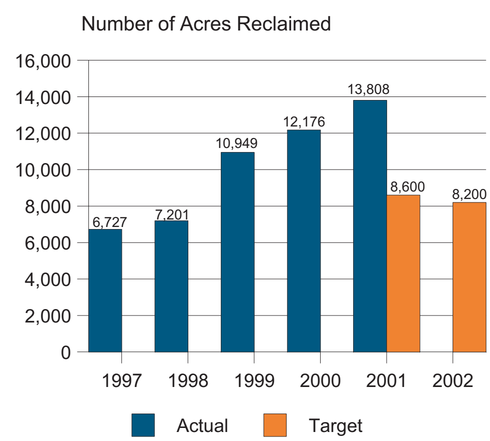
Subgoal 1.B: Restore the Health of America's Lands

GPRA Program Activity 1.B.1: Environmental Restoration Related to Mined Lands *(Provide a cleaner and safer environment by reclaiming and restoring land and water degraded by past mining)*

Background: Through its abandoned mine lands reclamation and clean streams programs, the Office of Surface Mining (OSM) plays a key role in restoring the Nation's landscape. The restoration of these lands to productive use supports goals for Water and Watershed Restoration as outlined in the Clean Water Action Plan. This plan is a federal government initiative to achieve clean water by strengthening public health protections, targeting community-based watershed protection efforts at high priority areas, and providing communities with new resources to control polluted runoff.

Performance Measure - *Number of Acres Reclaimed.* The Abandoned Mine Land Reclamation Program provides for the restoration of lands mined and abandoned or left inadequately restored before August 3, 1977. It is estimated that over 1.5 million acres of land have been disturbed and over 11,500 miles of streams polluted by coal mining. OSM has identified over 560,000 acres of high-priority coal-related health and safety problems such as underground fires, subsidence, highwalls, landslides, open shafts, and polluted water. Since its inception in 1977, the Abandoned Mine Land Program has reclaimed approximately 142,000 acres of high-priority problem areas.

2001 Results: The number of acres reclaimed are those reported by states and tribes. In 2001, the number of acres reported as reclaimed was 13,808, an increase of 13.4 percent. This reported performance includes reclamation activity undertaken in prior years. The targets for the number of acres reclaimed represent the number of acres to be accomplished with funds budgeted for that year.



GPRA Program Activity 1.B.2: Restore At-Risk Resources and Maintain Functioning Systems *(Implement strategies to restore priority watersheds and resources to functioning condition on lands administered by the Bureau of Land Management)*

Background: Restoring and maintaining the health of the land is the foundation of BLM's mission. Livestock grazing, timber harvesting, hunting, fishing, and other resource uses can be sustained over time only if the land is healthy. Compared to other public land management agencies, the BLM is particularly well positioned to make significant national contributions to: (1) clean water and healthy watersheds; (2) biological diversity; and (3) the protection of critical habitat for a variety of plant and animal species.

Performance Measure - *Number of Acres of Wildland Fire, Prescribed Fire, and Mechanical Fuels Treated to Restore Natural Ecological Processes and Number of Acres Treated to Prevent the Spread of Noxious Weeds and Undesirable Plants.* The health of public lands can be improved by reducing the spread of weeds and reintroducing fire into specific landscapes, specifically those in heavier fuel models. The number of acres treated by prescribed fire and other fuel modification projects focuses mostly on fuels reduction in high-risk wildland-urban interface areas.

2001 Results: The targets were exceeded as the BLM treated: (1) 448,729 acres with wildland fire, prescribed fire, and mechanical fuels treatments to restore natural ecological processes; and (2) 251,943 acres to prevent the spread of noxious weeds and undesirable plants.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of acres of wildland fire, prescribed fire, and mechanical fuels treated	63,000	201,000	254,000	165,900	390,000	448,729	394,000
Number of acres treated to prevent the spread of noxious weeds and undesirable plants	40,000	102,000	120,000	290,000	235,000	251,943	245,000

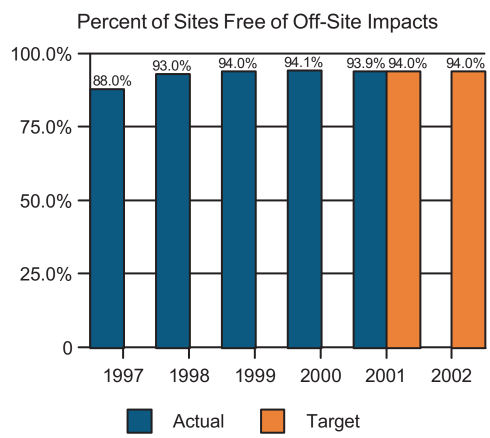
GPRA Program Activity 1.B.3: Environmental Protection Related to Mining Operations *(Improve regulatory programs for protecting the environment, people, and property during current mining operations and subsequent reclamation through cooperative, results-oriented oversight and evaluation of state programs)*

Background: The Office of Surface Mining (OSM) administers regulatory programs to ensure that the environment is protected during surface coal mining operations and that coal operators adequately reclaim disturbed land after mining is completed. Protection of people, property, and the environment is measured by the number of times incidents occur outside the boundaries of the permitted areas being mined. These are known as off-site impacts.

Performance Measure - *Percent of Sites Free of Off-Site Impacts.* The Office of Surface Mining, in conjunction with states and tribes, regulates over 9,800 mining operations covering 4.7 million acres in 27 states. During mining, the potential risk from safety and environmental hazards increases within the permitted site. However, because of required precautions, long-term effects are minimized. Off-site impacts—unintentional damaging effects that occur from blasting, unstable land failures, or water contamination—may cause problems that are more difficult to correct and have a greater potential for harming people or the environment.

Preventing or reducing the number of off-site impacts is a difficult task to undertake. Despite the difficulty, OSM, states, and tribes have placed a high priority on addressing these problems and consider this performance measure a key indicator of ultimate program success. To improve its performance in this area, OSM needs to evaluate the causes of off-site impacts and prescribe program improvements such as permit adjustments as well as providing technical assistance and expertise.

2001 Results: The OSM essentially met its performance target by having 93.9 percent of sites free of off-site impacts. Of the 6.1 percent that had off-site impacts, 89 percent were considered to be of minimal or moderate impact.



Subgoal 1.C: Maintain Healthy Natural Systems

GPRA Program Activity 1.C.1: Habitat Conservation *(Conserve an ecologically diverse network of lands and waters—of various ownerships—in cooperation with others to provide habitats for migratory birds, imperiled species, interjurisdictional fish, marine mammals, and species of international concern associated with those ecosystems)*

Background: The National Wildlife Refuge System, with 537 refuges and other areas encompassing approximately 95 million acres, protects virtually every type of habitat found in the United States for the benefit of fish and wildlife species. Many of these habitats are in degraded condition and must be restored to original function to benefit wildlife and the human communities that surround these lands. A significant amount of annual management is needed to produce desired wildlife benefits.

Performance Measures - *Number of Acres Annually Managed or Enhanced in the National Wildlife Refuge System; Number of Acres of Refuge Habitat Restored; and Number of Acres Added to the National Wildlife Refuge System.* Habitat is fundamental for self-sustaining populations of fish, wildlife, and plants as well as for functional ecosystems. The Fish and Wildlife Service's (FWS's) goal is to conserve fish and wildlife by protecting and restoring the habitat on which they depend.

2001 Results: The FWS managed or enhanced 3,358,893 acres in the National Wildlife Refuge System in 2001, exceeding its performance target of 3,144,559 acres. Enhancing and restoring habitat alters, treats, or manages land to increase habitat value for one or more species by bringing the habitat nearer to a fully restored or naturally occurring condition. Secure and healthy refuge habitats allow endangered species to recover and reduce the need to list species. The FWS restored 105,601 acres of refuge habitat, falling short of its initial target of 244,769 acres. The reason for the shortfall was due to erroneous data estimating in the North American Wetlands Conservation Program. This program has now been corrected with a new database and improved reporting procedures. The FWS added 1,213,396 acres to the National Wildlife Refuge System, significantly exceeding the target of 255,000 acres. The additions of Kingman National Wildlife Refuge and the Palmyra Atoll National Wildlife Refuge in the Line Islands, Central Pacific Ocean, were the primary reason for the significant increase.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of acres annually managed or enhanced in the National Wildlife Refuge System	2,386,856	3,098,856	2,950,725	3,287,764	3,144,559	3,358,893	3,450,000
Number of acres of refuge habitat restored	95,144	105,420	137,000	186,000	244,769	105,601	116,646
Number of acres added to the National Wildlife Refuge System	92,874	438,000	316,000	325,710	255,000	1,213,396	105,000

GPRA Program Activity 1.C.2: Environmental Activity *(Restore and maintain the health of our lands, waters, and renewable resources)*

Background: This activity focuses on two programs. First, the restoration of the Everglades and the South Florida ecosystem is one of America's most significant environmental initiatives. This vast region, which is home to more than six million Americans, seven of the ten fastest growing cities in the country, a huge tourism industry, and a large agricultural economy, also encompasses one of the world's unique environmental resources. Over the past 100 years, human-caused changes to the region's water flow have provided important economic benefits to the region, but have also damaged the environment. Biological indicators of native flora and fauna have shown severe damage throughout South Florida.

The second program is the Department's Restoration Program (funded by the Natural Resource Damage Assessment Fund) which provides for the restoration of injured natural resources nationwide. The Restoration Program assesses the damage to natural resources as the result of oil spills or hazardous substance releases that affect departmental lands or trust resources, as well as other lands within its authority and trust responsibility for American Indians. Legal settlements resulting from the damage assessment cases provide recovered funding that the Department uses to protect and restore injured natural resources, returning them to a healthy environmental condition or providing replacement resources.

Performance Measures - *Number of Acres Acquired by Federal Agencies and Number of Acres Acquired and/or Offers Extended by State of Florida.* The Department of the Interior signed an interagency agreement in September 1993 creating the South Florida Ecosystem Restoration Task Force. This interagency group works to integrate federal plans, policies, and programs in the Everglades ecosystem. The Department strives to complete federal land acquisitions on a schedule consistent with the hydrologic restoration of those areas. Other lands for habitat and water management are acquired on a 50/50 cost-shared basis with non-federal partners to provide the necessary spatial extent of the restored wetlands.

2001 Results: The Department acquired 11,011 acres of land to promote the restoration of the South Florida ecosystem, falling short of its performance target of 12,225 acres. Approximately 499 acres were acquired at Big Cypress National Preserve while 10,211 acres were acquired at Everglades National Park. Additionally, 301 acres were added to the National Wildlife Refuge System in South Florida. The state of Florida acquired 24,766 acres of land through a cost-sharing with Interior to promote the restoration of the South Florida ecosystem, exceeding the performance target of 14,342 acres.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of acres acquired and/or offers extended by federal agencies	5,675	26,716	10,326	36	12,225	11,011	N/A
Number of acres acquired and/or offers extended by Florida with funding provided by DOI	N/A	N/A	43,336	5,833	14,342	24,766	N/A

***Performance Measures** - Number of Restoration Projects Implemented and Cumulative Amount of Settlement Recoveries Deposited in the Restoration Fund.* The Restoration Program continues efforts to emphasize achieving on-the-ground restoration as the focal point of the program.

2001 Results: The Restoration Program ended the year with a total of 82 restoration projects underway, slightly under the target of 85 projects. Settlement recoveries totaled $92 million in 2001 for a cumulative amount of $188.5 million, exceeding the target by approximately 157 percent. The Restoration Program Office recently replaced a vacant regulatory management position with one more directly focused on implementing restoration actions. The Assistant Program Manager-Restoration will serve as a central point of contact and coordination for a wide array of restoration-based activities. By serving as a departmental clearinghouse and facilitator for restoration information, contacts, and coordination, the projected effect of this position will be significant.

Salt marsh restoration at Parson's Creek Rye, N.H. The Restoration Program works cooperatively with other natural resource trustees to restore resources for present and future generations (photo by Interior).

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Cumulative number of restoration projects implemented	37	47	59	70	85	82	100
Cumulative amount of settlement recoveries deposited in the Restoration Fund ($ in millions)	N/A	$48.4	$75.6	$96.5	$120.0	$188.5	$250.0

Subgoal 1.D: Protect and Recover Imperiled Species

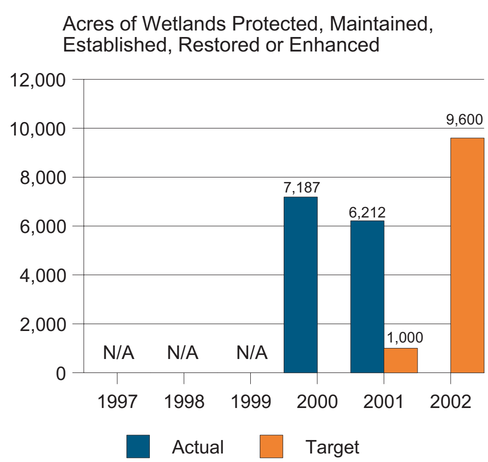
GPRA Program Activity 1.D.1: Fish and Wildlife Management and Development Affected by Reclamation Projects *(Conserve, enhance, and restore fish and wildlife populations, threatened and endangered species, and their habitats)*

Background: The Bureau of Reclamation strives to maintain and improve fish and wildlife habitat within watersheds that affect or are affected by Reclamation projects. These efforts ensure that Reclamation complies with the Endangered Species Act (ESA) and other legal requirements and minimizes the impact of its projects and facilities on fish and wildlife habitat. By emphasizing water resource planning, Reclamation seeks to balance the needs of many resource users while enhancing habitat and associated watersheds.

The watershed approach is a coordinating framework for water resource management that focuses public and private sector efforts on the highest priority problems within hydrologically-defined geographic areas, taking into consideration both ground and surface water (photo by BOR).

Performance Measure - *Acres of Wetlands Protected, Maintained, Established, Restored, or Enhanced.* As part of the goal described above, Reclamation devotes resources to ensure that it meets the Department's commitment to the no-net-loss-of-wetlands policy by supporting North American Waterfowl Management Planning joint ventures and other local and ecosystem-based programs that benefit wetlands.

2001 Results: Reclamation protected, established, restored, or enhanced 6,212 acres of wetlands and/or riparian habitat in 2001, exceeding its target of 1,000 acres. Reclamation often works with partners on these activities, making it difficult to predict the funding availability and exact amount of habitat to be addressed prior to implementation.



GPRA Program Activity 1.D.2: Sustainability of Fish and Wildlife Populations *(Ensure that migratory birds; endangered fish, wildlife, and plant species; interjurisdictional fish; marine mammals; and species of international concern are conserved, protected, enhanced, or restored)*

Background: The living resources of our Nation's inland and coastal aquatic ecosystems have been a core responsibility of the Fish and Wildlife Service for more than 120 years. This GPRA program activity encompasses the specific statutory mandates, international treaties, and agreements delegated to the FWS and the broad conservation ethics of the Nation. What began as a group of laws that sought to manage migratory game species has evolved into a broader set of conservation and protection statutes, based upon the realization that the continued variety and balance of plants and animals makes existence on earth possible.

***Performance Measures** - Number of Species Listed Under the Endangered Species Act as Endangered or Threatened a Decade or More Are Either Stable or Improving; Number of Species Delisted Due to Recovery; and Number of Species at Risk for which Listing Is Made Unnecessary Due to Conservation Agreements.* Protecting endangered and threatened species and restoring them to a secure status in the wild are the primary goals of the Endangered Species Program. Conserving endangered and threatened species is essential to preserving our natural heritage for future generations and maintaining our quality of life. Conserving ecosystems benefits all users of ecosystems resources and is a key element in maintaining our Nation's long-term economic prosperity.

2001 Results: The FWS achieved a level of 320 species stable or improving, falling just short of its target of 328 species. The reasons for the shortfall include (1) the increasing difficulty and complexity of bringing species back from the brink of extinction; (2) resources increasingly being directed toward the greatest recovery challenges; (3) the increasing frequency and severity of water shortages due to development and/or drought, which poses difficult challenges for the stabilization of aquatic species; and (4) the demand for greater stakeholder involvement in the recovery process, which has required additional time and resources.

The FWS delisted one species in 2001, falling short of its target of three species. The finalization of the bald eagle and the Douglas County population of the Columbian white-tailed deer delistings was delayed due to unforeseen circumstances. In the case of the Columbian white-tailed deer, additional information submitted during the public comment period for the proposed delisting required additional staff analysis and a reopening of the comment period. The FWS expects to finalize these two delistings in 2002.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of species listed under the ESA as endangered or threatened a decade or more are stable or improving	N/A	N/A	155/499 31%	309/571 54%	328/616 53%	320/616 52%	347/705 49%
Number of species delisted due to recovery	N/A	N/A	1	0	3	1	3
Number of species at risk for which listing is made unnecessary due to conservation agreements	N/A	N/A	N/A	N/A	3	5	3

Goal 2: Provide Recreation for America

The Department of the Interior provides recreational opportunities on federal lands. It also provides leadership and coordination and serves as a catalyst for recreation efforts by state and local governments and the private sector.

"The lands managed by the Department of the Interior provide unparalleled recreation opportunities."

Federal lands provide outstanding recreational opportunities, including hunting, fishing, camping, hiking, boating, driving off-highway vehicles, mountain biking, and birding. Interior continues to promote and provide recreational opportunities that are consistent with other land uses and with maintaining the health of the land.

Interior-managed lands support tremendous recreational use. In 2001, the Bureau of Land Management (BLM) public lands had approximately 51.5 million visits and the National Wildlife Refuge System and the National Fish Hatchery System about 41 million visits. The National Park Service had an estimated 286 million visits. The Bureau of Reclamation also provides visitors with water-based recreation opportunities at more than 300 reservoirs in the 17 western states. Annually, there are approximately 90 million recreation visits to Reclamation facilities. The total economic impact of recreational activities on Interior lands is enormous, contributing billions of dollars and thousands of jobs annually to the U.S. economy.

The Department employs the following strategies to achieve the goal of providing recreation for America:

- Establish partnerships and collaborative efforts to improve the management of congressionally designated areas such as national trails, wild and scenic rivers, wilderness areas, and heritage areas that cross jurisdictional lines.
- Provide grants to states, tribes, and localities for wilderness and recreation opportunities.
- Help states, tribes, territories, and non-profit groups promote recreation.
- Provide recreation management training and technical assistance to states, tribes, and local governments.
- Offer one-stop access to recreational information and services through the interagency federal recreation Web site, *http://www. recreation.gov*.
- Supplement appropriations through increased revenues and cost recovery for services.
- Know and understand visitor needs by conducting customer surveys to obtain a broad base of visitor information.
- Promote visitor safety by maintaining safe facilities, providing employee assistance, and educating visitors.

- Protect resources for others to enjoy by educating recreational visitors about the value of the land and its uses.

- Expand the use of volunteers and actively enroll new volunteer groups and associations.

- Increase concession revenue and expand concession opportunities consistent with applicable laws while ensuring that the returns received by the federal government are appropriate.

The major departmental activities to achieve the goal of providing recreation for America are shown in *Figure 6*.

Figure 6

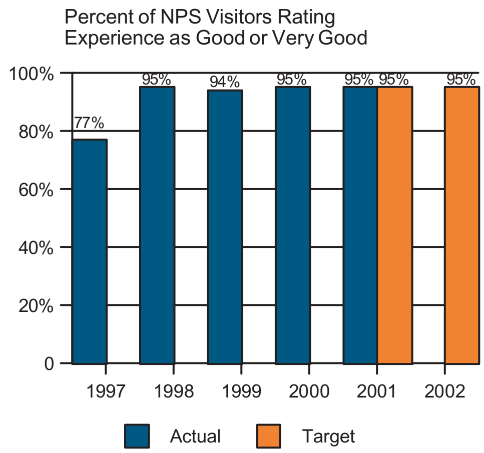
Goal 2 – Provide Recreation for America		
GPRA Program Activity	**2001 Expenses (in millions)**	**2000 Expenses (in millions)**
1. Visitor Enjoyment at National Park Facilities	$1,504	$1,447
2. Public Use and Enjoyment of Fish and Wildlife Resources	161	180
3. Opportunities for Environmentally Responsible Recreation on Public Lands	86	85
4. Recreation Opportunities Through Partnerships	258	204
5. Reclamation Land Management and Development	34	34
6. Partnerships in Natural Resources	3	0
Total - Goal 2	**$2,047**	**$1,950**

GPRA Program Activity 2.1: Visitor Enjoyment at National Park Facilities *(Provide for the enjoyment of National Park Service resources in such a manner and by such means as will leave them unimpaired for the enjoyment of future generations)*

Background: The National Park Service manages nationally significant battlefields, parks, historic sites, monuments, lakeshores, memorials, parkways, preserves, recreation areas, riverways, and seashores. National park areas have long been favorite destinations for millions of Americans as well as people from around the world.

Performance Measure - *Percent of Visitors Rating Experience as Good or Very Good.* Enjoyment of the park units and their resources is a fundamental part of the visitor experience. Visitor enjoyment and safety are affected by the quality of park programs, facilities, and services, whether provided by the National Park Service, a concessionaire, or a contractor. Knowledge about the people who visit these NPS areas has become increasingly important because of the need to know if visitor expectations are being met. One mechanism for determining how well the NPS is serving the public is through findings of the NPS Visitor Services Project (VSP). The VSP is an ongoing research project that utilizes two main survey tools to provide the NPS with valuable visitor feedback: in-depth visitor studies and a customer satisfaction card. Since 1988, the VSP has conducted over 120 in-depth visitor studies in individual units of the National Park System. Approximately 10 studies are done each year. Because regular surveys are needed by park managers to better manage the visitor experience, the NPS adopted the Visitor Survey Card (VSC) as a means for assessing visitor satisfaction at all of the parks rather than just a few each year. The results from the VSC Project are used by park managers to improve facilities and services and better support the visitor experience. The more in-depth VSP surveys will continue to be conducted to collect visitor information, determine policy issues, gauge visitor use trends, and determine current visitor needs.

2001 Results: The NPS met its performance target as 95 percent of visitors were satisfied with appropriate park facilities, services, and recreational opportunities.



GPRA Program Activity 2.2: Public Use and Enjoyment of Fish and Wildlife Resources *(Provide the public with opportunities to understand and participate in the conservation and use of fish and wildlife resources)*

Background: The Nation's ability to sustain ecosystems, and the natural heritage of fish and wildlife resources within them, will increasingly depend on the public's active participation in the stewardship of these resources. A growing number of American citizens lack the firsthand experience with fish and wildlife resources in their natural settings that past generations enjoyed. The growing diversity of the Nation's population introduces many new population groups to this country that also lack firsthand experience with American fish and wildlife resources. These factors and others offer a challenge for the FWS to provide environmental information so that the public understands how their well-being is linked to the well-being of fish and wildlife populations and their habitat.

Refuges are places where visitors can observe, learn about, and enjoy plants and animals in natural surroundings (photo by FWS).

Performance Measures - *Number of Volunteer Hours and Number of New Friends Groups.* For nearly 100 years, the National Wildlife Refuge System and the National Fish Hatchery System has tapped into an almost unlimited reservoir of support from individuals, organizations, academia, nonprofit groups, community leaders, and businesses for assistance in carrying out its daily work. These hands-on experiences provide tremendous benefits to refuges and hatcheries while increasing public understanding and appreciation of wildlife resources and their management.

2001 Results: Volunteer participation hours totaled 1,267,830 in 2001, or about 93 percent of the performance target. The number of volunteers that can be accommodated may be near the saturation point. Lack of staff time to nurture and develop volunteer programs may be the cause of this stabilization. The cumulative number of new friends groups at the end of the year was 149, or about 87 percent of the performance target. Large increases in the number of friends groups are showing signs of diminishing as groups are already in place at larger, more heavily visited refuges. Remaining refuges are less likely to attract sufficient interest to form these officially organized support groups. Additionally, it is very difficult for smaller refuges which do not have the necessary personnel to organize and support these groups since numerous administrative tasks are associated with managing the groups.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent increase in volunteer participation hours from 1997	- 1,335,738	15% 1,396,000	-4% 1,277,207	<1% 1,332,875	2% 1,360,000	-5% 1,267,830	5% 1,403,000
Number of new friends groups (cumulative)	63	95	120	135	171	149	183

GPRA Program Activity 2.3: Opportunities for Environmentally Responsible Recreation on Public Lands *(Provide the public with diverse opportunities to recreate on the public lands while maintaining the lands and facilities in good environmental condition)*

Background: The public lands provide visitors with a wide array of recreational opportunities. These include hunting, fishing, camping, hiking, boating, operating off-highway vehicles, mountain biking, birding, and visiting natural and cultural heritage sites. The BLM provides these opportunities where they are compatible with other authorized land uses, while minimizing risks to public health and safety and maintaining the health and diversity of the land.

Performance Measures - *Percent of Recreation Users Satisfied with the Quality of Their Recreation Experience and Percent of Recreation Users Satisfied with the BLM's Interpretation and Environmental Education in Special Recreation Management Areas (SRMAs).* As BLM recreation areas experience greater usage, an increase in the expectations of the American public regarding the quality of their recreation experience is inevitable. The BLM uses a national survey of recreation users to obtain information on customer satisfaction with the quality of their recreation experience.

2001 Results: Based on a sample of 1,603 respondents from 25 BLM recreation sites, the overall recreation satisfaction rate was 90 percent, short of the performance target of 94 percent. The satisfaction rate for BLM's interpretation and environmental education in SRMAs was 66 percent, falling short of the performance target of 76 percent.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent of recreation users satisfied with the quality of their recreation experience on the public lands	77%	91% *	93%	93%	94%	90%	94%
Percent of recreation users satisfied with the BLM's interpretation and environmental education in Special Recreation Management Areas	N/A	N/A	N/A	76%	76%	66%	76%

* In 1998, satisfaction survey was conducted at only premiere recreation fee sites.

GPRA Program Activity 2.4: Recreation Opportunities Through Partnerships *(Strengthen and preserve natural and cultural resources and enhance recreational opportunities managed by partners)*

Background: The National Park Service implements a broad range of programs that assist others to preserve our natural, cultural, and recreational resources. These programs encompass formal partnership programs with other federal agencies, states and territories, local governments, Indian tribes, foreign governments, private organizations, friends groups, academic institutions, and the general public. The NPS strives to increase the number of significant historic and archaeological properties protected and to improve customer satisfaction with technical assistance provided by the Park Service.

***Performance Measures** - Miles of Recreational Trails Added; Miles of Recreational River Corridor Added; and Acres of Recreational Park Land and Open Space Added.* The National Park Service helps communities find appropriate strategies for meeting recreational demand by protecting trail corridors, open space resources, rivers and watersheds, and historic and cultural resources that define their sense of place. The Park Service becomes involved when formally asked by local officials, landowners, and other citizens who share the desire to protect or to improve their communities. The NPS also brings technical expertise in public involvement, publications, organization building, project design, and site restoration. All projects are founded on cost-sharing, cooperation, and community initiative. Projects are implemented largely by using local, state, and private funds, with NPS assistance typically leveraged many times over.


National recreation trails provide for numerous outdoor recreation activities in a variety of urban, rural, and remote areas. There are over 800 national recreation trails (ranging from 1/4 mile to 485 miles) on federal, state, local, and privately owned lands (photo by NPS).

2001 Results: The NPS exceeded its performance targets as 6,465 acres of trails, 3,172 linear miles of river corridor, and 726,900 acres of park and open space were added.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Miles of recreational trails added	N/A	700	2,116	4,343	4,800	6,465	5,200
Miles of recreational river corridor added	N/A	1,100	1,504	2,540	2,850	3,172	3,700
Acres of recreational park land and open space added	N/A	33,700	45,425	655,511	691,900	726,900	786,800

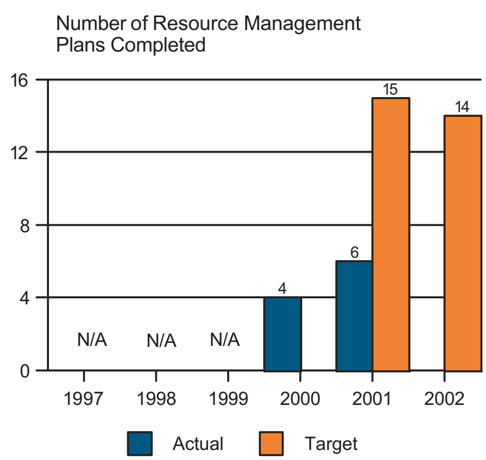
GPRA Program Activity 2.5: Reclamation Land Management and Development *(Provide the greatest overall benefit from existing land resources in a manner that is efficient and effective, uses sound conservation practices, and protects the environment)*

Background: The Bureau of Reclamation strives to manage lands in cooperation with others to improve, protect, and enhance land use, cultural, recreational, and environmental values. Using an ecosystem-based management approach, Reclamation assures that lands are managed in an economically and environmentally sound manner to benefit the American people.

Volunteers are an important part of the overall successful operation of Lake Cascade's adjacent lands. Civic groups, Boy Scouts, and retired citizens volunteer time each year to improve the landscape with natural plantings and construction of bird nesting areas (photo by BOR).

***Performance Measure - *** *Number of Resource Management Plans Completed.* Public Law 102-575 authorizes Reclamation to develop Resource Management Plans (RMPs). RMPs are important tools in land use decisionmaking because they act as a road map for land managers by identifying preferred land uses, priorities, and strategies.

2001 Results: Reclamation did not meet its performance target as only six RMPs were developed or completed in 2001. Delays were experienced as a result of the scheduling and completion of required actions associated with the Environmental Impact Statement process, particularly the public comment process. In a number of cases, public comments were significantly more extensive and controversial than expected. This required additional resources and time to address the issues.



GPRA Program Activity 2.6: Partnerships in Natural Resources *(Support and strengthen partnerships with tribal governments, states, local governments, and others in their efforts to conserve and enjoy fish, wildlife, plants, and habitats)*

Background: This GPRA program activity was established as a result of feedback received during the fall of 1999 from strategic planning stakeholder and employee consultation sessions. These sessions addressed the statutory mandates and agreements where the FWS has responsibility or can assist in the conservation of natural resources. It reflects FWS's commitment to support its partners in conserving fish, wildlife, plants, and their habitats.

***Performance Measure** - Number of Federal Aid Staff Trained in FAIMS (Federal Assistance Information Management System) and Percent of FAIMS Phase 1 Implementation.* The FWS envisions FAIMS as being a state-of-the-art electronic grants management system that provides efficient, effective delivery and tracking of grants and standardization of documentation for accountability, reporting, and auditing. The automation of grants processes will reduce data entry errors and expedite the process for approving grant funding requests.

2001 Results: The FWS met its performance targets as 20 Federal Aid staff were trained in the use of FAIMS and 95 percent of FAIMS Phase 1 implementation was completed. Training in FAIMS is critical because of system complexity, changes, and updates, as well as a need for consistent treatment of data. Phase 1 consists of the full development and implementation of the internal system, which serves as the backbone for the entire grants management process in federal assistance, including the electronic processing of funds.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of Federal Aid staff trained in using the Federal Assistance Information Management System (FAIMS)	N/A	N/A	N/A	60	20	20	20
Percent of FAIMS Phase 1 implementation	N/A	N/A	N/A	80%	95%	95%	100%

Goal 3: Manage Natural Resources for a Healthy Environment and a Strong Economy

"Interior's principal land and economic resource management agencies are the Bureau of Land Management, the Bureau of Reclamation, and the Minerals Management Service."

The Department of the Interior manages a wide variety of natural resources for commercial activities when development can be undertaken in an environmentally responsible manner. These resources, including energy and non-energy minerals, water, timber, grazing land, and hydroelectric power, contribute substantially to virtually all sectors of the economy. The Department's stewardship responsibility is to manage America's natural, as well as cultural, resources while ensuring environmentally sound development and economic vitality.

The public lands administered by the Bureau of Land Management (BLM) produce about 35 percent of the Nation's coal, 11 percent of its natural gas, and 5 percent of its oil. These lands also produce a large portion of the Nation's commercial minerals and metals, including stone for highways, potash for fertilizers, gold, and silver. The estimated 2001 market value of production occurring on the public lands was approximately $18.7 billion, 99 percent of which was derived from energy and minerals. The direct and indirect economic impact of all commercial activities was approximately $38.2 billion. Of the total $2.24 billion in annual revenues derived from BLM-managed public lands and mineral resources, energy and minerals generated about $2.2 billion (98 percent) from mineral royalties, rents, bonuses, sales, and fees. States share in a large portion of the revenues collected.

The Bureau of Reclamation (BOR) is one of the largest suppliers and managers of water in the 17 western states, delivering an estimated 10 trillion gallons of water to more than 31 million people each year for agricultural, municipal, industrial, and domestic uses. Reclamation is the Nation's second largest producer of hydroelectric power, generating nearly $1 billion in annual power revenues. Its multipurpose projects also provide substantial flood control, recreation, and fish and wildlife benefits. Reclamation has also developed safe and dependable water supplies and hydroelectric power to foster settlement and economic growth in the West. In recent years, Reclamation has moved from development to management of these important resources. In cooperation with state, tribal, local, and other entities, Reclamation encourages development of solutions for water supply problems that are consensus based, cost effective, and environmentally sound.

The Minerals Management Service (MMS) manages the Nation's natural gas, oil, and other mineral resources on approximately 1.76 billion acres of the Outer Continental Shelf (OCS), and collects, accounts for, and disburses revenues from offshore federal mineral leases as well as from onshore mineral leases on federal and Indian lands. In 2001, the MMS managed approximately 7,500 active leases on the OCS; these leases supplied over 25 percent of the natural gas (over 140 trillion cubic feet since 1953) and more than 22 percent of the oil (over 13 billion barrels since 1953) produced in the United States. The return on investment of MMS programs is enormous, with billions of dollars collected annually from minerals produced from offshore and onshore federal and Indian lands. Since 1982, approximately $120 billion in revenues from mineral activities on federal and Indian lands has been distributed by the MMS to the U.S. Treasury, states, Indian tribes, and individual Indian mineral owners (allotees).

The Fish and Wildlife Service (FWS) manages 70 fish hatcheries that produce an estimated 148 million fish. Fish production contributes millions of dollars annually to the U.S. economy.

The goods, services, and revenues produced on federal lands are economically significant to the Nation and to many local communities, particularly in the western and Gulf Coast states. Interior is committed to making these resources available for appropriate commercial uses while protecting the environment and receiving a fair return for the American taxpayer.

The Department employs the following strategies to achieve the goal of managing natural resources for a healthy environment and a strong economy:

- Forge partnerships and increase customer and stakeholder communications in order to identify ways to more effectively manage mineral and natural resources, and to reduce administrative burdens for all parties.

- Engage customers and stakeholders more effectively in consensus-building processes while striving to balance national, regional, and local interests.

- Develop interagency and intergovernmental approaches to improving customer service and more effectively sharing limited agency resources.

- Improve procedures for maintaining the long-term health and productivity of renewable resources and conserving nonrenewable resources.

- Improve procedures to ensure that the public receives a fair return for the use of publicly-owned resources.

- Apply new technologies to support management objectives.

- Benchmark with other hydropower facilities to compare operational effectiveness and seek best practices to efficiently and effectively deliver power.

The major departmental activities to achieve the goal of managing natural resources for a healthy environment and a strong economy are summarized in *Figure 7*.

Figure 7

Goal 3 – Manage Natural Resources for a Healthy Economy and a Strong Economy		
GPRA Program Activity	**2001 Expenses (in millions)**	**2000 Expenses (in millions)**
1. Provide Opportunities for Environmentally Responsible Commercial Activities	$230	$262
2. Reduce Threats to Public Health, Safety, and Property on Public Lands	519	473
3. Reclamation Facility Maintenance and Rehabilitation	94	97
4. Water and Energy Management and Development	837	530
5. Reclamation Facility Operations	425	432
6. Reclamation Title Transfers	59	62
7. Offshore Minerals Management	189	320
8. Minerals Revenue Management	1,187	813
9. United Mine Workers Combined Benefit Fund	167	144
10. Central Utah Project	8	0
Total – Goal 3	**$3,715**	**$3,134**

GPRA Program Activity 3.1: Provide Opportunities for Environmentally Responsible Commercial Activities *(Provide commercial opportunities for use of the public lands while maintaining or improving environmental conditions)*

Background: The public lands produce commodities that are key to the Nation's economy, providing economic stability and growth for local and regional economies. The BLM manages myriad commercial activities on the public lands, including oil and gas leasing, livestock, grazing, timber production, and coal leasing. The BLM recognizes the Nation's need for a domestic source of minerals, food, timber, and fiber from the public lands. In 2001, the estimated market value of production occurring on public lands was $18.7 billion, 99 percent of which was derived from energy and minerals. The direct and indirect economic impact of all commercial activities amounted to approximately $38.2 billion.

The public lands are an important component of the Nation's economy, providing economic stability and growth for local and regional economies (photo by BLM).

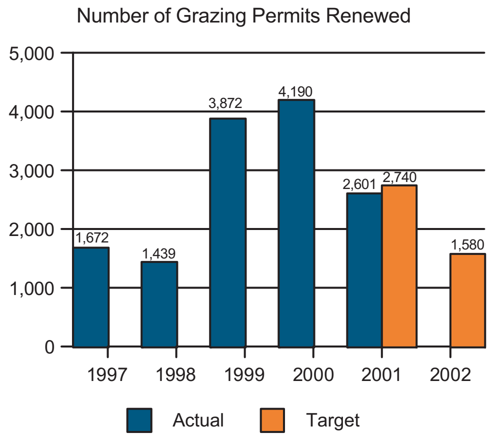
Performance Measures - *Number of Lease and Pre-Lease Actions Authorized; Number of Post-Lease Actions Processed; and Number of Compliance, Inspection, and Enforcement Actions Taken.* Increasing demand for commercial energy and mineral leases has made it challenging for the BLM to meet its workload associated with existing leases and permits and to conduct the reviews required to meet the demand for new leases.

2001 Results: The BLM met one of its three performance targets by authorizing 17,401 energy and mineral lease and pre-lease actions, processing 59,190 energy and mineral post-lease actions, and completing 24,366 energy and mineral compliance, inspection, and enforcement actions on federal lands. The performance measure not met, number of lease and pre-lease actions, included new mining claims recorded, which were significantly below the previous year accomplishment. This is a factor of public demand and accounted for the entire shortfall.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of lease and pre-lease actions authorized	N/A	N/A	N/A	24,400	24,000	17,401	26,000
Number of post-lease actions processed	N/A	N/A	N/A	46,000	51,700	59,190	55,000
Number of compliance, inspection, and enforcement actions taken	N/A	N/A	N/A	25,600	24,700	24,366	31,000

Performance Measure - *Number of Grazing Permits Renewed.* Permit renewal is a federal action that must conform with land use plans and comply with federal laws and regulations for protecting the environment, including the National Environmental Policy Act, the National Historic Preservation Act, the Endangered Species Act, and others.

2001 Results: The BLM issued 2,601 grazing permits or leases in 2001, falling just short of its performance target of 2,740.



Performance Measure *- Amount of Timber Offered for Sale in the Pacific Northwest and Amount of Timber Offered for Sale Outside the Pacific Northwest.* Most of BLM's timber offered for sale is under the Pacific Northwest Forest Plan. The success of offering timber for sale and ability to withstand legal challenges depend on in-depth assessments of the risks to the resources and comprehensive monitoring of the impact of timber harvesting on resource conditions.

2001 Results: The BLM offered 56.4 million board feet of timber for sale in the Pacific Northwest (target not met) and 17.2 million board feet of timber for sale outside the Pacific Northwest (target exceeded). The planned timber for sale in the Pacific Northwest was not met because of litigation issues.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Million board feet of timber offered for sale in the Pacific Northwest	189.7	257.5	61.7	69.2	70.0	56.4	150.0
Million board feet of timber offered for sale outside the Pacific Northwest	15.7	15.6	12.5	12.1	14.7	17.2	28.0

GPRA Program Activity 3.2: Reduce Threats to Public Health, Safety, and Property on Public Lands *(Ensure that public lands and facilities are safe for the general public and for Interior employees)*

Background: The Bureau of Land Management is responsible for protecting public lands and facilities from unauthorized uses, hazardous materials, illegal dumping, theft, wildfire, and other unsafe conditions. BLM-managed public lands contain more than $5 billion in capital improvements including roads, trails, dams, bridges, buildings, and recreation sites. Use of these facilities is increasing.

Performance Measures - *Percent of Administrative Facilities in Fair or Good Condition; Percent of Dams in Fair or Good Condition; and Percent of Bridges in Fair or Good Condition.* The BLM maintains 3,753 buildings, 701 administrative sites, 2,042 recreation sites, 934 bridges, and 1,133 qualifying dams. All facilities require routine preventive maintenance and many require repairs to mitigate past deferred maintenance.

2001 Results: The BLM increased the percentage of administrative facilities in fair or good condition to 87 percent (target not met); dams to 61 percent (target achieved); and bridges to 91 percent (target not met).

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent of administrative sites in fair or good condition	N/A	86%	86%	84%	88%	87%	88%
Percent of dams in fair or good condition	N/A	55%	56%	61%	61%	61%	61%
Percent of bridges in fair or good condition	N/A	91%	92%	92%	95%	91%	95%

Performance Measures - *Percent of Wildland Fires Contained with Initial Attack; Percent of Rural Fire Districts (RFDs) Assisted; and Number of Fire Facilities Under Construction, Reconstruction, or Maintenance.* The goal of the Wildland Fire Management program is to integrate fire into land and resource management planning and activities; protect federal and trust lands, resources, and the public welfare from destructive fires; and use fire to maintain and restore healthy and sustainable ecosystems.

2001 Results: The Department met its performance target by containing 95 percent of fires by initial attack. The Department also awarded over $9.8 million in grants to individual, rural, and volunteer fire departments (44 percent), exceeding its performance target of 25 percent. A total of 45 fire facilities were under construction, reconstruction, or maintenance in 2001, short of the target of 52 facilities.

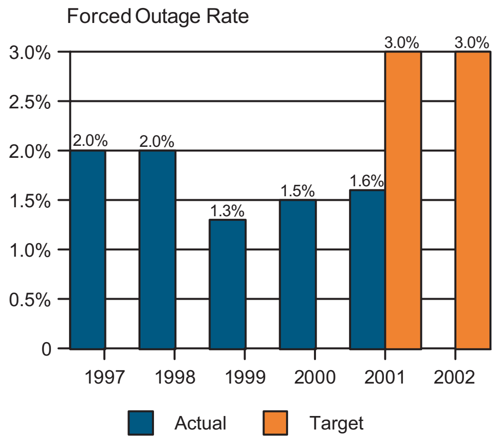
Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent of fires contained by initial attack	N/A	N/A	N/A	92%	95%	95%	95%
Percent of rural fire districts assisted	N/A	N/A	N/A	N/A	25%	44%	25%
Number of fire facilities under construction, reconstruction, or maintenance	N/A	N/A	N/A	16	52	45	77

GPRA Program Activity 3.3: Reclamation Facility Maintenance and Rehabilitation *(Ensure the proper maintenance, reliability, and safety of Reclamation's facilities and identify and schedule the necessary rehabilitation work)*

Background: The Bureau of Reclamation is responsible for ensuring the reliable delivery of water and power. To ensure reliability, BOR frequently reviews facilities and conducts maintenance, replacement, and minor additions to infrastructure and structural facilities, including facilities for which Reclamation has direct operation and maintenance responsibility on a daily basis.

Performance Measure - *Forced Outage Rate.* A forced outage rate measures the amount of unplanned shutdown time due to equipment failure and other operational or maintenance problems. Three percent is the industry average forced-outage rate. A low forced-outage rate helps to ensure that the facility is operating well and that Reclamation can fully utilize the amount of water available to generate power.

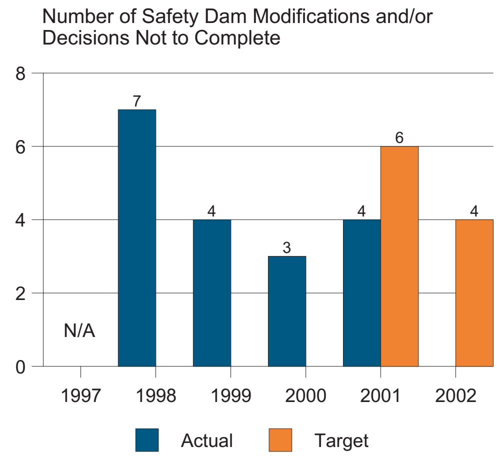
2001 Results: Reclamation exceeded its target of 3 percent by achieving a 1.6 percent forced outage rate, a slight increase over the prior year. Four units at Grand Coulee Dam remain offline due to a fire that damaged switchgear during 2000. However, these units provide power for plant operations and do not affect the amount of power provided to customers through the Bonneville power grid. Repair work is ongoing and the damaged units are expected to be operational in January 2003.



Performance Measure - *Number of Completed Safety Dam Modifications and/or Decisions Not to Complete.* Reclamation has reservoirs impounded by 457 dams and dikes. Of these dams and dikes, 358 are considered high or significant hazard dams, which means they would place the public at risk if they were to fail. Approximately 50 percent of Reclamation's dams were built between 1900 and 1950, while only ten percent of the dams were built under current state-of-the-art design and construction practices. This performance measure shows Reclamation's ability to complete modifications to its dams to ensure safety to downstream people and resources.

Safety of dam modifications consists of correcting identified structural deficiencies. These deficiencies could lead to a failure, resulting in uncontrolled releases of stored water that would place downstream populations and resources at risk (photo by BOR).

2001 Results: Reclamation completed safety of dam modifications (or decisions not to modify) at Salmon Lake Dam, Casitas Dam, Cedar Bluff Dam, and Anita Dam. Modifications were not completed at Caballo Dam and Avalon Dam. The completion of designs for the strengthening of spillway gates at Caballo Dam was extensive and time-consuming due to additional testing of materials and required construction procedures. Reclamation anticipates completion of Caballo Dam construction during the first quarter of 2002. Negotiations for project repayment were the primary cause for the delay of Avalon Dam construction, which is now scheduled to be completed during the second quarter of 2002.

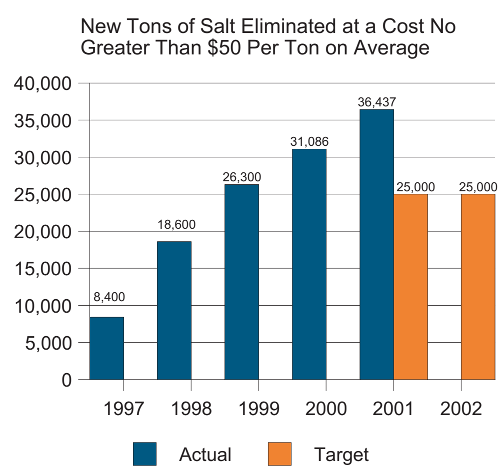


GPRA Program Activity 3.4: Water and Energy Management and Development *(Manage water resources in cooperation with others to improve water quantity and quality for agricultural, municipal, industrial, rural, domestic, hydropower, recreational, and fish and wildlife purposes)*

Background: Water is one of America's most valuable resources. Having enough high-quality water is critical to the health, safety, and survival of people, the environment, and the economy. Effective management maximizes overall benefits from our finite, variable natural yearly water supply; it helps us better meet competing demands and ensures the availability and quality of water resources for current and future generations. Reclamation seeks to gain the greatest benefit from existing resources in a manner that recognizes competing interests, uses sound conservation practices, and is efficient.

Performance Measure - *New Tons of Salt Eliminated at a Cost No Greater Than $50 Per Ton on Average.* Salinity can cause corrosion and clogged pipes in water delivery systems and adversely affect crop germination, and reduce crop yields. Each year, Reclamation's goal is to continually increase the amount of salt removed from the Colorado River while maintaining or reducing the cost per ton of salt removed to ensure that the project is conducted efficiently.

2001 Results: Reclamation exceeded its performance target by eliminating 36,437 tons of salt at a cost no greater than $50 per ton on average.

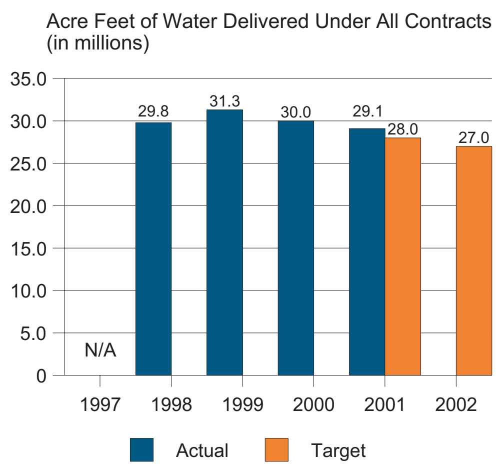


GPRA Program Activity 3.5: Reclamation Facility Operations *(Operate Reclamation facilities to provide flood control, the delivery of water and power, fish and wildlife benefits, and recreation activities commensurate with established purposes and legal requirements)*

Background: The Bureau of Reclamation operates approximately 700 water and power facilities and related systems. These facilities serve agricultural, power, and municipal users, as well as recreation, fish, and wildlife benefits and flood control. Reclamation must operate its facilities in the most effective and efficient manner possible to achieve maximum benefits.

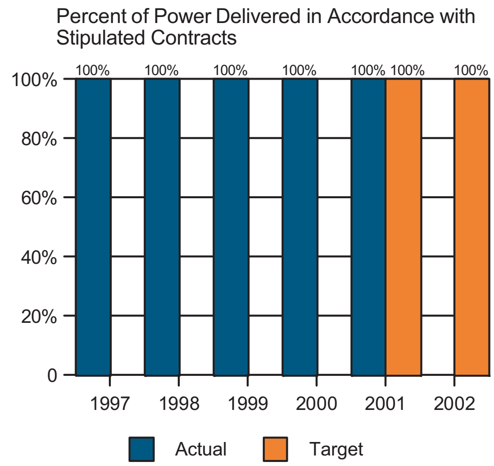
***Performance Measure** - Acre Feet of Water Delivered or Released.* The annual amount of acre feet of water delivered depends on the natural yearly water supply and variable weather patterns. Effective management and operations maximize overall benefits from the water available by ensuring that systems deliver water in the most effective way possible.

2001 Results: Reclamation exceeded its performance target by delivering 29.1 million acre feet of water. Additional water was provided to increase flows reduced as a result of drought conditions.



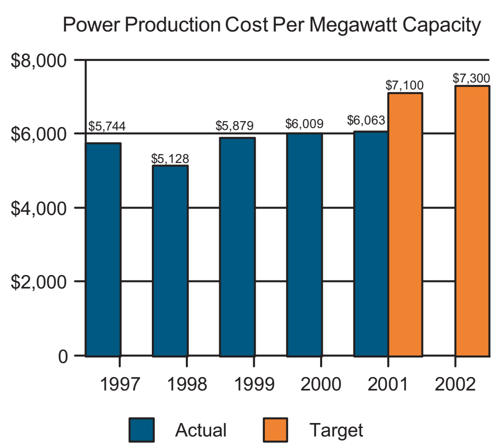
***Performance Measure** - Percent of Power Delivered in Accordance with Contractual Commitments.* Many Reclamation projects provide power generation. The demand for power is increasing, but the amount of power that can be generated varies according to water availability. This performance goal measures Reclamation's ability to deliver power to customers as stipulated in contracts. The goal will be accomplished by effectively operating power facilities and meeting power requirements.

2001 Results: Reclamation achieved its performance target by meeting 100 percent of its project power commitments.



***Performance Measure** - Power Production Cost per Megawatt Capacity.* Reclamation strives to keep power production costs below (and better than) the national average for comparable hydropower facilities. As Reclamation's facilities age, it will become more challenging to keep costs relatively low. The cost per megawatt capacity is an indicator of how well Reclamation operates its facilities and is used to benchmark Reclamation's operational effectiveness against other private and public hydropower facilities.

2001 Results: Reclamation exceeded its performance target by achieving a $6,063 cost per megawatt of power. This result is within the upper quartile of lowest cost hydropower facilities.



GPRA Program Activity 3.6: Reclamation Title Transfers *(Improve business practices by working with local entities and Congress to transfer ownership of Reclamation facilities that no longer have national significance to non-federal interests)*

Background: Transferring Reclamation assets that no longer have national significance plays an important role in fulfilling the Department's objective that government work more efficiently and cost less.

Performance Measure *- Number of Projects or Parts of Projects for which an Agreement on Goals and Process Has Been Completed; Number of Projects or Parts of Projects for which Title Transfer Agreements Have Been Completed; Number of Titles Transferred.* A large amount of work is required before a project title is transferred. Often, entities seek initial agreement to proceed on transfer negotiations. During this phase, the parties commit to a process and conduct initial analyses to determine if the transfer is feasible. Some entities seek congressional approval for a transfer first and then negotiate title transfer agreements with Reclamation. At this second stage, the details of title transfer are negotiated. Title transfer cannot occur until this phase is complete. The third phase results in the actual transfer of title. Reclamation measures all three steps in the process because each step is difficult to achieve and represents a major milestone towards transfer.

2001 Results: Reclamation exceeded two of its three performance targets in 2001. Process agreements to transfer titles were completed for the Forest Hills Irrigation District for the Sugar Pine Dam in Placer County; Carlsbad Irrigation District for the Carlsbad Project, New Mexico; and Lavaca-Navidad River Authority for the Palmetto Bend Project, Texas. The Pitman-Bypass Project was not completed because the transferee determined that the project was no longer viable. Title transfer agreements were completed for the Robert B. Griffin Project, New Mexico; Wellton-Mohawk Project, Arizona; Cachuma Project (Carpinteria Valley Water District), California; Cachuma Project (Montecito Water District), California; and the Carlsbad Project, New Mexico. Title transfers were completed for the Boise Project, Idaho; Palmetto Bend Project, Texas; Robert B. Griffin Project, New Mexico; Clear Creek Facility, Shasta Project, California; and the Carlsbad Project, New Mexico.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of projects or parts of projects for which an agreement on goals and process has been completed	N/A	N/A	N/A	9	4	3	1
Number of projects or parts of projects for which title transfer agreements have been completed	N/A	N/A	3	3	4	5	0
Number of titles transferred	N/A	1	1	1	4	5	1

GPRA Program Activity 3.7: Offshore Minerals Management *(Provide for safe and environmentally sound mineral development on the Outer Continental Shelf (OCS) and ensure that the public receives fair market value)*

Background: Offshore production from the OCS is a critical component of our Nation's domestic energy; OCS production currently provides more than 25 percent of the natural gas and 22 percent of the oil produced in the United States. The demand for natural gas is expected to continue to increase significantly during the next 10 to 20 years.

Performance Measure *- Safety Index: Ratio of the Number of Incidents (Times the Severity Factor) to the Number of Activities (Times the Complexity/Risk Factor).* This index was previously termed the "accident index." This index considers the number and severity of incidents and the relative risks of those activities. It can be compared only with results from other years. The index is derived as follows:

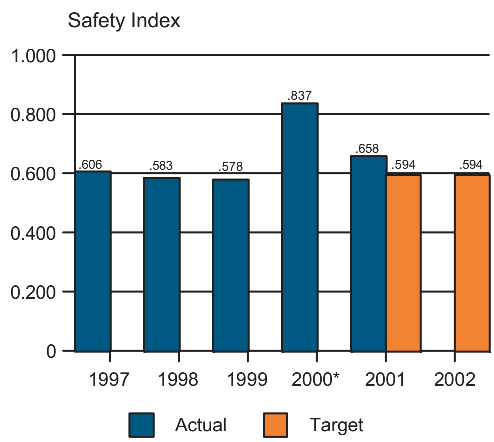
1. Each incident is multiplied by a factor representing the severity of the incident and the results are totaled. Incidents include fatalities, injuries, explosions, blowouts, fires, and collisions. Pollution events are excluded because they are captured in the environmental

index. For example, a fire that causes $1,000 damage receives a severity value of 1, while a fire that causes $2 million damage receives a severity value of 500.

2. Each activity that occurred during OCS oil, gas, and sulfur operations is multiplied by a factor representing the complexity and safety risk of that activity and the results are then totaled. (Activities include numbers of platforms, wells drilled/completed, and wells plugged and abandoned.) For example, the number of platforms in water less than 200 meters deep with zero to five wells is multiplied by one, while the number of platforms in water 200 to 400 meters deep with zero to eleven wells is multiplied by three.

3. The safety index value equals the totals from Step 1 divided by the totals from Step 2. In the most extreme instance, if each activity had resulted in the most severe type of accident (i.e., multiple fatalities), the 1996 index would have been 298 instead of .612.

2001 Results: The MMS achieved a safety index of .658, which, although short of its performance target of .594, represents a significant improvement over last year's index. The improvement is due to a decrease in the severity of accidents that occurred as well as a marked increase in the level of activity from 2000 to 2001.



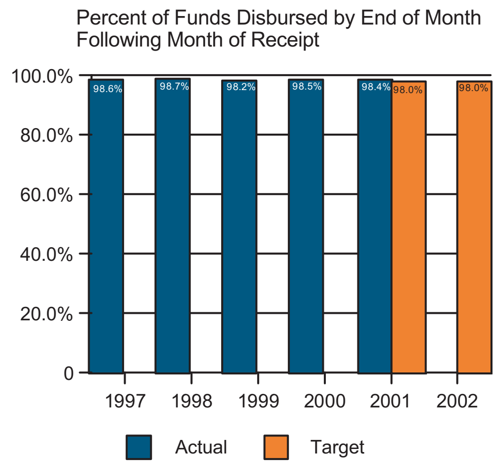
* Due to a database query error, the safety index was erroneously reported as .867 in last year's report.

GPRA Program Activity 3.8: Minerals Revenue Management *(Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services)*

Background: The federal government is the largest mineral royalty owner in the United States. The Minerals Management Service is responsible for ensuring that billions of dollars in annual revenues from federal and Indian mineral leases are collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) establishes the framework for improving management of federal and Indian mineral royalties.

***Performance Measure** - Percent of Funds Disbursed by the End of the Month Following the Month of Receipt.* The MMS collects and processes reports and payments on over 78,000 leases each month relating to bonuses, rents, and royalties. The FOGRMA requires monthly distribution and disbursement of payments to states and Indians for their share of mineral leasing revenues.

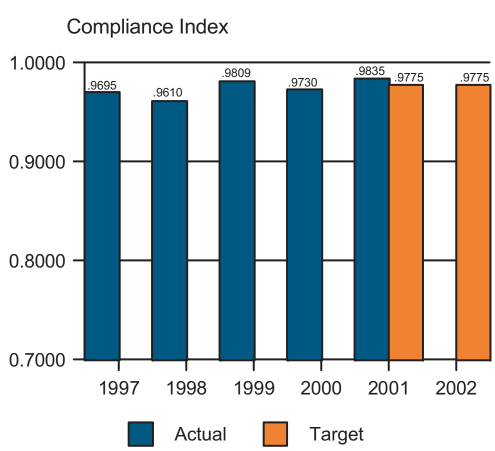
2001 Results: The MMS met its performance target by achieving an on-time disbursement rate of 98.4 percent. In 2001, the MMS disbursed more than $10 billion to federal agencies, the U.S. Treasury, states, and the Office of Trust Funds Management on behalf of Indian tribes and individual Indian mineral owners.



Performance Measure** - Compliance Index: Actual Voluntary Royalty Payments/Expected Royalty Payments). The MMS strives to assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, but no later than three years from the due date. The objective of this performance measure is to improve the accuracy and timeliness of each company's initial royalty payment submissions by the due date.

The compliance index model annually calculates expected total royalty payments using available information and public price data. Before MMS calculates this index, it waits one year for industry to make adjustments to its royalty and production reports and payments. The index reported for 2001 is for calendar year 1999.

2001 Results: The MMS met its performance target by achieving a compliance index of .9835. In 2002, the MMS will review the methodology that is currently used to compute this index to determine if changes are required to more accurately reflect the goal of the program. As is the case with the current compliance index, the new measure will focus on compliance with expected values for defined producing areas and properties. Additionally, the MMS intends to calculate compliance on a real-time basis instead of waiting for two years as is currently done.



GPRA Program Activity 3.9: United Mine Workers of America Combined Benefit Fund *(Transfer annually a portion of the interest earned from the Abandoned Mine Land Special Fund to the United Mine Workers of America Combined Benefit Fund (CBF)*

Background: Since 1996, the Office of Surface Mining has been required to transfer annually a portion of the interest earned from the Abandoned Mine Land (AML) Special Fund to the United Mine Workers of America Combined Benefit Fund. The AML interest proceeds are made available to provide health benefits for certain eligible retired coal miners and their dependents. Payments are distributed annually based on the number of beneficiaries and are made in advance based on an estimate. Under current practice, this estimate is then adjusted to actual costs as health benefits are paid. Additionally, the number of beneficiaries can change from year to year based on court cases, bankruptcies, and mortality.

Performance Measure: OSM has determined that meaningful performance measures for this transfer are not possible. Once the transfer is made, OSM has limited authority over how the transferred money is used.

GPRA Program Activity 3.10: Central Utah Project

Background: The Central Utah Completion Act provides for the completion of the Central Utah Project by the Central Utah Water Conservancy District. The Act also authorizes funding for fish, wildlife, and recreation mitigation and conservation activities; establishes the Utah Reclamation Mitigation and Conservation Commission to oversee the implementation of those activities; and authorizes funding for the Ute Indian Rights Settlement. The Act became law in October 1992 after several years of debate regarding how to complete the Central Utah Project and resolve related claims of the Ute Indian Tribe. A Central Utah Project (CUP) Completion Act Office was established in Provo, Utah, to provide liaison between the Department and three localities—the Central Utah Water Conservancy District, the Utah Reclamation Mitigation and Conservation Commission, and the Ute Indian Tribe—and to provide any other assistance needed in implementing the Completion Act.

There are no comparative performance data available for the CUP Completion Act Office since 2001 is the first year this information has been reported in the Accountability Report. The Department anticipates continuing to report on the status of project completion in future reports.

Performance Measure: *Percent Completion of Central Utah Water Conservancy District Work Authorized by Congress.* The Central Utah Project Completion Act Office works with the Utah Water Conservancy District to construct water conservation and supply projects. It also works with the District to coordinate local cost-sharing, ensure compliance with federal environmental laws, and promote a program of water conservation.

2001 Results: By the end of 2001, the District had completed 37 percent of the work authorized by Congress. In 2001, the District completed all work associated with the Wasatch County Water Efficiency Project, with the exception of some minor work to be performed by the U.S. Forest Service. The District also completed 42 percent of the Upper Diamond Fork Tunnel Project, while the CUP Completion Act Office completed the Syar Gate and Bypass Project, providing the flexibility to maintain the statutorily mandated minimum stream flows for fish and wildlife in the Upper Diamond Fork drainage. In addition, the District completed 85 percent of the Spanish Fork River Flow Control Structure, as well as two new local development projects and three new water conservation projects that conserve 2,839 acre-feet of water annually. Finally, the District completed the necessary feasibility study, environmental compliance documents, and contracts required for the Uinta Basin Replacement Project. Planning and environmental compliance work was initiated for the Utah Lake Drainage Basin Water Delivery System.

Performance Measure: *Percent Completion of Utah Reclamation Mitigation and Conservation Commission Work Authorized by Congress.* The Central Utah Project Completion Act Office works with the Utah Reclamation Mitigation and Conservation Commission to implement measures to conserve, mitigate, and enhance fish, wildlife, and recreation resources affected by reclamation projects in Utah.

2001 Results: By the end of 2001, the Mitigation Commission had completed 48 percent of all work authorized by Congress. During 2001, the Mitigation Commission continued to acquire water rights for instream flows, mitigate for the endangered June sucker, construct the Provo River Restoration Project, acquire land for the Utah Lake Wetland Preserve, construct recreation facilities in Diamond Fork, acquire wetlands around the Great Salt Lake and the Jordan River, and construct mitigation hatcheries.

Goal 4: Provide Science for a Changing World

"Honesty and integrity in all aspects of scientific enterprise, maintaining impartiality, and ensuring that information and products are used to benefit the public as a whole are the hallmarks of USGS science."

As a Nation, we face serious questions concerning the environment: How can we ensure an adequate supply of critical water, energy, mineral, and biological resources in the future? Are we irreversibly altering our natural environment when we use these resources? How has the global environment changed over time? What can the past tell us about the future? How can we predict, prevent, and mitigate the effects of natural hazards? Collecting, analyzing, and disseminating the scientific information needed to answer these questions, as well as providing the other critical scientific support for resource management decisions, are major responsibilities of the Department.

The U.S. Geological Survey (USGS) is the Nation's primary provider of natural science information related to natural hazards, certain aspects of the environment, and mineral, energy, water, and biological resources. USGS scientific research contributes to improving the health and welfare of the American people, as well as helping to resolve the Nation's environmental issues and formulate sound federal land management and natural resource policies. USGS is also the federal government's principal domestic map-making agency.

Since 1879, the USGS has been responsible for classifying the public lands and examining the geological structure, mineral resources, and products of the national domain. With the incorporation of the former National Biological Service in 1996, the USGS has also become a major partner in enhancing the Nation's understanding of the conditions and trends of biological resources and the ecological factors affecting them.

The Department employs the following strategies to achieve the goal of providing science for a changing world:

- Participate in interagency and intergovernmental programs to assess, document, and monitor ecological and socioeconomic conditions and trends, including developing and implementing information-needs assessment procedures.

- Ensure that its scientific research program focuses on understanding, assessing, and monitoring ecosystems to provide the scientific understanding and technologies needed to support sound land and resource management decisions.

- Help society to understand the ecological, geologic, chemical, and hydrologic processes that govern the environment's responses to management actions.

- Provide scientific information and technical assistance to understand the interaction of natural and human systems, protect the environment, understand the effects and risks of natural hazards, control wildlife diseases, assess energy and mineral resources, and ensure the preservation, conservation, and sustainable use of natural resources and restoration of habitats.

- Develop technology to increase efficiency and expand the collection and management of natural science data; establish and maintain national earth and biological science databases for use by federal, state, and local land management and regulatory agencies, as well as the public.

The major departmental activities to achieve the goal of providing science for a changing world are summarized in *Figure 8.*

Figure 8

Goal 4 – Provide Science for a Changing World		
GPRA Program Activity	**2001 Expenses ($ in millions)**	**2000 Expenses ($ in millions)**
1. Improve Environmental and Natural Resource Information	$1,095	$1,067
2. Increase Hazard Knowledge and Warning	188	159
3. Improve Land, Resources, and Title Information	120	119
Total – Goal 4	**$1,403**	**$1,345**

GPRA Program Activity 4.1: Improve Environmental and Natural Resource Information *(Provide science for a changing world in response to present and anticipated needs to expand our understanding of environmental and natural resource issues on regional, national, and global scales and enhance predictive/forecast modeling capabilities)*

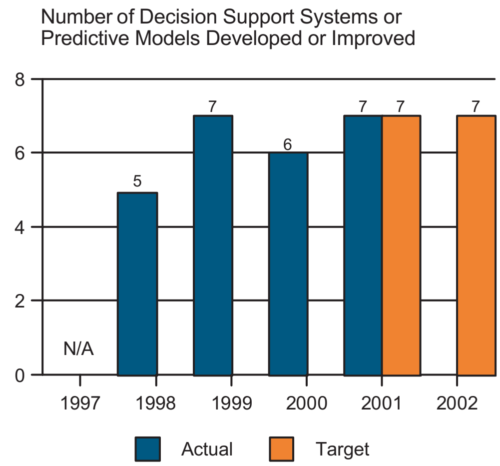
Background: The environment is constantly changing as natural processes and human actions affect it. Changes in demographics also affect the competition for and use of renewable and nonrenewable natural resources—land, water, minerals, and energy—needed to sustain life and to maintain and enhance America's economic strength. As land and resource management issues become increasingly complex, both environmental and natural resources sciences are needed to guide decisions, predict outcomes, and monitor results.

Tidal mangrove wetland in Florida (photo by Virginia Carter).

***Performance Measure** - Number of Decision Support Systems or Predictive Models Developed or Improved.* USGS's environment and natural resource programs focus on understanding, modeling, and predicting how multiple forces affect natural systems. This knowledge enables land managers, decisionmakers, and citizens to make sound decisions about how to live on and manage the land. The USGS provides these customers with a better understanding of natural systems at all scales, with more and better predictive tools and decision support systems, and with easier access to natural science data.

2001 Results: The USGS met its performance target by developing or improving seven decision support systems. These decision support tools and predictive models are broad in scope, are robust, yield quantitative predictions about natural resources or the environment or quantitative options for land and resource management, and are used by managers for informed decisionmaking. The seven new or improved systems are:

1. GEODE (Geo-Data Explorer)
2. MODFLOW 2000 (Ground-Water Flow Model)
3. PHREEQCI (Low Temperature Geochemical Analysis)
4. Evaluating Threats of Potentially Invasive Birds
5. SPARROW (Spatially Referenced Regression on Watershed Attributes)
6. ATLSS (Across Trophic Level System Simulation)
7. Snow Water Equivalence Model



GPRA Program Activity 4.2: Increase Hazard Knowledge and Warning

(Provide science for a changing world in response to present and anticipated needs, focusing efforts to predict and monitor hazardous events in near-real and real time and to conduct risk assessments to mitigate loss)

Background: Hazards are uncontrollable natural events that may expose America's population to the risk of death or injury and may damage or destroy private property, societal infrastructure, and agricultural or other developed land. The USGS is responsible for describing, documenting, and understanding natural hazards and their risks.

Performance Measures - *Real-Time Streamgages on the Internet and Real-Time Earthquake Sensors.* The USGS enhances its ability to characterize and monitor hazardous events in near-real and real time by using telemetered streamgages and earthquake sensors that are capable of delivering information almost instantaneously.

2001 Results: The USGS maintained a quarterly average of 5,280 real-time streamgages on the Internet (98 percent of target) and improved 128 real-time earthquake sensors for a cumulative total of 329 (100 percent of target). Telemetry is added to existing streamgages to provide real-time flow information to National Weather Service forecasters and emergency management and response officials. During 2001, USGS made a transition from the old decentralized computer systems that served real-time data to the public and to other government agencies via the Internet to a new centralized NWIS-Web (National Water Information System) system. Delays in getting some real-time streamgaging sites included in the NWIS-Web database caused the shortfall in meeting the performance target. Ground motion detectors are the initial instrument installed to capture and transmit real-time earthquake information. In 2001, 128 targeted sensors were installed.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Real-time streamgages on the Internet (quarterly average)	Replacement		4,500	4,872	5,374	5,280	5,574
Real-time earthquake sensors (cumulative)	70	100	120	201	329	329	449

GPRA Program Activity 4.3: Improve Land, Resources, and Title Information

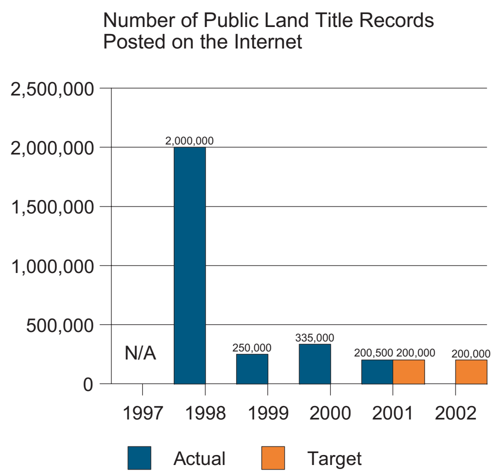
(Provide the public with improved information about the land, its resources, and land records)

Background: The Bureau of Land Management (BLM) has extensive historical and current information on land ownership, use, and condition in the United States. The agency maintains cadastral survey and historical data on patented lands, along with information on the mineral estate, resource conditions, and permits or leases on federal lands. Historical records are critical to resolving many ownership disputes and are increasingly recognized as an important source of both genealogical information and data about historic resource conditions in the United States. As the complexities of managing ecosystems increase, data collection and analysis become even more vital to managing the land.

BLM surveyor talking to a neighboring landowner (photo by BLM).

Performance Measure - *Number of Public Land Title Records Posted on the Internet.* The public is performing online Internet searches for information and subsequently downloading digital data or filing requests for historical information directly with BLM offices. One example is BLM's General Land Office Records Web site (*http://www.glorecords.blm.gov*).

2001 Results: The BLM achieved its performance target by posting 200,500 public land records to the Internet. Additionally, the BLM provided customers with online query capability, image viewing, and ordering of certified documents. Since going online in May 1998, this Web site has recorded almost 3.8 million visits from individuals who have accessed over 122 million pages of information and ordered more than 55 million copies of patents contained on the site.



Goal 5: Meet Our Trust Responsibilities to American Indians and Our Commitments to Island Communities

"As the trustee, I clearly recognize the important obligations of the Department to put in place those systems, procedures, and people to fulfill our obligations to the trust beneficiaries, both individual Indians and tribes."

Secretary Gale A. Norton, February 28, 2001.

Today there are 559 federally recognized American Indian and Alaska Native tribal governments in the United States. Each possesses inherent governmental authority deriving from its original sovereignty, a long-recognized principle of U.S. Constitutional law. The federal Indian trust responsibility is a legal duty on the part of the United States to protect Indian land and resources, fulfill treaty obligations, and carry out the mandates of federal law for the benefit of American Indian and Alaska Native tribal members.

The Bureau of Indian Affairs (BIA) is the primary agency of the federal government charged with the responsibility for administering federal Indian policy and discharging the federal trust responsibility for American Indian tribes, Alaska Native villages, and tribal organizations. The BIA provides services directly, or through agreements with tribes, to approximately 1.4 million American Indians and Alaska Natives. The extensive scope of BIA programs covers virtually the entire range of state and local government services, including:

- elementary, secondary, and post-secondary education
- social services
- law enforcement
- judicial courts
- business loans
- land and heirship records
- tribal government support
- forestry, agriculture, and rangeland development
- water resources
- fish, wildlife, and parks
- roads and housing
- adult and juvenile detention facilities
- irrigation and power systems

BIA programs are funded and operated in a highly decentralized manner. Over 90 percent of all appropriations now are expended at the local level, increasingly by tribes and tribal organizations operating under contracts or self-governance compacts. In addition, the BIA administers approximately 46 million acres of tribally owned land, approximately 10 million acres of individually owned land held in trust status, and about 205,000 acres of federally owned land.

The Office of the Special Trustee for American Indians (OST) has oversight responsibility for the improvement of the accountability and management of Indian funds held in trust by the federal government. As trustee, the Department of the Interior has the primary fiduciary responsibility to manage both tribal trust funds and Individual Indian Monies (IIM) accounts. Currently, the OST manages approximately $3.2 billion held in trust for Indian tribes and individuals. Approximately $2.8 billion is held in about 1,400 tribal accounts for about 290 tribes. The balance of approximately $400 million is held on behalf of individual Indians in over 248,000 accounts and other special trust funds, including the Alaska Native Escrow Fund.

Interior also provides services related to energy and mineral development to tribes. The Bureau of Land Management is responsible for the inspection and enforcement of mineral leasing operations on tribal lands. The Minerals Management Service collects, accounts for, and distributes mineral revenues to tribes and allottees.

The Department employs the following strategies to meet its responsibilities to American Indians:

- Strengthen the trust relationship with Indian tribes, enhancing self-determination, encouraging self-governance, and supporting tribal efforts to improve economic opportunities for Native Americans.
- Resolve tribal and individual Indian trust asset management issues through the Department's High Level Implementation Plan.
- Facilitate the transition of Indian programs and services from federal to tribal delivery systems by implementing self-determination and self-governance policies.
- Consult on a sovereign-to-sovereign basis with tribal officials to ensure that the Department is an effective and responsive trustee.
- Support policies that favor the principles of negotiation and mutual cooperation within the context of the sovereign-to-sovereign relationship.
- Facilitate coordination of the federal role in Indian affairs to help interdepartmental initiatives improve the quality of life in tribal communities as much as possible.
- Foster increased tribal and parental direction of Indian education and facilitate increased overall quality of education for Indian children.
- Support private and public partnership initiatives to enhance tribal economic growth and opportunity.
- Reduce barriers and impediments to contracting and/or compacting of BIA programs.
- Provide the support necessary to improve the economic status of tribes through improved human capital and the promotion of self-sustaining businesses.
- Improve public safety in Indian communities through improved law enforcement services that reduce crime rates.
- Develop conservation and management plans to protect and preserve the natural resources on tribal lands.
- Teach and preserve Indian language, history, and culture.

The Department also has administrative responsibility for coordinating federal policy in the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, and for overseeing federal programs and funds in the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. Interior's objective is to develop more efficient and effective government in the insular areas by recommending policies, providing financial and technical assistance, and strengthening federal-insular relationships.

The Department employs the following strategies to meet its commitments and responsibilities to island communities:

- Streamline internal procedures and create external incentives to accelerate the award of grant monies.

- Provide project management and other technical assistance to help island communities initiate and complete infrastructure construction.

- Provide financial and technical assistance to support long-term financial planning by island governments to improve fiscal management.

- Promote effective communication between island communities and other federal agencies to improve governmental relations.

The major departmental activities to achieve the goal of meeting responsibilities and commitments to American Indians and island communities are summarized in *Figure 9*.

Figure 9

Goal 5 – Meet Our Trust Responsibilities to American Indians And Our Commitments to Island Communities		
Subgoal and GPRA Program Activity	**2001 Expenses (in millions)**	**2000 Expenses (in millions)**
A. Improve the Indian Quality of Life		
A1. Tribal Government	$196	$183
A2. Economic and Technical Assistance	333	280
A3. Public Safety and Justice	144	139
A4. Community Development	1,256	1,137
A5. Administrative and Support Services *	0	0
A6. Education	716	705
Subtotal 5.A	*2,645*	*2,444*
B. Protect Indian Trust Assets		
B1. Resources Management	286	300
B2. Trust Lands and Resources	161	140
B3. Trust Management	67	86
Subtotal 5.B	*515*	*525*
C. Improve Management of Island Communities		
C1. Serving Island Communities	380	482
Subtotal 5.C	*380*	*482*
Total – Goal 5	**$3,539**	**$3,451**

* BIA allocates Administrative and Support Services expenses to other GPRA program activities.

Subgoal 5.A: Improve the Indian Quality of Life

GPRA Program Activity 5.A.1: Tribal Government *(Provide tribes with the resources they need to foster strong and stable tribal governments and to exercise their rights as sovereign nations)*

Background: The Bureau of Indian Affairs provides tribal government support under several broad and specific authorities that authorize the Secretary of the Interior to provide services to American Indians and Alaska Natives.

Performance Measure - *Number of P.L. 93-638 Training Sessions Held and Number of P.L. 93-638 Technical Assistance Sessions Held.* The Indian Self-Determination and Education Assistance Act, P.L. 93-638, authorizes tribes to enter into contracts, grants, cooperative agreements, or compacts with the BIA. The self-determination authority allows tribes to operate programs and provide services to Indian people that were at one time provided only by the BIA. This gives contracting or compacting tribes the authority and the flexibility to move funds from one program to another to meet the needs of their constituents.

2001 Results: The BIA exceeded its performance targets by conducting 65 P.L. 93-638 training sessions and 2,189 P.L. 93-638 technical assistance sessions. The technical assistance measure was redefined to include any assistance provided to Indian tribes in the area of self-determination, including, but not limited to, telephone conversations, e-mail messages, and written correspondence. It was originally defined as an official group meeting with Indian tribes.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of P.L. 93-638 training sessions held	N/A	2	4	22	22	65	70
Number of P.L. 93-638 technical assistance sessions held	N/A	0	45	57	200	2,189	2,200

GPRA Program Activity 5.A.2: Economic and Technical Assistance *(The Bureau of Land Management (BLM) will meet its trust responsibilities while providing economic and other assistance to federally funded tribes)*

Background: The BLM has a wide range of responsibilities in government-to-government relationships with Indian tribes and Alaska Native communities. These include:

- Disbursing payments of shared revenues derived from activities on the public lands;
- Disbursing payments-in-lieu of taxes (PILT);
- Conveying land to Alaska Native people, Native corporations, and the State of Alaska;
- Settling Alaska Native and American Indian allotment land claims;
- Providing tribes with technical assistance to develop leased energy and mineral resources;
- Providing fire suppression services on all federal and Native lands in Alaska; and
- Adjusting land tenure between federal agencies and states.

Performance Measures - *Number of Post-Lease Actions Processed and Number of Compliance, Inspection, and Enforcement Actions Taken.* The BLM provides technical assistance to tribes by supervising post-lease operations on 56 million acres of Indian trust lands. Upon the issuance of leases and permits by the tribes/BIA, BLM carries out the Secretary's trust obligation in terms of supporting activities on Indian lands while protecting/ enhancing environmental values and minimizing future liabilities.

2001 Results: The BLM processed 4,692 energy and mineral post-lease actions (target achieved) and 3,086 energy and mineral compliance, inspection, and enforcement actions on Indian lands (target not met). Although the results for the second performance measure were short of the target, the BLM satisfied the Secretary's Indian trust responsibilities related to energy and minerals management and development because actual demand levels were fully met.

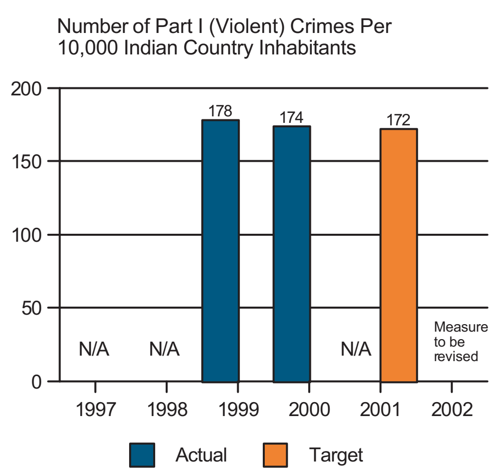
Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of post-lease actions processed	N/A	N/A	N/A	4,100	4,500	4,692	5,000
Number of compliance, inspection, and enforcement actions taken	N/A	N/A	N/A	3,400	3,500	3,086	3,800

GPRA Program Activity 5.A.3: Public Safety and Justice *(Provide quality investigative and police services and technical expertise to Indian tribes)*

Background: A reported crime in Indian country is twice as likely to be a violent crime as a crime reported elsewhere in the United States. An estimated 1 in 25 American Indians age 18 or older is under the jurisdiction of the criminal justice system. In contrast, there are fewer than half as many law enforcement officers and significantly fewer detention centers per capita in Indian country than elsewhere in the United States.

Performance Measure - *Number of Part 1 (Violent) Crimes per 10,000 Inhabitants in Indian Country.* The BIA strives to reduce the rate of violent crime in Indian country through the hiring of well-trained law enforcement personnel and strengthened efforts to increase clearance rates for crimes.

2001 Results: Data were not available at time of report publication. During 2001, 644 new officers were hired and crime prevention activities were instituted in many communities to reduce violent crime. In 2002, the methodology for collecting crime rate statistics will be revised to ensure consistency with the methodology used by the Department of Justice.



GPRA Program Activity 5.A.4: Community Development *(Strengthen tribal communities by developing self-sustaining economies and improving human and physical infrastructure)*

Background: The BIA strives to address major obstacles to economic stability in Indian communities such as unemployment, misrepresentation of Indian art and craftwork, and nonmaintained roads. These issues are all barriers to developing self-sustaining economic bases and the BIA is strongly committed to their reform.

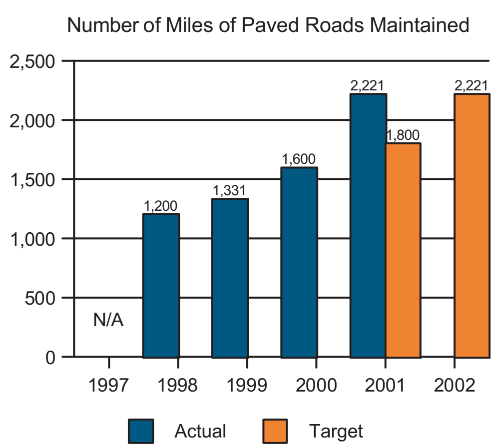
Performance Measure - *Number of Schools on the Priority List Receiving Replacement Construction.* Eighty-two percent of BIA's building square footage is educational space. Two percent of these buildings are more than 100 years old, 20 percent are more than 50 years old, and 50 percent are more than 30 years old. School replacement priorities are based on a priority list of 20 schools. In January 2001, the BIA published a new Educational Facilities Replacement Construction Priority List that added seven schools to the January 2000 list of 13 schools.

2001 Results: The BIA met its performance target by providing for replacement construction of six schools in 2001. Six additional schools on the 2001 Educational Facilities Replacement Construction Priority List are targeted for replacement construction during 2002.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Cumulative number of schools on the 2001 priority list that began replacement construction	N/A	N/A	N/A	1993 List 3	2000 List 6	2000 List 6	2001 List 6

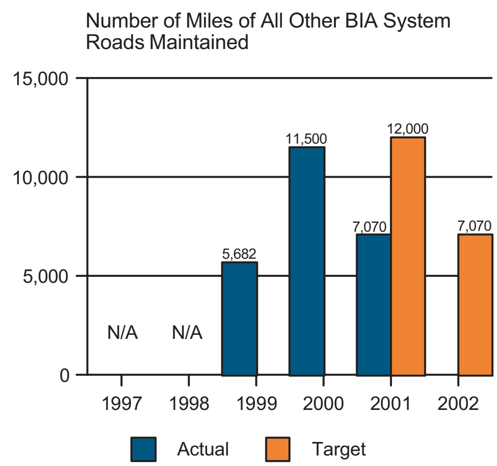
Performance Measure - *Number of Miles of Paved Roads Maintained.* The Transportation Equity Act of the 21st Century requires that BIA roads and bridges constructed using funds from the Department of Transportation's Highway Trust Fund (HTF) be adequately maintained to protect the public investment. BIA uses the HTF to fund the construction and improvement of unsafe roads. BIA funds are used for maintenance activities, including smoothing roadway surfaces, cleaning ditches, removing snow and ice, filling potholes, and repairing pavement.

2001 Results: The BIA exceeded its performance target by maintaining 2,221 miles of HTF-funded roads. The BIA has improved data collection methods for this performance measure.



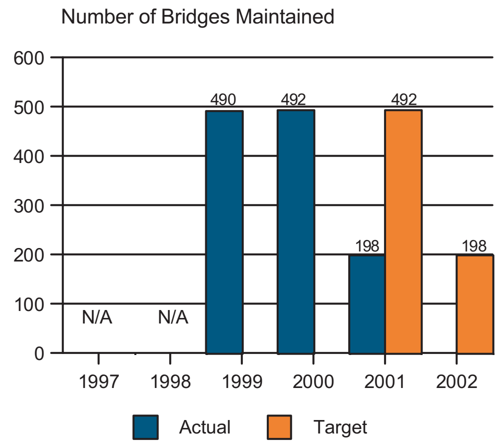
Performance Measure - *Number of Miles of All Other BIA System Roads Maintained.* BIA is responsible for maintaining 24,000 miles of BIA system roads in a condition that provides safe and adequate transportation to and within Indian reservations, Indian lands, and Indian communities for the development of economic bases and the enhancement of self-determination. Of these roads, 5,900 are paved miles and 18,100 are unpaved. The 24,000 miles fall within the 49,000 miles of roads covered by the Indian Reservation Roads program jointly administered by BIA and the Department of Transportation's Federal Highway Administration (FHWA).

2001 Results: The BIA maintained 7,070 miles of other systems roads, falling short of its target of 12,000 miles. The 2001 performance target was miscalculated due to faulty data collection methods used in previous years. In prior years, the data reported were for miles of road that received maintenance, regardless of overall road condition. The revised data collection method will include only those miles of roads that are safely passable.



Performance Measure: - *Number of Bridges Maintained.* The BIA and the Federal Highway Administration (FHWA) provide the technical knowledge required to inspect half of all system bridges each year. Funds are used to address bridge safety deficiencies and conduct routine and preventive maintenance activities.

2001 Results: The BIA maintained 198 bridges, falling short of its target of 492 bridges. The 2001 performance target was miscalculated due to faulty data collection methods used in previous years. In prior years, the data reported was for any bridge that received maintenance, regardless of overall bridge condition. The revised data collection method will include only those bridges that have been fully maintained.

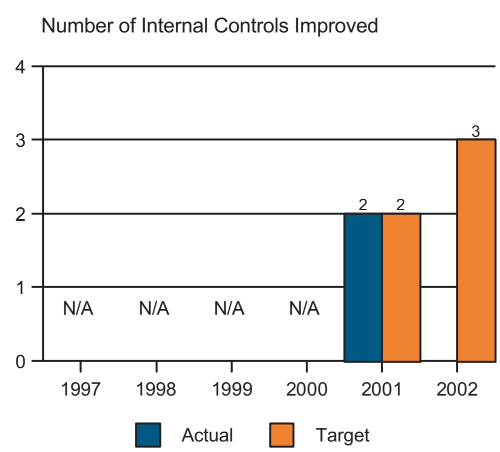


GPRA Program Activity 5.A.5: Administrative and Support Services *(Improve fiscal integrity and internal controls in the areas of property management, procurement, and finance, and improve processes for management and employee improvement)*

Background: The Bureau of Indian Affairs has deficiencies in several areas of administration that have resulted in material weaknesses in and qualifications of its Annual Financial Report.

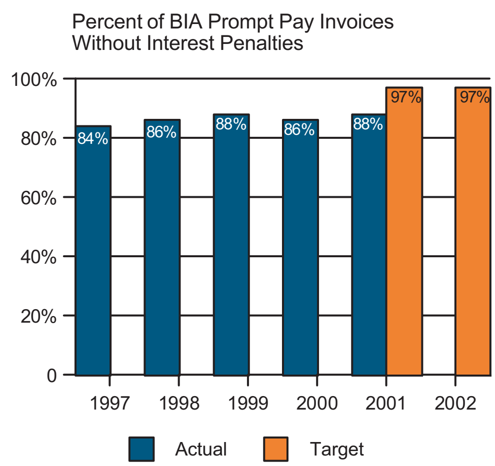
Performance Measure** - Number of Internal Controls Improved**. Although the BIA received an unqualified audit opinion in 2000, the OIG noted seven internal control weaknesses that should be addressed to preclude qualified audit opinions on future financial reports.

2001 Results: The BIA met its performance target by addressing internal control issues for deferred maintenance and providing stewardship and performance reporting.



***Performance Measure** - Percent of Prompt Pay Invoices without Interest Penalties.* The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the federal government is required to pay interest. The BIA is striving to achieve the departmentwide standard of 97 percent.

2001 Results: The BIA paid 88 percent of its invoices without incurring Prompt Pay interest penalties. Although short of the 97 percent target rate, the 88 percent represents an improvement over the prior year. Regional offices achieved a 94 percent payment rate, while invoices processed centrally through contracted services in Denver, Colorado, reflected a 78 percent payment rate. The major reasons for the low performance rate include (1) delays in receiving proper invoices; (2) delays in receiving reports; (3) delays in executing purchase orders and contracts; and (4) computer system problems. As a result of the improved payment performance by regional offices, the dollar threshold for processing payments regionally has been raised for 2002. This is expected to reduce the number of payments processed centrally by the contractor in Denver, thereby increasing the overall performance rate.



GPRA Program Activity 5.A.6: Education *(Provide quality education opportunities from early childhood throughout life in accordance with tribal needs for cultural and economic well-being)*

Background: The federal government has a special, historic responsibility for the education of Indian children. The BIA strives to provide quality education opportunities from early childhood throughout life in accordance with tribes' needs for cultural and economic well-being in keeping with the wide diversity of Indian tribes and Alaska Native villages as distinct cultural and governmental entities.

***Performance Measure** - Percent of Students Proficient in Math and Percent of Students Proficient in Language Arts.* The implementation of the Educate America Act and the Improving America's Schools Act of 1994 have enhanced BIA reform efforts. BIA schools are the only "state" in the union where all schools have developed School Reform Plans. These plans include student achievement and behavioral goals, parental involvement goals, and staff development strategies to improve teaching and learning.

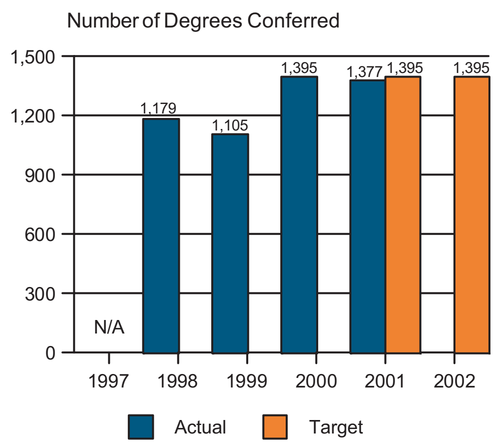
2001 Results: Approximately 50 percent of students were proficient in math, short of the target of 54 percent. In language arts, approximately 50 percent of students were proficient, short of the target of 52 percent. In 2001, the passage of legislation required that new state assessments be approved and in use for the school year. Approximately 70 percent of BIA/tribal schools were located in states that did not have fully approved statewide assessments in place. A policy was developed that required these states to report only the norm-referenced portions of their statewide assessments. It is believed that this reporting variance may have impacted the statistical data used for these performance measures.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent of students proficient in math	N/A	41%	43%	50%	54%	50%	54%
Percent of students proficient in language arts	N/A	41%	41%	48%	52%	50%	54%

***Performance Measure** - Number of Degrees Conferred.* The BIA is working toward full implementation of Executive Order 13021, Tribal College and Universities, for all tribal colleges by coordinating activities designed to increase partnerships among tribal colleges, elementary and secondary schools, and their respective communities. The BIA will provide for key requirements in the tribal colleges' funding priorities such as maintenance of accreditation, fiscal management, instructional capability, library services, student support services, staff and curricula development, and improved facility maintenance and construction.

The BIA is one of only two agencies in the federal government that manages a school system. Over 48,000 students in 23 states attend 185 elementary and secondary schools that form the BIA school system (photo by Interior).

2001 Results: Based on reports submitted by 24 of 25 Tribally Controlled Community Colleges, a total of 1,377 degrees were conferred, just short of the target of 1,395 degrees.



Subgoal 5.B: Protect Indian Trust Assets

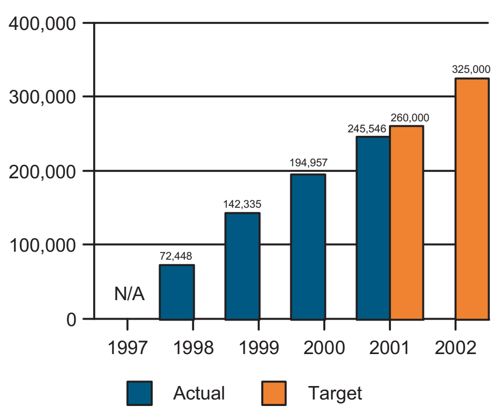
GPRA Program Activity 5.B.1: Resources Management *(Assist American Indians and Alaska Natives in protecting and preserving their natural resources on trust lands and shared off-reservation resources)*

Background: The BIA's trust lands and resources management programs protect and develop, and enhance the management of nearly 56 million acres of Indian trust lands, including all ownership interests and rights to surface and subsurface resources, to benefit tribes and their members. The BIA works closely with Indian tribes to support the protection and prudent and integrated management of natural resources located on Indian lands and the meaningful exercise of off-reservation treaty hunting, fishing, and gathering rights. Key resource areas receiving support on Indian lands include reforestation, rangeland management, and fish and wildlife management. Key off-reservation resources providing for the exercise of treaty rights include Pacific salmon and Great Lakes fisheries.

The BIA assists tribes in developing conservation and management plans to protect and preserve their water resources (photo by Interior).

Performance Measure - *Number of Acres Reforested.* The BIA promotes forestry management and development through tree planting and precommercial thinning of areas identified in the annual inventory of forest development needs.

2001 Results: The BIA reforested 50,589 acres in 2001 for a cumulative total of 245,546 acres, just short of the target of 260,000 acres. Extreme fires at Mescalero and Colville and a large amount of rehabilitation on areas that burned during the 2000 fire season affected the amount of restoration and thinning that was completed in other regions.

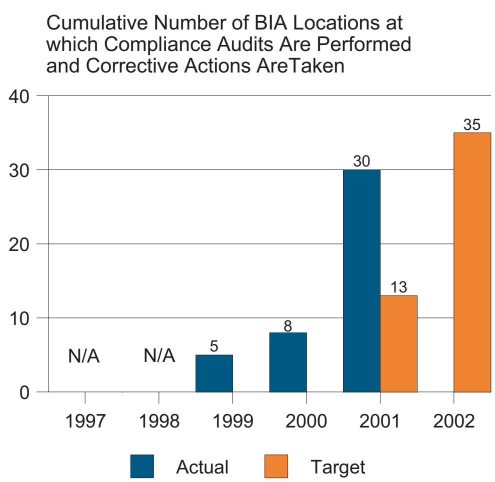


GPRA Program Activity 5.B.2: Trust Lands and Resources *(Ensure the trust responsibility to protect and preserve trust lands and trust resources)*

Background: The BIA is responsible for promoting the protection and preservation of trust resources through tribal litigation and negotiation of land and water settlements, environmental management, improved real estate transactions, and dam repair construction. BIA strategies for meeting these responsibilities include funding Interior water rights negotiation teams and tribal teams to conduct the legal and technical research needed to settle tribal water rights claims; funding historical and technical studies to support tribal land claims; conducting environmental audits in cooperation with tribes; developing and reviewing existing real estate manuals and handbooks regarding trust resource management to allow for efficient implementation of the BIA's trust responsibility to owners of trust resources; and completing dam repairs in accordance with the Department's Technical Priority Ranking list.

***Performance Measure** - Number of Locations at which Compliance Audits Are Performed and Corrective Actions Are Taken.* The BIA has implemented an environmental auditing program that audits 100 percent of BIA facilities and operations every five years. The purpose of the audits is to identify possible areas where the BIA is not complying with environmental, cultural resources, and endangered species requirements. The BIA corrects any identified problems by providing compliance assistance training to BIA staff, improving recordkeeping, and, where budgetary resources allow, by funding corrective actions.

2001 Results: The BIA conducted compliance assistance audits and performed corrective actions at 30 locations in 2001, exceeding the target of 13 locations.



GPRA Program Activity 5.B.3: Trust Management *(Protect and preserve Indian trust assets and collect and accurately account for income due beneficiaries)*

Background: The Office of the Special Trustee for American Indians (OST) has oversight responsibility for the improvement of the accountability and management of Indian funds held in trust by the federal government. As trustee, the Department of the Interior has the primary fiduciary responsibility to manage both tribal trust funds and Individual Indian Monies (IIM) accounts. Currently, the OST manages approximately $3.2 billion held in trust for Indian tribes and individuals. Approximately $2.8 billion is held in about 1,400 tribal accounts for about 290 tribes. The balance of approximately $400 million is held on behalf of individual Indians in over 248,000 accounts and other special trust funds, including the Alaska Native Escrow Fund. Most assets held in trust for Native Americans are owned by the trust beneficiaries and therefore are not federal assets.

Performance Measures - *Number of Trust Transactions Processed and Number of HLIP Subproject Milestones Completed.* The Bureau of Indian Affairs facilitates the growth of trust income by processing trust transactions for tribal and individual Indian land owners. The High Level Implementation Plan (HLIP) for Trust Management Improvement lays out the major steps that need to be taken to resolve trust management issues. Specific details are provided in the 11 subprojects and 309 milestones encompassed by the HLIP.

2001 Results: The Department processed 37,000 trust transactions in 2001, meeting the performance target. The Department also completed 47 HLIP milestones in 2001, falling short of the target of 62 milestones. Many of the milestones proved to be more complex and time-consuming than originally anticipated. More detailed explanations for milestone delays are provided in the 4th, 5th, 6th, and 7th quarterly status reports to the U.S. District Court for the District of Columbia (available at *http://www.ost.doi.gov*).

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of trust transactions processed (BIA)	N/A	33,000	35,000	35,400	37,000	37,000	37,000
Number of HLIP milestones completed (OST)	48		36	99	62	47	TBD *

* To be determined. The Department has concluded that HLIP milestones have become increasingly disconnected from the overall objectives of trust reform. In 2002, a new strategic plan will be developed to replace HLIP.

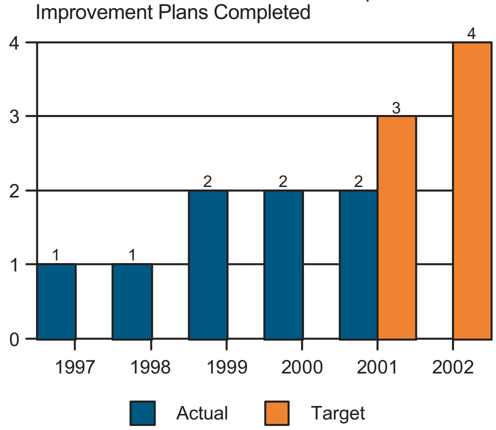
Subgoal 5.C: Improve Management of Island Communities

GPRA Program Activity 5.C.1: Serving Island Communities *(Assist island communities in developing more efficient and effective governments by providing financial and technical assistance, and to help manage federal-islands relations by promoting appropriate federal policies)*

Background: Interior has had a long relationship with the four U.S. territories and three affiliated, autonomous nations. The insular governments include American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Republic of Palau, and the Federated States of Micronesia. The Secretary of the Interior has responsibilities to the islands that are mandated in law and through Executive orders. These are carried out by the Office of Insular Affairs (OIA).

***Performance Measure** - Number of Multi-Year Capital Improvement Plans Completed.* The OIA believes it is very important to have long-term plans in place for capital improvements in the insular areas, particularly given the high dependence on federal funding for these improvements. Although plans were mandated under the Compact of Free Association Act of 1985, they have not been rigorously enforced or updated.

2001 Results: The OIA did not complete the capital improvement plan that was planned for the Federated States of Micronesia. Delays resulted from a change in leadership due to a Presidential election and a need for the Federated States of Micronesia to identify a source of matching funds for the technical assistance grant offered by the OIA. A draft plan was near completion as 2001 closed. The plan should be completed in early 2002.



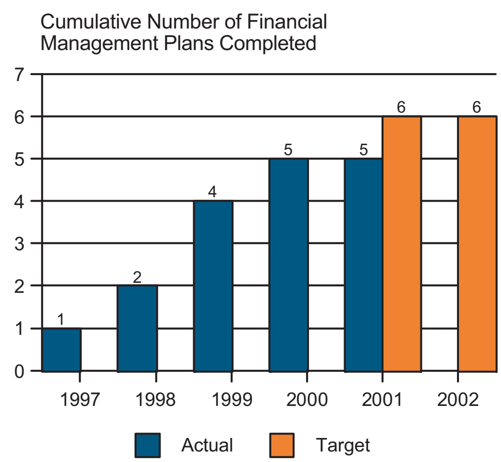
***Performance Measures** - Ratio of Capital Projects Completed to Capital Projects Started and Average Time of Grant Award to Project Completion.* The OIA believes that the ability of insular areas to spend money quickly and effectively is an indicator of good governance. The OIA uses incentives to quickly move grants from award to project completion.

2001 Results: The OIA did not meet its performance targets as the ratio of capital projects completed to projects started was .8 and the average time from grant award to project completion was 43 months. Although the Commonwealth of the Northern Marianas (CNMI) has increased its pace in starting and completing projects, the local government is still working on a backlog of project funding that goes back several years. CNMI projects require a 50 percent local funding match. This requirement slowed progress for several years as the effects of a depressed economy made it difficult to find local funding. The rate of reduction in project completion time is likely to remain slow as there continues to be a backlog of unfinished projects in the CNMI.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Ratio of capital projects completed to capital projects started	N/A	N/A	.29	.56	1.0	.8	1.1
Average time (in months) from grant award to project completion	N/A	N/A	32	31	28	43	27

Performance Measure *- Number of Financial Management Plans Completed.* Good management in the insular governments, as demonstrated by sound financial management practices, is essential to achieving developmental goals and protecting taxpayers' money. The OIA cannot force the governments to develop plans, but it can offer expertise and other incentives if the governments will make the effort. In conjunction with the U.S. Department of Agriculture Graduate School, the OIA has gathered a team of experts with significant experience in the federal government, governmental and public auditing, and island financial systems and practices. To date, the program has been successful, specifically in terms of cooperation from the insular governments.

2001 Results: The OIA did not complete the financial management plan that was targeted in 2001. However, a draft financial management improvement plan for Pohnpei was submitted on October 2, 2001. Financial management improvement plans have been completed for the governments of the Virgin Islands, American Samoa, the Republic of Palau, the Commonwealth of the Northern Marianas, and Guam.



Performance Measures *- Ratio of Technical Assistance Projects Completed to Technical Assistance Projects Started and Average Time of Grant Award to Project Completion.* The OIA provides both financial and technical assistance to help ensure the insular governments are providing adequate public service and efficient governmental operations. Financial assistance is provided in several forms, including discretionary grants for operations to American Samoa and Enewetak; tax carryovers to Guam and the U.S. Virgin Islands; and guaranteed assistance for general operations and health and education to the freely associated states.

The insular governments for which the Department has varying responsibilities include American Samoa (above), Guam, the Commonwealth of the Northern Marianas, and the U.S. Virgin Islands, all of which are U.S. territories; as well as the Republic of the Marshall Islands, the Republic of Palau, and the Federated States of Micronesia, which are sovereign nations linked with the U.S. through Compacts of Free Association (photo by Interior).

2001 Results: The OIA's ratio of technical assistance projects completed to projects started was .78, falling short of the target of 1.0. A lack of comparative history made it difficult to establish a realistic target for this performance measure. The OIA believes that a large number of projects will be completed in 2002 as older projects are terminated and cleared out. The average time from grant award to project completion for technical assistance projects was 24 months, which exceeded the target of 28 months. Coral Reef, Brown Tree Snake, and American Samoa operations grants were completed in a shorter time than initially anticipated.

Performance Measures	1997	1998	1999	2000 *	Plan 2001	2001	Plan 2002
Ratio of technical assistance projects completed to technical assistance projects started	N/A	N/A	.39	.51	1.0	.78	1.1
Average time (in months) from grant award to project completion	N/A	N/A	61	11	28	24	27

* The data for 2000 has been revised to reflect information that was not available during last year's data call.
The 2000 Accountability Report showed a ratio of .50 and an average time of 9 months.

Performance Measure - *Customer Satisfaction Survey.* Effective communication and the ability to clarify federal and insular positions is critical to the OIA's mission of serving the insular governments. The OIA will use customer surveys to measure insular governments' satisfaction with OIA communications.

2001 Results: The OIA met its performance target by conducting a survey and developing a baseline of insular governments' satisfaction with OIA communications. A baseline of 8.2 has been established.

Performance Measure	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Customer Satisfaction Survey	N/A	N/A	N/A	Baseline not completed	Complete baseline	8.2	8.3

Departmental Management and Reimbursable Support Activities

Departmental Management provides the executive leadership, policy, guidance, independent program evaluation, and coordination needed to manage the diverse, complex, and nationally significant programs that are Interior's responsibilities. These offices also guide and coordinate all of Interior's administrative activities such as finance, information resources, procurement and acquisition, human resources, and budgeting. Departmental Offices also includes legal services through the Solicitor's Office, the audits and investigations of the Inspector General, environmental damage coordination, and administrative hearings and appeals.

Within the Departmental Offices are several other significant programs. These include the Office of Insular Affairs (OIA), which provides assistance to insular areas; the Office of the Special Trustee for American Indians (OST), which manages and discharges the Secretary's responsibilities for about $3.2 billion in trust assets of American Indians; the Natural Resources Damage Assessment and Restoration program, which coordinates the Department's natural resources damage assessment and restoration effort; and the National Indian Gaming Commission, which regulates certain Indian gaming activities.

The Department also provides support services used by the bureaus to accomplish their work through a variety of reimbursable operations and interagency agreements. These include the National Business Center (including aircraft services); specific working capital funds in the Bureau of Reclamation, the U.S. Geological Survey, and the Bureau of Land Management; and reimbursable activities by selected Departmental Offices. Activities include administrative support services such as accounting, property management and purchasing, drug testing, training, security, printing, communications, and computer systems operations and maintenance. In addition, several other federal agencies, commissions, state governments, and cooperators are also customers.

The Interior Franchise Fund (IFF), which is another working capital fund, provides commonly required administrative systems and systems support, administrative operations, and information technology services on a competitive, fee-for-service basis to other federal agencies with the goal of reducing administrative costs.

The resources expended for Departmental Management and Reimbursable Support Activities are shown in *Figure 10*.

Figure 10

Departmental Management and Reimbursable Support Activities		
Program Activity	**2001 Expenses (in millions)**	**2000 Expenses (in millions)**
A. Departmental Offices *	$176	$199
B. Reimbursable Support Activities		
B1. National Business Center	704	613
B2. Interior Franchise Fund	235	129
B3. Other Reimbursable Activities **	256	110
Subtotal B	*1,195*	*853*
Total Departmental Management and Reimbursable Support Activities	**$1,371**	**$1,052**

* Includes Inspector General, Solicitor, and other Departmental Offices.
** Includes Bureau Working Capital Funds.

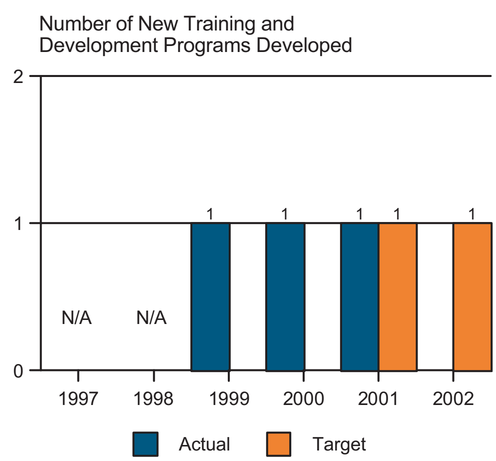
Departmental Management *(Provide overall policy guidance and direction for the Department of the Interior in a broad range of management areas that affect nearly all aspects of Interior operations)*

Lead People to Succeed

Background: Interior requires a dedicated, diverse, highly qualified workforce to accomplish its mission and achieve its goals. To ensure that a quality workforce is in place, the long-range goal is to create a work environment in which employees are valued, motivated, developed, and rewarded for excellent, customer-focused performance. To accomplish this goal, the Department strives to develop and implement a comprehensive, integrated approach that addresses all levels of career management.

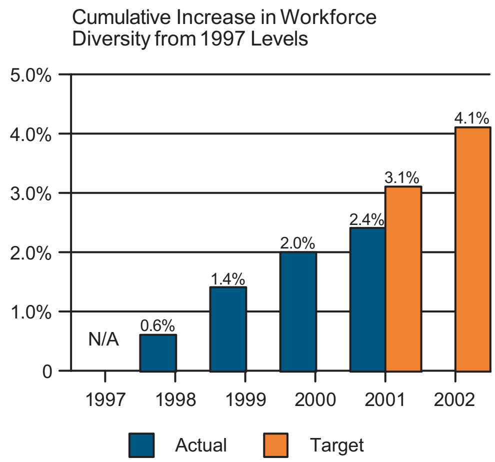
Performance Measure - *Number of New Training and Development Programs.* The Department recognizes the need to train and develop employees for both mission and career advancement. As such, Interior's focus is on developing and implementing effective training and development programs that emphasize career management, focus on critical skill needs, and support lifelong learning.

2001 Results: The Department met its performance target by developing a training program for employees involved with workforce planning. In 2001, a workgroup composed of bureau and office representatives identified the need for workforce planning and assisted with the development of a workforce planning manual. The manual identifies specific approaches and outputs to the process and contains sample forms and checklists that can be used by employees engaged in workforce planning. The manual was published in August 2001.



Performance Measure - *Percent Increase in Workforce Diversity.* The Department strives to achieve diversity goals through increasing employees' awareness of diversity issues and by improving targeted recruitment to increase the diversity of the applicant pool. Selections are made solely on the basis of merit. The measurement focus is on increasing the general diversity of the workforce, not on quotas, numeric targets, or specific vacancies. Percentages are calculated as portions of the total workforce rather than the growth rate of specific groups; for example, if a group moves from five percent to six percent, it is reported as having increased one percent of the total workforce rather than as a 20 percent increase in the group. Thus an increase of one percent is significant progress, given the limited turnover rate.

2001 Results: The Department's workforce diversity increased by 2.4 percent from the 1997 level of 44.6 percent to 47.0 percent. The performance target of 3.1 percent was not achieved because (1) there were fewer opportunities to hire and (2) separations offset the increase in the number of hires. While there has been an increase in diversity since 1997, hiring barriers continue to exist. Hiring and retention strategies are being implemented to overcome these barriers. The Department conducts targeted recruitment and monitors applicant pools to ensure that selection certificates are diverse.



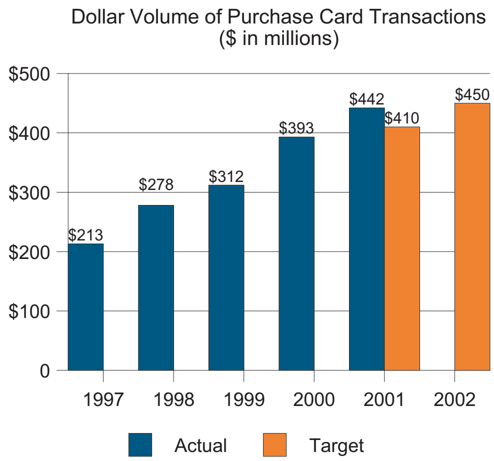
Provide the Services and Technology to Manage

Background: Procurement and property management play important roles in virtually all activities and programs of the Department. The procurement of goods and services is a critical support element in accomplishing mission objectives. By improving the quality and price of procured items, as well as the timeliness of procurement actions and productivity of our procurement staff, Interior saves resources and improves the Department's services to the American people.

The management of personal, real, and museum property is also critical to Interior's mission of protecting and preserving federal assets. As the largest landholder within the federal government, Interior has a unique responsibility to conserve approximately 132 million cultural artifacts, pieces of artwork, and other museum properties. Interior also manages personal property assets valued at more than $1.7 billion, more than 57,000 buildings and facilities, and a fleet of more than 31,500 vehicles.

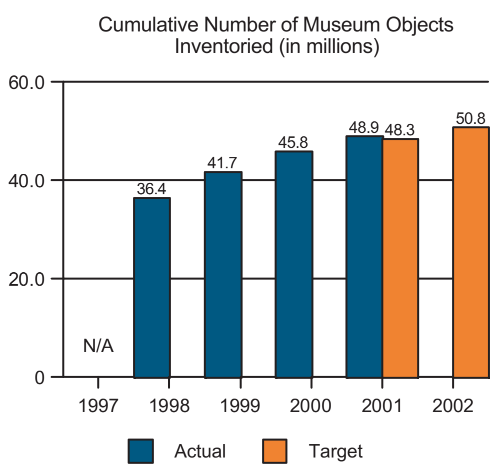
Performance Measure - *Dollar Volume of Purchase Card Transactions.* The Department strives to provide better service and cost savings through use of the governmentwide purchase card. Interior's charge card program is integrated; up to three business lines—travel, fleet, and purchase—can be activated in one cardholder account and card. Under the charge card program, non-procurement personnel may select and order items under the $2,500 micro-purchase threshold.

2001 Results: The Department exceeded its performance target as the dollar volume of purchase card transactions totaled almost $442 million. The SmartPay integrated charge card proved especially useful during the fire season as it gave fire crews quick access to supplies and lodging and enabled the Department to pay vendors immediately. The card was also useful in campground maintenance as it allowed employees who were hundreds of miles away from the office to purchase supplies and equipment immediately. Other employees were able to use the card to purchase supplies expeditiously and with reduced paperwork.



Performance Measure - *Number of Museum Objects Catalogued.* Interior is responsible for approximately 132 million museum objects, a collection that is second in size only to those managed by the Smithsonian Institution. The Department's museum collections include important artifacts of the Nation's cultural and natural heritage. Careful documentation of these museum collections establishes accountability for their management and use in preserving the Nation's natural and cultural resources, supporting science activities, and providing heritage recreation and education for the public.

2001 Results: The Department exceeded its performance target by cataloging over 3 million museum items in 2001, increasing the total number of items catalogued to approximately 48.9 million. This is about 37 percent of Interior's collections, which is an estimated 132 million items (or 71 million items and 38,000 linear feet of documents). Bureaus partner with approximately 650 non-federal institutions to house, manage, and exhibit Interior museum collections.



Use Information Technology to Better Manage Resources and Serve the Public

Background: Historically, information technology planning at Interior has been conducted primarily at the program or bureau level. The Interior Architecture Project focuses on meeting the requirements of the Clinger-Cohen Act of 1996 to establish an enterprisewide analysis of business, information, and technology practices. This analysis provides a basis for identifying and managing crosscutting business, information, and technology requirements. Toward this end, Interior's Chief Information Officer has established a methodology to conduct the architecture-related information gathering and analysis. The outcome of this analysis is a target Interior Information Architecture (IIA) for crosscutting business, information, and technical issues. The implementation plan is the result of a gap analysis comparing existing information architecture within Interior to the desired target IIA.

Performance Measure: *Complete a Department Enterprise Information Architecture Plan.*

2001 Results: The plan for development of the IIA was updated to reflect an accelerated approach using META Group Consulting as advisors and facilitators. This effort will result in the creation of a high-level IIA implementation plan by the end of calendar year 2002. An assessment was also conducted on the Department's progress in closing the gap between the existing information architecture and the target IIA. The progress is measured through an applied Capabilities Maturity Model (CMM), which assists organizations in maturing people, processes, and technology assets to improve long-term business performance. The 2001 assessment determined that CMM Level 2 was attained for 69 percent of the measurements, exceeding the Department's expectations.

Performance Measure: *Complete a Critical Information Technology Infrastructure Protection Plan.*

2001 Results: Under the GSA SAFEGUARD Program, a contractor delivered the completed Interior IT Security Plan in September 2001. The plan was implemented by the Department in September 2001.

Provide Safe, High-Quality Workplaces

Background: Interior is committed to improving its infrastructure. In recent years, increasing deferred maintenance and capital improvement needs have threatened Interior's infrastructure and natural resource protection efforts. Additions to Interior's infrastructure inventory have further stretched maintenance and capital improvement dollars.

The Department recognizes that long-term improvement of the condition of Interior facilities requires better data on current conditions. To this end, Interior has issued formal requirements for conducting facility condition assessment surveys across all of the bureaus. These surveys will provide a continuous, systematic review program through which the bureaus can identify repair, rehabilitation, and replacement needs. These condition assessment surveys represent a more thorough and comprehensive examination of facilities than past efforts, and are therefore more likely to uncover additional needs.

Performance Measure - *Percent of Repair and Construction Projects Completed.* The Department manages about 57,000 buildings and quarters facilities, approximately 120,000 miles of roads, and a wide variety of other constructed assets. These facilities serve over 400 million visitors annually. They provide schooling for approximately 48,000 Native American children and a place of work for tens of thousands of Interior employees. As the steward of these assets, Interior is committed to improving the maintenance of these existing facilities and making the capital investments in new facilities that are essential to its mission.

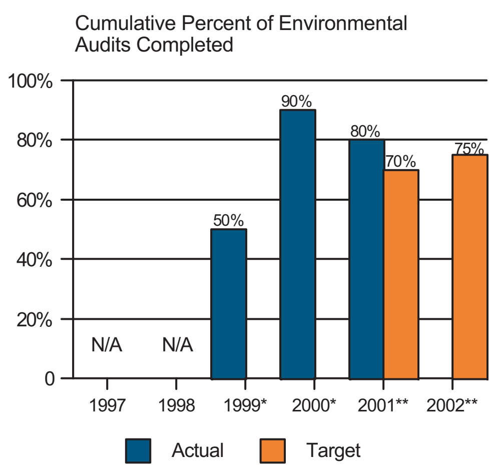
2001 Results: Overall project completion rates for the 2000 and 2001 repair and construction programs exceeded the performance targets. The 61 percent reported for Year 1 of the 2001 program clearly indicates that Interior bureaus aggressively implemented their repair and construction program. Data reported in 2002 will provide the Department with additional trend information that will help determine if adjustments to performance targets are necessary.

Performance Measure	1997	1998	1999	2000 *	Plan 2001	2001	Plan 2002
Percent of repair and construction projects completed by funding year	N/A	N/A	N/A	Yr 1: 48% Yr 2: 71% Yr 3: N/A	Yr 1: 30% Yr 2: 70% Yr 3: 95%	Yr 1: 61% Yr 2: N/A Yr 3: N/A	Yr 1: 30% Yr 2: 70% Yr 3: 95%

* The 2000 Year 1 percentage was revised to reflect additional information that was not provided during last year's data call. The 2000 Accountability Report showed 22 percent for Year 1.

Performance Measure - *Percent of Environmental Audits Completed.* Environmental auditing is the systematic, documented, periodic, and objective review of facility operations and practices related to meeting environmental compliance standards. Each Interior bureau is responsible for developing and implementing its own environmental auditing program.

2001 Results: The Department exceeded its performance target of 70 percent using 2000 data (2,509 Interior-owned and operated facilities) as the base. Interior bureaus reported that 522 audits were performed for a cumulative total of 1,998 audits (80 percent) completed. The Department expects the base number of facilities to continue to change over the years, which will affect both projections and targeted outcomes.



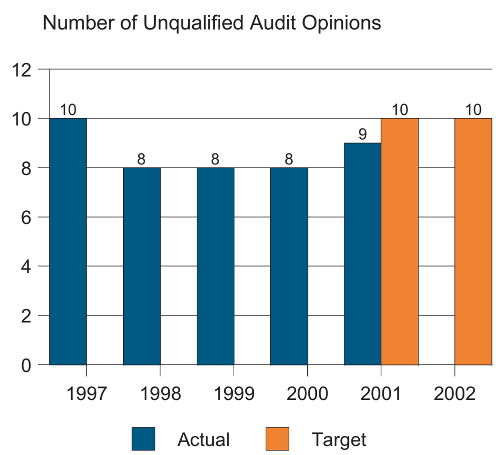
* 1999 data was used as the base.
** 2000 data was used as the base.

Ensure Financial and Managerial Accountability

Background: Key laws such as the Chief Financial Officers Act, the Government Management Reform Act, the Government Performance and Results Act, the Debt Collection Improvement Act, the Federal Financial Management Improvement Act, and the Reports Consolidation Act of 2000 have established new standards and high expectations for government operations. In response to these laws and other initiatives, such as implementation of Federal Accounting Standards Advisory Board pronouncements, the Department continues to reshape the way it conducts business. To comply with the new standards and meet increasingly high expectations, Interior will provide timely and reliable financial and performance information that will permit stakeholders and decisionmakers to track progress and evaluate the results of Interior's programs.

Performance Measure - *Number of Unqualified Audit Opinions.* To strengthen the integrity of financial operations and ensure the accuracy of financial data, the Department produces audited consolidated financial statements as well as audited financial statements for each of the bureaus. The goal is to achieve unqualified (clean) audit opinions on all financial statements and comply with Federal Financial Management Improvement Act requirements.

2001 Results: The Department achieved a total of nine unqualified audit opinions on its consolidated and bureau financial statements, just short of the target of ten unqualified audit opinions. One bureau received a disclaimer on its financial statements.



Performance Measures - *Percent Implementation of Audit Recommendations and Percent Completion of Corrective Action Plans for Material Weaknesses.* Timely implementation of Office of Inspector General (OIG) and General Accounting Office (GAO) audit recommendations and timely correction of material weaknesses are essential to improving the efficiency and effectiveness of the Department's programs and operations and to achieving its integrity and accountability goals.

2001 Results: The Department implemented 63 percent of audit recommendations (target not met) and completed 50 percent of corrective action plans for material weaknesses (target not met). Several corrective actions were delayed while policy officials were confirmed and appointed to office. The Department is finding that many GAO audit recommendations cannot be completed within the one-year timeframe specified in the performance measure because they often require policy development or revision, formal rulemaking proceedings, and/or legislative changes which typically are multi-year actions. Multi-year actions are tracked and monitored separately by the Department. Annual GPRA goal performance for implementation of audit recommendations is based on recommendations expected to be completed in that year.

Three material weaknesses were not corrected as scheduled during 2001. The scope of the corrective action plan for the BLM Land Exchange Program was expanded during 2001 as a result of findings in a GAO report and an internal review of the land appraisal component. Final corrective action is now targeted for 2002. The completion of the corrective action plan for the BOR Irrigation of Ineligible Land material weakness was delayed because of litigation issues. Final corrective action is now targeted for 2002. The completion of the Department Artwork and Artifacts material weakness was delayed because of bureau progress reviews. Final corrective action was achieved by several bureaus before the end of the year. Four bureaus, however, need additional time to complete the required actions due to competing priorities, resource commitments, and the volume of their collections.

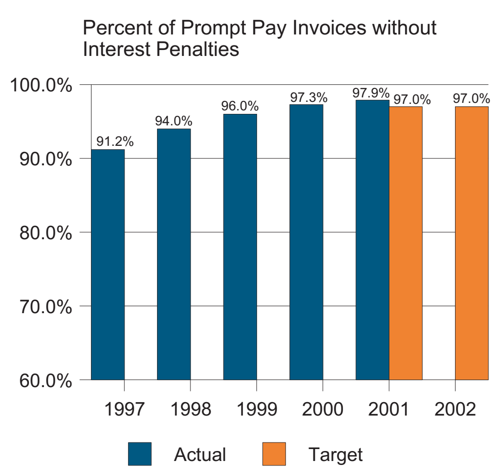
Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent implementation of GAO and OIG audit recommendations	N/A	N/A	61%	77%	75%	63%	75%
Percent completion of corrective action plans for material weaknesses	N/A	N/A	50%	33%	75%	50%	75%

Improve Financial Management Performance

Background: The Department monitors financial management performance through the periodic collection and reporting of data for the Prompt Payment Act, Electronic Funds Transfers, and the Debt Collection Improvement Act.

Performance Measure **-** *Percent of Prompt Pay Invoices without Interest Penalties.* The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice. The Department's objective is to have the percentage of payments without interest penalties meet or exceed the governmentwide goal of 97 percent.

2001 Results: The Department exceeded its performance target by paying 97.9 percent of its invoices without incurring Prompt Pay interest penalties.



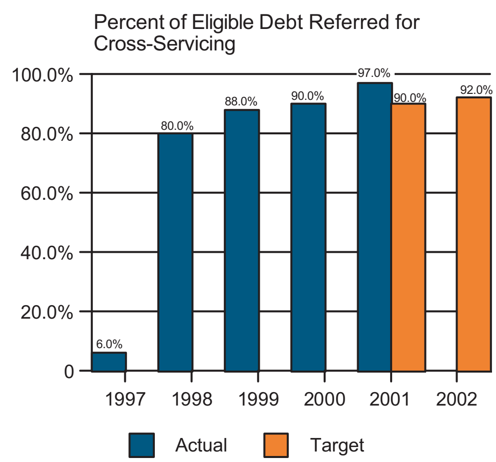
***Performance Measures** - Percent of Salary Payments, Vendor Payments, Miscellaneous Payments, and Charge Card Payments ($25,000 or less) processed by Electronic Funds Transfers (EFT).* The Debt Collection Improvement Act of 1996 (DCIA) requires that all payments be made by EFT unless covered by waiver. The Department's goal is to use EFT to the maximum extent possible, except for payments covered by waivers.

2001 Results: The Department exceeded its performance targets for EFT payments as shown in the following table.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Salary EFT Payments	85.8%	90.2%	97.9%	98.4%	98.0%	98.6%	98.0%
Vendor EFT Payments	14.4%	25.3%	61.1%	76.5%	80.0%	80.6%	80.0%
Miscellaneous EFT Payments	34.6%	54.6%	83.5%	91.6%	92.0%	92.8%	92.0%
Charge Card ($25,000 or less)	N/A	N/A	88.2%	94.0%	91.0%	95.5%	93.0%

***Performance Measure** - Percent of Eligible Debt Referred for Cross-Servicing.* The collection of delinquent debt due from the public is a major goal of the Debt Collection Improvement Act. The Department's goal is to refer all 180-day and older eligible debt to the U.S. Treasury for cross-servicing and to refer delinquent debts to the Treasury Offset Program as required by law.

2001 Results: The Department exceeded its performance target by referring 97 percent of eligible debt to the U.S. Treasury for cross-servicing.



Reimbursable Support Activities

The Department provides a number of support services through various reimbursable operations administered either by the Department or by individual bureaus. These include the National Business Center (a working capital fund within the Department) and working capital funds at the Bureau of Reclamation, the U.S. Geological Survey, and the Bureau of Land Management. Departmental Offices provide selected support services to bureaus on a reimbursable basis. The Department also administers the Interior Franchise Fund, which provides support services to non-Interior customers on a reimbursable basis under a pilot program established by the GMRA. The Department has established performance measures for the National Business Center and the Interior Franchise Fund. The other reimbursable activities operate to recover costs in accordance with rules established by their respective authorizing legislation.

National Business Center

Background: Interior's National Business Center (NBC) was created from the merger of three administrative service centers in three different bureaus into one service provider located in the Office of the Secretary. The NBC is founded on a vision "to be recognized as the preferred business solution provider for the federal sector." In addition to providing administrative and system services to Interior bureaus and offices, the NBC plays an important role in the federal government sector as a fee-for-service organization providing these same services to agencies outside of Interior. The NBC provides competitive, state-of-the-art products and systems and incomparable customer service to the federal sector.

Performance Measures - *Percent of Customers Satisfied with NBC Business Line and Percent of Payroll Processed Timely.* The NBC improves the efficiency and effectiveness of federal government through cross-servicing of human resources, payroll, finance, accounting, government housing management, and performance support. The NBC also provides a full complement of payroll operations, data centers, procurement, organizational development, and fiscal and property services; offers classroom, video conference, videotaped, computer-based, and web-based training; and provides multimedia presentations.

2001 Results: The NBC contracted with Booz-Allen Hamilton to conduct a customer service survey to determine the level of satisfaction of NBC customers, identify service delivery strengths and weaknesses, identify key drivers of excellent customer service, and provide customer service improvement training for NBC staff. The survey and data analysis were completed and serve as the baseline for NBC's continuous improvement process. During 2001, the NBC timely processed 99.9 percent of payroll through the Federal Personnel/Payroll System, which exceeded the performance target of 99 percent.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Percent of customers satisfied with NBC business line	N/A	N/A	N/A	N/A	Establish baseline	Baseline established	Develop Action Plan
Percent of payroll processed timely	N/A	N/A	N/A	99%	99%	99.9%	99%

Interior Franchise Fund

Background: In 1996, the Office of Management and Budget authorized the Department to establish a franchise fund pursuant to the Government Management Reform Act of 1994. The Interior Franchise Fund (IFF) carries out its responsibilities by relying upon a network of service provider organizations. The IFF's competitive strengths lie in its ability to attract and retain external customers and its ability to quickly garner the staff needed to meet customer needs. The creative concept of using Interior resources on a reimbursable basis allows the IFF to keep personnel and fixed costs to a minimum and precludes the need for maintaining permanent staff.

Performance Measures - *Number of Customer Orders and Amount of Retained Earnings.* The current service provider organizations, the Office of the Secretary and the Minerals Management Service, strive to operate in an entrepreneurial manner, consistent with the Office of Management and Budget's "Twelve Business Principles." They efficiently and effectively cross-service other agencies via interagency agreements. With the service providers' support, the IFF offers competitively priced administrative systems and related support services, administrative operations, and general administrative services that are responsive to customers' needs and budgetary constraints.

2001 Results: The IFF processed 1,310 orders (target not met) and generated $335,000 in retained earnings (target not met) during 2001. The transfer of the Cooperative Administrative Support Unit business line from the IFF to the Treasury Franchise Fund had an unfavorable impact on IFF performance.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of customer orders	9	230	334	1,114	1,500	1,310	1,500
Amount of retained earnings ($ in 000s)	($134)	($227)	($80)	$34	$1,200	$335	$1,200

Office of Aircraft Services

Background: The Office of Aircraft Services (OAS) provides consolidated aviation management to the Department. Centralized management promotes the safe and cost-effective use of aircraft. These aircraft are used to support the management of natural resources, including wildfire suppression, wildlife surveys, migratory bird studies, and animal gathering and capturing. Aircraft are also used to conduct scientific research, including environmental protection surveys; support seismic monitoring activities; and to transport people and supplies to remote areas, where travel over land is not feasible. Additionally, aircraft are used in law enforcement and emergency search and rescue operations.

Performance Measure: *Number of Safety Inspections Performed.* Safety inspections improve the efficiency, effectiveness, and safety of aviation services provided by the OAS.

2001 Results: The Office of Aircraft Services inspected 2,362 aircraft in 2001. Of this amount, 95 were Interior-owned aircraft, and the balance were contracted aircraft or rental aircraft approved to fly for special use activities at altitudes of less than 500 feet or requiring the use of special equipment. This represented 100 percent of aircraft used in all three categories.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of aviation safety inspections for Interior owned aircraft	96	106	109	106	113	95	115
Number of aviation safety inspections for contract and rental aircraft	2,718	1,796	2,109	2,387	2,526	2,267	2,612

Performance Measure: *Number of Pilot Flight Evaluations Performed.* Pilot flight evaluations improve the efficiency, effectiveness, and safety of aviation services provided by the OAS.

2001 Results: The Office of Aircraft Services administered pilot flight evaluations to 3,282 pilots in 2001. Of this amount, 409 were employee pilots. The balance were vendor pilots hired to fly contracted or rental aircraft approved to fly for special use activities at altitudes of less than 500 feet or requiring the use of special equipment. Evaluations were administered to 100 percent of pilots in all three categories.

Performance Measures	1997	1998	1999	2000	Plan 2001	2001	Plan 2002
Number of Interior pilot flight evaluations conducted	254	292	393	654	763	409	400
Number of vendor pilot flight evaluations conducted	540	1,328	1,805	3,626	4,034	2,873	2,800

Verification and Validation of Performance Measures

During the past several years, the Department has addressed data reliability issues through internal reporting and tracking systems and other internal control mechanisms that provide for considerable bureau discretion. A variety of approaches have been developed to accommodate the particular needs of offices with widely varying missions.

In 2001, the Department began to develop a more direct approach—a data validation and verification "matrix" that has been tested at various organizational levels. The matrix is based on basic principles that are typically applied to technical data collection and auditing situations. The Department reviewed recent literature, such as the General Accounting Office (GAO) report on data validation and verification, participated in local data verification and validation conferences, reviewed agency plans, and conferred with federal organizations that have demonstrated leadership in the Government Performance and Results Act (GPRA) arena. The advice and perspectives of the Office of the Inspector General (OIG) and a number of field-level personnel were also solicited. The result is a set of criteria for data validation and a five-part set of criteria for data verification applicable to GPRA goals.

Data validation criteria address central questions concerning the appropriateness of a goal relative to an organization's mission, and whether a goal is measurable, realistic, understandable, pertinent to decisionmaking, and reflective of the activity being measured.

Data verification centers on five critical areas: data standards and procedures, data handling, data quality, data integrity, and oversight mechanisms. Each area includes an individual set of core criteria for evaluating the strengths and weaknesses of that specific aspect of data verification.

The basic philosophy underlying the data verification and validation approach is to establish clear expectations and requirements that have been ground-tested for practicality and reasonableness so that organizations are positioned to succeed rather than fail for lack of direction. An allied concern is that data verification and validation will be viewed as another GPRA reporting burden instead of as an integral component of any business plan. The incremental approach affords time for exercising leadership, changing organizational culture, refining processes, and establishing clear accountability. It avoids imposing a large front-end reporting burden that could meet with resistance and might end up significantly impacting other mission priorities at a time when workforce levels are expected to decline and process improvement benefits may not be fully realized.

The Department pilot tested the matrix concept for data verification and validation beginning in the summer of 2001; pilot tests concluded in the fall. At that point, test results and related observations and recommendations were evaluated by a working group consisting of departmental and bureau planners and analysts. In late December the working group met to begin refining the matrix system and to explore the manner in which implementation would occur. The group will bring final revisions and recommendations to a close-out meeting scheduled for mid-March, 2002. Recommendations for implementation will be presented to Department and bureau leadership for approval as soon as feasible thereafter, with implementation expected by 2003.

Quarterly Data Reporting

The Department has developed a quarterly data reporting system to track progress in achieving GPRA goals. The bureaus are required to electronically submit performance data on a quarterly basis into a central Web-based database containing all Department and bureau performance data. The quarterly submittal schedule provides the ability to measure progress towards individual performance goals throughout the annual performance planning period. Departmental managers are able to access performance information through this new system.

The Departmental Management offices periodically meet with bureau deputy directors and planning staff to review performance results to date and discuss GPRA-related strategies, issues, and successes. The Departmental Management offices advises bureau leadership of potential performance issues and encourages self-assessments using the departmental data verification and validation matrix as well as streamlined assessment tools developed by the Department (see below). In addition, the Interior Management Council (IMC) has taken an active role in monitoring departmental performance information. The IMC reviews summaries of the quarterly reports and addresses related issues as they arise.

Self-Assessments

The Department has developed and initiated a streamlined self-assessment organizational tool to help improve performance. It is a condensed version of the Baldrige quality self-assessment tool for targeting organizational improvements. Several bureaus successfully applied test runs of this assessment tool in 2001.

Coordination with the Office of Inspector General (OIG)

The Department assists the OIG by providing information on the GPRA goals that address OIG management issues as well as GPRA goals that appear in the Accountability Report. As the OIG initiates new audits, the Department participates in entrance interviews and provides performance information and any relevant goals and measures that pertain to the program under review. In the course of conducting audits, the OIG examines whether issues are covered by appropriate performance goals and measures. Depending on the nature of the program, issues raised, or OIG program recommendations, the OIG may recommend using performance goals and measures to help track resolution of the issues. These performance measures may become part of a GPRA annual performance plan or may be tracked internally. The Department is working with the OIG on approaches to reviewing GPRA documents and data systems. To the extent possible, the Department intends to continue to coordinate this work with the OIG to help improve compliance with GPRA and foster performance and results driven management in the Department.

Program Evaluations

Program evaluations are an important tool for analyzing the effectiveness and efficiency of Interior programs, and for evaluating whether they are meeting their intended objectives. Interior programs are evaluated through a variety of means, including performance audits, financial audits, management control reviews, and external reviews by Congress, OMB, and other organizations, such as the National Academy of Public Administration and the National Academy of Science. The Department uses self-assessments to verify that performance information and measurement systems are accurate and supportive of Interior's strategic direction and goals. Data collection and reporting systems processes are reviewed and improved through the use of customer and internal surveys.

The Department also relies on outside reviews and audits of the strategic planning and performance management processes by GAO and OIG. GAO has conducted several reviews of Interior's strategic plans and annual performance plans, as well as more specific reviews of individual bureau GPRA implementation efforts. These reviews have been very helpful in identifying best practices and focusing attention on areas needing improvement.

The annual performance plans for Interior's bureaus include more detailed discussions of specific performance evaluations and their relationship to bureau programs. Some examples of planned program evaluations are listed in *Figure 11.*

Figure 11

Representative GPRA Program Evaluations

Bureau	***Program/Goal***	***Methodology/Purpose***
Goal 1: Protect the Environment and Preserve Our Nation's Natural and Cultural Resources		
NPS	Condition of National Historic Landmarks	NPS internal evaluation
BIA	Assess compliance with federal environmental laws	Five audits to be conducted annually by EPA contractor
Goal 2: Provide Recreation for America		
BLM	Recreation Fee Demonstration	Survey and site visits to state and field organizations
NPS	Evaluate visitor survey card methodology	Peer review by industry customer satisfaction professionals
Goal 3: Manage Natural Resources for a Healthy Environment and a Strong Economy		
BLM	Rangeland health evaluations and grazing permits	Surveys, management control reviews, and site visits to state and field organizations
BOR	Critical Infrastructure Assurance Program	Internal four-phase review process
Goal 4: Provide Science for a Changing World		
BLM	Threatened and Endangered Species	Surveys, management control reviews, and site visits to state and field organizations
USGS	Data preservation and Standards	External review by the National Research Council
Goal 5: Meet Our Trust Responsibilities to Indian Tribes and Our Commitments to Island Communities		
MMS	Cash Management and Revenue Disbursement	Internal alternative management control review
BIA	Assess quality of education programs and services	Annually by administrative program reviews

Compliance With Legal and Regulatory Financial Requirements

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

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Biennial review of user fees; and
- Other key legal and regulatory requirements

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative and accounting controls, and financial management systems. The 2001 Annual Assurance Statement is provided in *Figure 12*.

Figure 12

FISCAL YEAR 2001
ANNUAL ASSURANCE STATEMENT

"The Department conducted the annual assessment of its systems of management, accounting, administrative and financial systems controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB). Based on the results of this assessment, with the exception of the Department's concerns regarding the controls over the accuracy of ownership records and propriety of account balances in the Indian Trust Fund and the other 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, "Management Accountability and Control."

Based on the results of the annual independent audited financial statement process, the Department is in substantial compliance with applicable federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. However, due to the material weaknesses in information system security controls, the Department does not substantially comply with federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA and OMB Circular A- 127, "Financial Systems." The Department will develop a remediation plan to resolve these material weaknesses.

Secretary of the Interior

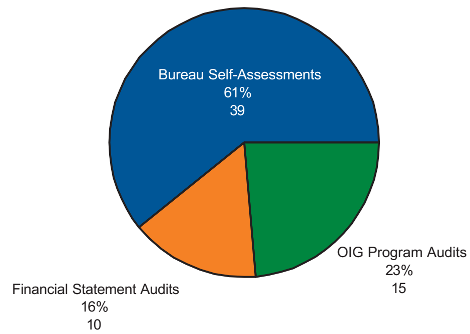
Interior believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) ensures high-quality, responsible leadership; (4) ensures the sound delivery of services to customers; 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 decisionmaking at all levels.

Interior's management control program ensures 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. Interior conducted its 2001 annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. Interior relied on the results of management control assessments conducted in programs and administrative functions, as well as the findings and results of Office of Inspector General (OIG) and General Accounting Office (GAO) program audit reports issued during the year. In addition, Interior considered the results of the financial statement audits conducted by the independent public accounting firm, KPMG, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GRMA) of 1994.

Figure 13

2001 Management Control Assessments Summary



In 2001, Interior planned and conducted a total of 39 management control self-assessments, of which 11 (28 percent) were conducted using an automated assessment approach developed and recommended by the Department. In addition, Interior utilized the findings and results in 15 OIG and GAO program audits and 10 financial statement audits. The 39 management control assessments represent 61 percent of the total of 64 assessments and audits relied upon in reaching the Secretary's annual assurance statement. *Figure 13* summarizes the distribution of 2001 management control assessments.

Automated Approach to Management Control Assessments

The automated assessment approach was developed in a Management Control Reengineering Laboratory conducted by the Department in 1996. Among other things, this approach offers a new, fully automated, less resource-intensive approach for targeting and conducting management control assessments. The automated assessment approach is built around seven management integrity measures that support the general and specific management control standards prescribed in OMB Circular A-123, and GAO's Internal Control Standards. A unique feature of the automated approach is that it provides for identifying both potential material deficiencies and best practices. The automated assessment is conducted electronically over the Internet using an off-the-shelf surveying and analytical software tool, providing much improved diagnostic and executive-level reporting.

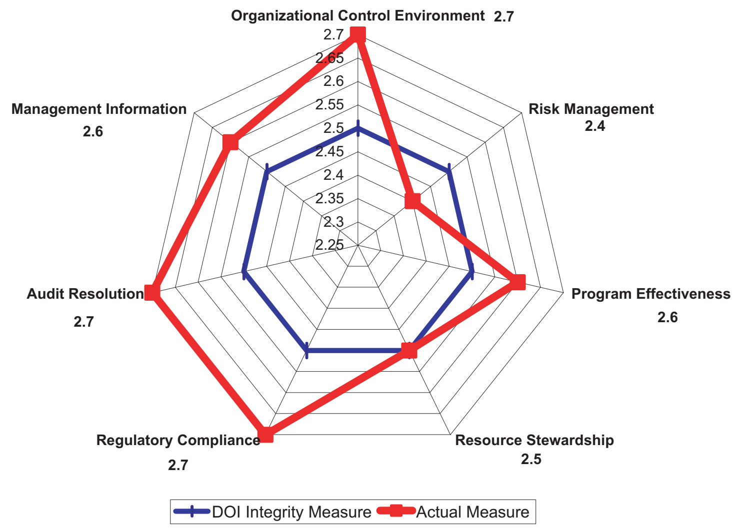
A pilot test of the automated assessment approach was conducted for 21 different bureau program and administrative functions between 1997 and 1999. The most significant result was a 90 percent overall reduction in staff time required for planning, conducting, analyzing, and reporting the results of the assessments.

In 2001, the Department encouraged bureaus and offices to use the automated assessment approach for all assessments. However, as a result of unanticipated delays in upgrading the surveying and diagnostic software tool to the Internet version, obtaining vendor training for bureau and office staff, and the "learning curve" associated with using the Internet version of the automated assessment approach, only 11 automated assessments could be conducted in 2001.

The consolidated summary report for the 2001 automated assessments is presented in *Figure 14* (Spider Diagram). The Spider Diagram presents the results of these assessments on a comparative basis using the seven management integrity measures. The seven measures are arrayed around the axis of the web and are scored on a numerical scale of 0 to 3.5, where 0 is the most unacceptable score for the measure. The blue symmetrical line with the value of 2.5 for each measurement represents the Department's minimum acceptable score for each integrity measure. The red line represents the actual summary assessment score for each measure. Scores above the 2.5 value represent areas of sound management controls and potential best practices, while scores less than the 2.5 value represent areas needing improvement and potential material deficiencies. Only the Risk Management integrity measure (2.4) fell below the Department's minimum acceptable score of 2.5. This is attributable to the extent of identified weaknesses in computer security along with employee and public safety-related programs in two bureaus. On an overall basis, this summary report indicates that the results of the automated assessments provide sound support for the conclusions in the Secretary's annual assurance statement.

Figure 14

2001 Management Control Assessment Summary



Results of the 2001 Management Control Program

Since the inception of the FMFIA in 1982, Interior has identified and reported 170 material weaknesses and 65 accounting system nonconformances. By the end of 2001, Interior had corrected 153 of these material weaknesses (90 percent). These totals reflect the addition of one new material weakness identified during 2001 and the correction of three material weaknesses. All accounting system nonconformances identified through 2000 have been corrected. In 2001, a new accounting system nonconformance was reported for information system security controls.

With the exception of the new accounting system nonconformance identified in 2001, Interior has corrected all reported accounting system nonconformances. Interior is also aggressively pursuing initiatives to ensure that:

- All financial systems are linked electronically;
- The migration to a single, integrated accounting system is achieved; and
- Data integrity and consistency are provided for all financial system components.

Progress in correcting material weaknesses and accounting system nonconformances exemplifies Interior's commitment to improving integrity and accountability in all its programs, organizations, and functions. This commitment is further demonstrated by the establishment of new accountability goals for the timely correction of material weaknesses, timely implementation of OIG and GAO audit recommendations, and the achievement of unqualified

Figure 15

Number of Material Weaknesses			
Period Reported	**Reported**	**Corrected**	**Pending**
Prior Years	161	151	10
1998	1	1	0
1999	4	1	3
2000	3	0	3
2001	1	0	1
Total	170	153	17

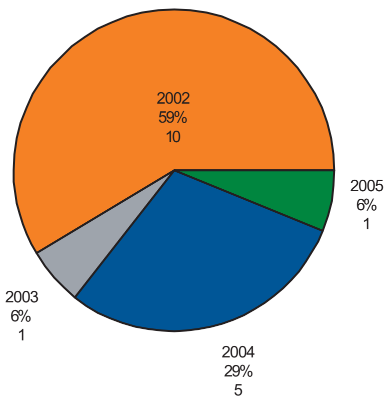
Figure 16

Number of Material Non-Conformances			
Period Reported	**Reported**	**Corrected**	**Pending**
Prior Years	64	64	0
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	1	0	1
Total	65	64	1

(clean) financial statement audit opinions. These new goals are included in the Department's 2002 Annual Performance Plan.

Figure 17

Planned Correction of the 17 Pending Material Weaknesses



The Department's progress in correcting material weaknesses and accounting system nonconformance is presented in *Figures 15 and 16*. Interior will carry forward 17 material weaknesses to 2002. As shown in *Figure 17*, Interior plans to complete corrective actions on 10 of the 17 material weaknesses (59 percent) during 2002. If this goal is achieved, it will represent Interior's largest single-year reduction in material weaknesses since the inception of the FMFIA. *Figure 18* presents a description of these 17 material weaknesses, including those designated as "mission critical weaknesses," summaries of planned corrective actions, and targeted completion dates.

GPRA Performance Goal

In order to ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department's Management Control and Follow-up (MCAF) Council established a GPRA performance measure. The Department's annual performance target is to complete 75 percent of material weakness corrective action plans by the targeted completion date reported in the Department's Annual Accountability Report. Corrective actions for five material weaknesses were targeted for completion in 2001. The status of these five corrective action plans, plus a BLM corrective action plan completed one year ahead of schedule, are as follows:

Bureau Or Office	Material Weakness	Department Mission Critical Material Weakness	Date Identified	Target Correction Date	Status at July 31, 2001
BOR	Irrigation of Ineligible Lands	Yes	1994	2001	Slipped to 2002
DEPT	Lack of Accountability and Control over Artwork and Artifacts	Yes	1990	2001	Slipped to 2002
BLM	Management and Oversight of the Land Exchange	No	1997	2001	Slipped to 2002
BIA	Inadequate Facilities Program	No	1996	2001	Completed as scheduled
BLM	Insufficient Safety Management Program	No	1999	2001	Completed as scheduled
BLM	Inadequate Range Monitoring	Yes	1992	2002	Completed one year ahead of schedule

Results: The Department did not achieve its performance target in 2001. Only three of six (50 percent) material weaknesses targeted for completion in 2001 and beyond were corrected. All three of the material weaknesses that slipped are now targeted for correction in 2002.

Figure 18

Pending FMFIA Material Weaknesses as of September 30, 2001			
Bureau	**Material Weakness**	**Corrective Actions**	**Target Correction Date**
	Mission Critical Material Weaknesses		
OST	Inadequate Management of Trust Funds: The management of Indian Trust Funds needs to be improved. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information.	The Trust Funds Accounting System and the Trust Asset and Accounting Management System will be extended to all locations. Departmental trust policies and procedures will be developed, internal controls enhanced, and training provided.	2004
OST and BIA	Inadequate Records Management: The records management system has made it difficult to properly administer the records management function.	A joint plan will be developed under the High Level Implementation Plan for the Trust Management Improvement Project. Initiatives will include cleaning up disposition backlog, developing policies, records manuals and training aids, providing technical assistance, implementing electronic records and imaging technology, developing record control schedules, conducting program evaluations, and publishing an Indian Trust Desk Guide with history, processes, and recordkeeping requirements.	2002
BOR	Irrigation of Ineligible Lands: Adequate attention was not given to identifying and resolving instances of federal water being delivered to ineligible lands on 24 projects in eight States. As a result, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.	Develop an alternative plan to resolve the issue of ineligible lands that receive federal irrigation water.	2002
DEPT	Lack of Accountability and Control Over Artwork and Artifacts: Develop and implement Department policies and guidance to establish appropriate accountability and control over artwork and artifacts.	Department policies, procedures, and implementation guidance have been developed. Bureau implementation of Department guidance is ongoing and being monitored. Remaining actions are focused on cataloging museum property. The annual goal is to catalog at least 5 percent of the baseline estimate of museum property until the cataloging level is 80 percent or greater.	2002
NPS	Inadequate Structural Fire Program: The current program does not provide adequate protection of employees and visitors, contents, structures, and resources for the effects of fire as required by Director's Order No. 58.	NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies cited in the May 2000 GAO audit report, and July 2000 congressional hearing on fire safety failures of the NPS.	2004
DEPT	Inadequate Computer Security: The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access have resulted in the need for a comprehensive Department program to improve computer security.	In its annual evaluation of the Department's security program and practices, the OIG reported that the Department did not have adequate information security policies, procedures, or controls to protect all information systems supporting its operations and assets. Also, the OIG has audited two bureaus and reported a series of comprehensive recommendations to address and improve system security and general control over automated information systems. The Department will conduct a comprehensive computer security assessment consistent with the scope of these OIG audits to determine the security and control issues in other bureaus and offices. Based on its findings, the Department will develop and implement a comprehensive information security plan, including capital budgeting requirements, and implement it on a phased basis.	2004
DEPT	Inadequate Wireless Telecommunications: Effective radio communications is critical to employee and public safety, and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Department management directives, and is not funded to achieve timely compliance.	The Department will develop and implement a plan to meet employee and public safety objectives, and restore the program to efficiency by reviewing bureau narrowband capital investment and implementation plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services.	2004
DEPT	Inadequate Departmentwide Maintenance Management Capability: Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a five-year Deferred Maintenance Plan and Capital improvement Plan; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to established goals (5 percent or less of replacement cost).	2004

Figure 18 (Continued)

Pending FMFIA Material Weaknesses as of September 30, 2001			
Bureau	**Material Weakness**	**Corrective Actions**	**Target Correction Date**
Other Material Weaknesses			
BIA	Irrigation Operations and Maintenance: The establishment of irrigation assessment rates and collection, recording, investment, and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current, and billing and debt collection processes have not been consistently followed.	Publish 25 CFR 171 A and B as a Final Rule. Reconcile past O&M receivables and bring all accounts to current status. Develop Operations Handbook regarding project operation and keeping O&M assessments and collection processes current.	2002
BIA	Deficiencies in Real Property Management: There are deficiencies in real property management and accounting. Differences between balances reported in the general ledger and balances in the subsidiary ledger for real property are unreconciled. BIA has not completed real property inventories or adjusted the subsidiary ledger. There are no written policies and procedures to ensure accuracy of real property accounts.	Inventories have been taken and accounting-adjusting entries made. The BIA will verify data, maintain records, and enhance documentation. Develop new procedures on construction-in-progress data. Finalize computer screens and software implementation, revise procedural handbooks, and develop additional procedures as needed.	2002
BIA	Inadequate Acquisition Management Program: BIA's Acquisition Management organization, policies, procedures, and guidelines are inadequate.	Guidance has been developed. The BIA will establish performance appraisal standards for contracting personnel, establish a BIA Acquisition Review Board, perform administrative management reviews and follow-up Quality in Contracting Review, and publish regulations on the Buy Indian Act.	2002
BLM	Management and Oversight of the Land Exchange Program: Policy guidance and procedures and personnel training do not ensure that appropriate appraisals are being developed and used in land exchange determinations.	Complete land exchange training module. Implement and monitor compliance with new land appraisal polices, procedures, and standards identified in the 2001 appraisal review conducted by the bureau.	2002
BLM (New)	Wild Horse and Burro Program: Ensure appropriate guidance is provided to field staff to implement the Animal Management Level strategy on all Herd Management Areas by 2005.	BLM will prepare and issue an Instruction Memorandum (IM) to the field providing comprehensive guidance on the implementation of the strategy. The IM will define targets and provide other strategic goals, which will be monitored on a periodic basis.	2002
BIA	Inadequate Debt Collection: Bureau regulations, procedures, and guidelines are inadequate and obsolete to properly administer current debt collection functions.	Set timeframe to run periodic delinquent debt referral to Treasury with automated interface program. Convert irrigation projects to National Irrigation Information Management System with Federal Financial System interface. Routinely reconcile Irrigation and Power subsidiary ledgers and general ledger. Complete construction debt reconciliation.	2002
MMS	Inadequate Internal Controls Over Accounting Operations: Ineffective controls have prevented the timely reconciliation of general ledger accounts and production of timely, accurate, and reliable financial data required for annual audited financial statement preparation (exclusive of the Royalty Management Program).	MMS will reassign and segregate duties and responsibilities within the Financial Management Branch; implement a plan to ensure specific individuals and officials are held accountable for non-compliance with established internal controls; establish a special project team in conjunction with the Department and the OIG to complete year-end account reconciliations; develop and enter correcting adjusting journal entries; and produce reliable and accurate financial statements in accordance with governmentwide standards.	2002
FWS	Inadequate Management Controls and Audit Follow-up in the Federal Aid Program: The absence of effective management controls, a centralized audit follow-up program, and guidance governing the administration of the Federal Aid Program has resulted in the ineffective management oversight and accountability for Federal Aid grant funds on a Servicewide basis.	Federal Aid process improvement teams will review reported program deficiencies in the Federal Aid Information Management System, Financial Reconciliation, Safety Margin, Grant Operations, Audit Review and Resolution, and Organization Function and Staffing Review. FWS management will evaluate the findings and recommendations of the process improvement teams and develop and implement comprehensive guidelines and organizational changes to govern the administration of the Federal Aid Program.	2003
BOR	Inadequate Land Inventory and Financial Reconciliations: The Bureau does not have a complete and accurate inventory system to support $1.7 billion in land and land rights.	BOR will (1) conduct reconciliation and research to validate the accuracy of its land records; (2) populate its new real property system (Foundation Information for Real Property Management or FIRM) with such data; (3) develop and issue policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conduct an initial and periodic reconciliation between the detailed land data maintained in FIRM and the financial accounting system to ensure the quality of information contained in both systems.	2005

Material Weaknesses Corrected

Interior completed corrective actions for three pending material weaknesses as noted above. The weaknesses corrected were:

1. BLM's Safety Management Program. In 1999, BLM identified the oversight of its Safety Management Program as a material weakness. Since that time, BLM has implemented numerous actions to correct the noted deficiencies, including the issuance of the BLM Safety Core Competency Document, conducting Safety Program assessments in six states, issuing a new Safety Manual, establishing a BLM Safety Web site, and integrating Risk Management into all BLM decisionmaking processes. As a result of these actions, the BLM Safety Management Program has now achieved a high level of visibility with employees and increased management oversight.

2. BIA's Facilities Program. In 1996, the OIG determined that the BIA Facilities Program did not have a reliable system to ensure that critical repairs and maintenance of facilities were conducted in a timely and cost-effective manner. As a result, health and safety hazards existed in BIA schools, employee housing, and other facilities. This material weakness was designated and reported as a "mission critical" weakness for BIA from 1996 until 2000, when cumulative corrective actions no longer warranted the designation. To address the identified deficiencies, BIA implemented a new facilities information system (FMIS), conducted on-site validations of the inventory entered in FMIS to ensure that the system information is accurate and complete, and issued instructional guidance to ensure appropriate and timely system updates. The Inventory and Backlog and Safety Tracking system modules now allow BIA to identify, prioritize, and track the status of deficiencies in all BIA facilities so that critical and routine repairs and maintenance can be addressed in a timely manner.

3. BLM's Range Monitoring Program. In 1992, an assessment of BLM's monitoring process found that not all high priority allotments were being monitored consistently. As a result, many grazing decisions were being issued because of a lack of quality monitoring data, and many grazing decisions that were issued were not adequately documented with monitoring data. This material weakness was designated and reported as a "mission critical" weakness for the BLM. Since that time, the BLM developed and implemented a Standards and Guidelines Implementation Policy and related instructional guidance; conducted training workshops; conducted rangelands validation reviews in four states to assess progress in meeting congressional mandates for grazing permit renewal; and provided annual work plan guidance for setting priorities and monitoring and evaluating rangeland health. Collectively, these actions enable the BLM to issue grazing decisions based on qualitative and quantitative data collection, interpretation, and evaluation.

New Material Weaknesses

Interior's Management Control Audit Follow-up (MCAF) Council reviewed and analyzed the results of the 2001 management control assessment process and determined that the material weakness concerning BLM's Administration and Oversight of the Wild Horse and Burro Program, which was reported as corrected in 2000, should be reinstated.

During a post-correction validation review conducted by the OIG in 2001, the OIG determined that BLM had not developed or issued appropriate instructional guidance to the field personnel to ensure that the new strategic goals for the Wild Horse and Burro Program would be achieved. As a result, the BLM will issue an Instruction Memorandum (IM) to field personnel on the implementation of the strategy in order to achieve appropriate management level goals on all herd management areas by 2005. The IM will define targets and provide other necessary guidance to attain the strategic goals. The BLM has targeted completion of corrective actions on or before the second quarter of 2002.

Figure 19

Mission Critical 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 material weakness designation 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.

Mission Critical Material Weaknesses

OMB Circular A-123 reporting guidance requests that each agency identify and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, Interior's Management Control and Audit Follow-up Council has identified eight of its 17 pending material weaknesses as "mission critical weaknesses." The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 19*.

Interior recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and approved by Interior. The MCAF Council and senior program management officials continuously monitor corrective action progress for each mission critical weakness. The eight mission critical material weaknesses and corrective action progress to date are as follows:

1. Inadequate Management of Trust Funds. Management of Individual Indian Monies (IIM), Tribal Trust Funds, and other Special Trust Funds is insufficient to properly maintain and administer the approximately $3.2 billion fund. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. The Office of Trust Funds Management has been reorganized to improve management by establishing a Quality Assurance Division and consolidating accounting functions under the Accounting Division. There is an ongoing effort to standardize and verify Individual Indian Monies system data by cross-checking trust resource records.

The management of Individual Indian trust funds is currently the subject of a lawsuit against the Secretary of the Interior. On December 21, 1999, the United States District Court for the District of Columbia ordered the Department to submit quarterly progress reports on actions taken to correct problems identified by the Court that relate to the government's trust responsibility to individual Indians.

The Department developed a High Level Implementation Plan (HLIP) with 11 subprojects that collectively constitute the Trust Management Improvement Project. Implementation of the HLIP will systematically address the decades-old problems in Indian Trust Fund management. The 11 HLIP subprojects include actions for establishing new trust fund management and financial systems to handle the millions of records that are the foundation of a reliable trust management program. The strategy for reform is being revised in response to court reports and independent consultant reviews.

The Trust Funds Accounting System (TFAS) provides the basic receipting, accounting, investment, disbursing, and reporting functions common to commercial trust funds management operations. TFAS became operational in all regions in March 2000. The Office of the Special Trustee's (OST's) Office of Trust Funds Management (OTFM) has significantly improved accountability over current trust receipts and disbursements; however, the inability of the Department to document all past transactions remains.

During 2001, the Department established the Office of Historical Trust Accounting to be responsible for verifying the historical accounting for trust funds. This effort, and ongoing litigation, should resolve the questions about the propriety of beginning account balances. Until the beginning balance propriety questions are resolved, the Department will be unable to obtain an unqualified audit opinion on Indian trust fund financial statements.

The Trust Asset and Accounting Management System (TAAMS) is designed to include master lease, billing, accounts receivable, and land collection subsystems, as well as land title functions. The development and implementation of TAAMS has been delayed, and its status is currently under review by the Department. In June 2001, OST contracted with Electronic Data Systems Corporation (EDS) to provide an independent analysis of the TAAMS project and the associated BIA data cleanup effort. EDS performed a comprehensive assessment of the project and recommended a "roadmap" for successful TAAMS implementation. The final EDS report was received January 24, 2002.

OST is currently in the process of assessing and redesigning its system of Indian trust fund management controls. While adequate controls exist for OST appropriated funds, OTFM does not currently have a system of management control in place to fully comply with the objectives of the FMFIA. Each functional unit in OTFM has reviewed its responsibilities, identified associated risks, assessed the risks, and begun developing and implementing relevant (mitigating) management controls. Implementation will be completed during 2002.

Independent financial statement audits for Indian trust funds have been completed for 1995 (balance sheet only) and 1996 through 2001. Generally, the deficiencies referenced above continue to be assessed during the annual independent financial statement audit.

2. Inadequate Records Management. The Bureau of Indian Affairs records system is inadequate to properly administer the records management function. As part of a comprehensive corrective action plan, the Office of the Special Trustee for American Indians initiated a process for ensuring the proper handling of all agency records, with an emphasis on trust records.

The BIA and OST have established a combined records management program office, the Office of Trust Fund Litigation and Support, with line responsibility over records management policy, guidance, training, and evaluation nationwide. This office is responsible for developing and implementing a uniform records management program with authoritative policies, guidance, and training requirements for both BIA and OST.

In addition, the OST, BIA, Minerals Management Service (MMS), Bureau of Land Management (BLM), and Office of Hearings and Appeals (OHA) will actively interact and work together to develop an agreed-upon approach to managing Indian trust records.

3. Irrigation of Ineligible Lands. The Bureau of Reclamation has not given sufficient priority to identifying and resolving instances of federal water being delivered to ineligible lands on at least 24 projects in eight states. Consequently, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.

The Bureau of Reclamation has completed an internal assessment of unauthorized use of federal project water to define the data requirements needed to ascertain the extent to which ineligible lands receive federal water. Seven of the 24 projects have resolved the unauthorized water use issue. Several projects have made significant progress and have plans in place to correct the unauthorized water use issue through a combination of land classification, water conservation, environmental assessments, prioritization of projects within regions, and compliance enforcement on contract violation issues. A methodology for addressing the general issue of unauthorized use is under development, including an expansion of programs and policies promoting efficient district water use and pricing. The development was delayed due to litigation. The proposed bureauwide methodology is expected to be finalized in the third quarter of 2002.

4. Lack of Accountability and Control Over Artwork and Artifacts. Accountability for, control over, and protection of artwork and artifacts administered by the bureaus and offices throughout Interior are inadequate to ensure the preservation of these objects. Until improved policies, procedures, and controls are implemented, the risk of significant loss of or damage to irreplaceable artwork and artifacts will remain high.

Interior has developed and implemented a revised museum property strategy and related policies and procedures. In addition, plans to implement an appropriate infrastructure in each bureau have been developed and approved for all but one bureau. A progress assessment in 2001 found that implementation has not proceeded at the pace originally anticipated in some bureaus due to resource restrictions and competing priorities. Cataloging of museum property objects in three bureaus has been completed, while a fourth bureau is expected to complete cataloging activities in 2002. The remaining bureaus are not expected to complete cataloging activities for several years. As a result, Interior’s strategy has been revised; each bureau is now expected to implement its plan within broad targets defined by Interior. In summary, bureaus are expected to complete cataloging of a minimum of five percent of their baseline estimates of museum property objects each year, until a minimum of 80 percent of the museum property objects are cataloged. Until that time, bureau-specific material weaknesses will be reported.

The current strategy for correcting this weakness is to give priority both to completing basic inventories (cataloging) of all museum property and to addressing the most sensitive portions of the collections first. Basic inventories establish accountability and improve security. The most sensitive collections are those subject to possible repatriation to tribes under the Native American Graves Protection and Repatriation Act (NAGPRA). Additional funds have been requested to accelerate progress on completing inventories of all museum property and to achieve full compliance with NAGPRA.

5. Inadequate Structural Fire Program (NPS). This material weakness was identified in 2000. NPS management determined that the current Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire as required by Director's Order No. 58. Corrective action is underway. The NPS will develop and implement a comprehensive improvement plan to address the operational, technical, and organizational deficiencies cited in the May 2000 GAO audit report and a July 2000 congressional hearing on fire safety failures in the NPS.

6. Inadequate Computer Security (Department). The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access have all resulted in the need for a comprehensive Department program to improve computer security.

The OIG audited two bureaus in 2000 and reported a series of comprehensive recommendations to address and improve system security and general controls over automated information systems. The 2001 audited financial statement process identified significant computer security breaches in most other bureaus, all of which were related to unauthorized Internet access. The Department will conduct a comprehensive assessment of computer security consistent with the scope of these OIG audits, as well as the findings from the 2001 audited financial statement process, to determine the security control issues in bureaus and offices. Based on its findings, the Department will revise its comprehensive information security plan, including capital budgeting requirements, and continue to implement the plan on a phased basis.

7. Inadequate Wireless Telecommunications (Department). This material weakness was identified in 2000. Effective radio communications are critical to employee and public safety, as well as efficient management of the parks and public lands. The current wireless telecommunications program in at least two bureaus does not effectively support bureau and public safety operations and does not comply with Department management directives. The Department has developed and is implementing a comprehensive Wireless Communications Plan to meet employee and public safety objectives and restore program efficiency by reviewing bureau narrowband capital investment levels and implementation plans, revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.

8. Inadequate Departmentwide Maintenance Management Capability. Interior lacks consistent, reliable, and complete information to plan, budget, and account for resources dedicated to maintenance activities. As a result, Interior does not have ready access to the information needed to report on deferred maintenance in its financial statements as required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment." The Department has established a Facilities Management Systems Partnership that provides a forum for the Department and its facilities-managing bureaus to coordinate the development and use of facilities management systems.

To address substantive issues in a systematic manner, the Department conducted a departmentwide review of maintenance and repair issues to reduce financial, health, and safety liability to Interior; increase the effectiveness and awareness of facilities maintenance; manage deferred maintenance; and ultimately improve the stewardship of Interior's constructed assets.

Based on this review, the Department has established the following three facilities maintenance objectives: (1) to properly manage and account for maintenance and construction funds from appropriations and fee receipts; (2) to identify the highest priority facilities maintenance and construction needs of the Department by using standard definitions and data; and (3) to formulate and implement a Five-Year Maintenance and Capital Improvement Plan (Five-Year Plan) for infrastructure, which began with the 2000 Budget.

Concurrent with the development of the Five-Year Plan, improvements to the Department's budget structure and accounting systems are being made to enable the Department to measure the effectiveness of its facilities management programs more accurately.

Interior has adopted MAXIMO, a commercial off-the-shelf product, as the core management enterprise software system to manage its facilities inventories, condition assessments, and work management and reporting requirements. The implementation status of MAXIMO varies among bureaus and offices, ranging from pilot testing and evaluation in the Fish and Wildlife Service to full implementation and training in 123 parks within the National Park Service.

Other Management Challenges Confronting Interior

Recently, the Office of Inspector General and the General Accounting Office have advised Congress regarding what they consider to be the major management challenges and other issues facing the Department. As shown in *Figure 20*, most of these issues have met the FMFIA criteria for, and been reported as, material weaknesses in the Department's Annual Accountability Report. The others, while not meeting the FMFIA material weakness criteria, are receiving priority management attention.

Figure 20

Major Department Management Challenges

Management Challenges	Existing FMFIA Material Weaknesses
Information Technology	Yes
Health and Safety	Yes
Procurement, Contracts, and Grants	Yes
Financial Management	Yes
Facilities Management	Yes
Responsibilities to Indians and Insular Areas	Yes
Resource Protection and Restoration	Yes
Revenue Collections	No
Government Performance and Results Act	No
Emergency Management	No

Progress in addressing these major management challenges and other issues is being monitored through the Department's FMFIA program and annual audited financial statements, as well as by the OIG and GAO through mandatory, requested, and discretionary audits (those audits initiated at the discretion of the auditor), evaluations, and follow-up reviews.

Audited Financial Statement Results

As required by the Government Management Reform Act, Interior prepares departmentwide consolidated financial statements. These financial statements are audited by independent auditors (the Office of Inspector General for 2000 and prior years, and KPMG beginning in 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 2000 and 2001 audited financial statement process are summarized in *Figure 21*. As shown in the table, there were instances where exceptions on internal controls were noted as material weaknesses or reportable conditions, as well as instances of noncompliance with laws and regulations.

Figure 21

Summary of 2000 and 2001 Financial Statement Audits

	Unqualified Opinion on Financial Statements		Clean Report on Internal Controls		Full Compliance with Laws and Regulations (Non FFMIA)		Full Compliance with Laws and Regulations (FFMIA)		*Full Component Compliance with Laws and Regulations (FFMIA)*		
									Systems	*Accounting*	*SGL*
	2000	*2001*	*2000*	*2001*	*2000*	*2001*	*2000*	*2001*	*2001*	*2001*	*2001*
Dept	Yes	Yes	No	No	No	No	No	No	No	No	No
FWS	No	Yes	No	No	No	Yes	No	No	No	No	Yes
USGS	Yes	No	No	No	No	No	Yes	No	No	No	No
BIA	Yes	Yes	No	No	No	No	No	No	No	No	No
BLM	Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	Yes
MMS	No	Yes *	No	No	No	No	No	No	No	Yes	No
NPS	Yes	Yes	No	No	Yes	Yes	No	No	No	Yes	Yes
BOR	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes
OSM	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DO	Yes	Yes	No	No	Yes	No	Yes	No	No	No	Yes

* Balance Sheet and Statement of Custodial Activity only.

Resolution of Internal Control Weaknesses Reported in 2000 Audited Financial Statements

The table in *Figure 22* summarizes the status of material weaknesses reported in the 2000 audited financial statements. The Department has established an internal goal of completing corrective actions for these material weaknesses within one year. However, delays in receiving final 2000 audit opinions and several multi-year corrective action plans precluded the achievement of this internal goal. In summary, 25 of the 40 (63 percent) material weaknesses reported in 2000 were downgraded to reportable conditions or corrected in 2001.

Figure 22

Status of Material Weaknesses Reported in the 2000 Annual Financial Statement Audit Process

Bureau/Office	Material Weaknesses Reported in 2000	Material Weaknesses Downgraded or Corrected in 2001	Targeted Completion Dates for Remaining Weaknesses
DEPT (Consolidated)	11	5	2002-2005
OSM	0	0	N/A
BLM	1	1	N/A
MMS	8	8	N/A
BIA	7	6	N/A
FWS	4	3	2002
NPS	2	0	2002
USGS	2	1	2002
DO	4	1	2004
BOR	1	0	2005
Total	40	25	N/A

Figure 23 presents a summary of each of the material weaknesses reported in the Department's and bureaus' 2001 audit opinions. A total of 38 material weaknesses were reported, of which 15 (39 percent) were carried over from 2000.

Figure 23

2001 Audited Financial Statements
Material Weaknesses Remediation Status Report

Bureau	Material Weakness Description	Corrective Action	Target Date	New Weakness or Carryover from 2000
DO	Improve Controls Over Undelivered Orders and Accruals	Enhance existing processes and controls to ensure that accruals are recorded and undelivered orders are adjusted for services and products received prior to the end of the reporting period	9/30/02	Carryover
DO	Inadequate Accounting Controls Over Interior Franchise Fund	Establish and implement policies and procedures to monitor service provider disbursements, update pricing schedules, improve controls over receipts and accounts receivables, and improve software change control.	9/30/02	Carryover
DO	Inadequate Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds, and implement the High Level Implementation Plan as revised and amended.	9/30/04	Carryover
DO	Inadequate Reconciliation of Transactions with Other Interior Components	Adopt procedures to reconcile and clear balances with other Interior components on a quarterly basis.	9/30/02	New
FWS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	New
FWS	Inadequate Controls for Processes and Systems Relating to Capital Equipment	Continue ongoing assessment of capital equipment processes for acquiring, tracking, and reporting capital equipment.	9/30/02	Carryover
FWS	Improve the Financial Reporting Process	Assess and re-evaluate the financial reporting process to improve its efficiency and effectiveness	9/30/02	New
FWS	Improve Controls, Systems, and Reporting Related to Buildings, Structures, and Capital Improvements	Continue assessing and evaluating the capital equipment process and implement needed improvements.	9/30/02	New
NPS	Inadequate Accounting Controls and Procedures for Undelivered Orders and Accounts Payable Accrual Recognition	Establish and implement policies and procedures to review year-end undelivered orders to ensure proper accruals and de-obligations.	9/30/02	Carryover
NPS	Inadequate Accounting Controls and Procedures for Personal Property	Develop and implement policies and procedures which ensure physical inventories are adequate and complete; additions and disposals are recorded timely and accurately; appropriate supporting documentation is maintained; and, depreciation expense is timely and accurately recorded.	9/30/02	Carryover
NPS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
NPS	Inadequate Controls Over Preparation, Analysis, and Monitoring of Financial Information	Improve communications between the NPS budget and accounting offices, and perform adequate reviews of external reports prepared for submission by these entities.	9/30/02	New
MMS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
BLM	Inadequate Accounting for Property	Implement controls and procedures to ensure property balances are materially accurate and supported.	9/30/02	New
BLM	Inadequate Accounting for Intra-departmental Transactions	Implement procedures to identify and correct out of balance intra-bureau transfers.	9/30/02	New
BLM	Inadequate Accounting for Effects of New Legislation	Assess the effects of new legislation and revise the accounting for timber sales to counties.	9/30/02	New
USGS	Inadequate Account Analysis and Adjustments	Develop and implement procedures to ensure that all accounting adjustments are reconciles adequately supported, timely and independently reviewed throughout the year.	9/3002	Carryover
USGS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	New
USGS	Inadequate Controls Over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/02	New
USGS	Inadequate Financial Management Organization Structure	Improve controls over processing field office information; delegate authority to ensure uniform administration of and compliance with accounting policies Survey-wide; review decentralized financial management systems and internal controls; and fill existing vacancies and provide accounting training programs.	9/30/02	New

Figure 23 Continued

2001 Audited Financial Statements Material Weaknesses Remediation Status Report				
Bureau	**Material Weakness Description**	**Corrective Action**	**Target Date**	**New Weakness or Carryover from 2000**
USGS	Inadequate Reconciliation of Proprietary and Budgetary Accounts	Conduct regular analyses and reconciliations proprietary and budgetary accounts, and routinely monitor compliance with Anti-Deficiency Act.	9/30/02	New
USGS	Inadequate Reconciliation of Fund Balance with Treasury	Develop and implement procedures to ensure that all Fund Balance with Treasury reconciliations are accurately performed after month-end, and any difference are cleared in a timely manner.	9/30/02	New
USGS	Inadequate Accounting and Reconciliation of Suspense Accounts	Develop and implement procedures to ensure that the liability for suspense account is timely reconciled after month-end and implement a policy that all transactions are cleared in less than six-months.	9/30/02	New
USGS	Inadequate Controls Over Revenue Cycle	Perform a study of the entire revenue cycle and consider redesigning or reengineering the process to achieve greater efficiency and simplicity.	9/30/02	New
USGS	Inadequate Accounting for Inventory	Establish policies and procedures to account for map and hydrological inventory that will ensure full compliance with SFFAS No. 3 – Accounting for Inventory and Related Property	9/30/02	New
BOR	Inadequate Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights.	9/30/05	Carryover
BOR	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
BIA	Inadequate Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts	9/30/04	New
BIA	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	Carryover
BIA	Inadequate Controls Over Financial Reporting	Recruit a Chief Accountant, implement a redesigned organizational structure, and implement a routine financial reconciliation process.	9/30/03	New
DEPT	Inadequate General and Application Controls Over Financial Management Systems	Establish and implement controls and other safe-guards to ensure that sensitive and critical financial data and systems are protected.	9/30/03	Carryover
DEPT	Improve Timeliness of Transaction Entry and Reconciliations	Implement policies and procedures to ensure account analyses and reconciliations between accounts, subsidiary records, and financial statements are performed routinely throughout the year.	9/30/02	Carryover
DEPT	Inadequate Controls Over Undelivered Orders and Accruals	Establish and implement policies and procedures to review year-end undelivered orders and accruals to ensure proper accruals and de-obligations are recorded.	9/30/02	Carryover
DEPT	Inadequate Reconciliation of Trading Partner Data	Implement policies and procedures to ensure the timely reconciliation of trading partner data, and a more streamlined and efficient year-end reporting process.	9/30/02	Carryover
DEPT	Inadequate Controls Over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/04	Carryover
DEPT	Inadequate Controls Over Trust Funds	Implement the Department's High level Implementation Plan to achieve comprehensive Indian Trust reform, including vital improvements to systems, policies and operations necessary to ensure meeting the trust obligations to Indian tribes and individuals.	9/30/04	Carryover
OST	Reliance on Processing of Trust Transactions in the Bureau of Indian Affairs	Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform subprojects.	9/30/02	New
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/03	New

Federal Financial Management Improvement Act (FFMIA)

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

Federal agencies are required to address compliance with the requirements of the FFMIA in the representative letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the financial statement audit opinion. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

As a result of the material weaknesses identified in security and other controls over information technology systems and resources during the 2001 financial statement audit, Interior concluded that its financial management systems did not substantially comply with the financial management systems requirements of the FFMIA. In addition, the results of the financial statement audit did not allow Interior to conclude that it was in substantial compliance with all applicable federal accounting standards.

The Department is in the process of developing a remediation plan to correct the material weaknesses in security and other controls over information technology systems and resources as well as comply with all federal accounting standards. The corrective actions are targeted for completion by 2004.

Remediation Plan

Information Technology Security. Interior will develop an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. The implementation of the IT Security Plan should bring Interior's financial management and information technology systems into substantial compliance with the requirements of the FFMIA and OMB Circular A-130, "Management of Federal Information Resources." The IT Security Plan will include actions in the following control areas:

IT Security Management Structure. The Department's IT Security Management Structure is aimed at providing a framework and a continuing cycle of activity for managing risks, developing and implementing security policies, assigning responsibilities, and monitoring the adequacy of Department and bureau information technology system controls.

Segregation of Duties. In some instances, the Department has not ensured proper segregation of duties for personnel working with information technology systems and applications through its policies, procedures, and organization structures. As a result, it is possible for a single individual to control key aspects of information system-related operations and thereby possibly conduct unauthorized actions or gain unauthorized access to assets or records without detection. The Department's IT Security Plan will require review and restructuring of employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations.

Access Controls. In some instances, the Department has not established access controls that limit or detect inappropriate access to information technology systems and related resources, thereby increasing the risk of unauthorized modification, loss, or disclosure of sensitive or confidential data. The Department will take action to secure network vulnerabilities and improve access control deficiencies in each of the following areas: network configuration management; password management; monitoring of security violation logs; access to program and sensitive files that control computer hardware and sensitive applications; and, other physical security controls.

Software Development and Change Controls. The Department does not have adequate controls over application software development and change controls for all of its information technology systems and applications. The Department's IT Security Plan will seek to ensure that appropriate policies, procedures and operational controls are developed and implemented to prevent unauthorized system, program or application modifications.

Service Continuity. The Department does not have adequate controls in place in all bureaus, programs and operations to minimize the risk of unplanned interruptions, to recover critical operations and to protect data should interruptions occur. The Department IT Security Plan provides a framework for all bureaus and offices to: identify critical operations and resources; prioritize data and operations; document emergency processing priorities; provide current backup tapes and files to secure off-site facilities; and, ensure comprehensive Continuity of Operations Plans are established and communicated for all major system applications and operation centers.

National Business Center. Interior's National Business Center (NBC) administers several financial management systems for its bureaus and external agency customers including the Federal Personnel and Payroll System, the Federal Financial System, Hyperion, and the Interior Department Electronic Acquisition System. Material weaknesses and other control deficiencies recently identified could affect the NBC's ability to prevent and detect unauthorized access and changes to its financial information, and increase the need for costly and less efficient manual controls to monitor and reconcile financial information. Although the NBC has taken prompt action to improve security and controls for its information technology systems, the NBC will take steps to improve entity-wide security planning, system configuration and operating systems, system software controls, software development and change controls, and service continuity.

Federal Accounting Standards. Interior will also fully develop and implement strengthened procedures and controls to ensure that financial statements and related disclosures are prepared in accordance with federal accounting standards.

Inspector General Act Amendments (Audit Follow-Up)

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

Figure 24

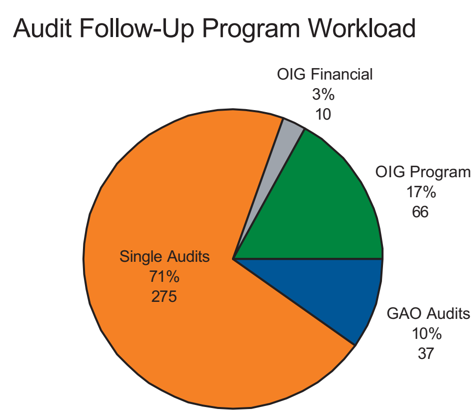
2001 GPRA Goal for Implementation of OIG and GAO Audits			
Bureau/Office	No. of Recommendations Meeting GPRA Goal Criteria	No. of Recommendations Implemented Within One Year	Percentage Implemented Within One Year
DEPT/OS	4	4	100%
BIA	1	1	100%
USGS	5	5	100%
OST	24	22	92%
BLM	11	9	82%
MMS	8	6	75%
NPS	21	13	62%
BOR	22	11	50%
FWS	11	2	18%
OIA	8	0	0%
OSM	0	0	N/A
Total	115	73	63%

To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, Interior established an aggressive annual GPRA performance goal, beginning in 2000, of implementing 75 percent of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation.

Interior was unable to meet its GPRA performance target in 2001. A composite implementation rate of 63 percent was achieved for 2001 (see *Figure 24*). The composite rate included a 71 percent implementation rate for OIG audit recommendations and an 18 percent implementation rate for GAO audit recommendations. The implementation rate for GAO is lower because GAO recommendations often require multi-year actions and/or legislative changes.

There were two primary reasons for not achieving the GPRA performance target in 2001. First, the implementation of several OIG audit recommendations was delayed due to the confirmation and appointment of policy officials. Second, many of the GAO audit recommendations involve policy issues, the issuance of new or revised regulations through public rulemaking processes, or seeking new or amended legislation. As a result, implementation of these recommendations cannot be realistically accomplished with the one-year time constraint. Appropriate GPRA goal criteria revisions will be incorporated for 2002 and the future.

Figure 25

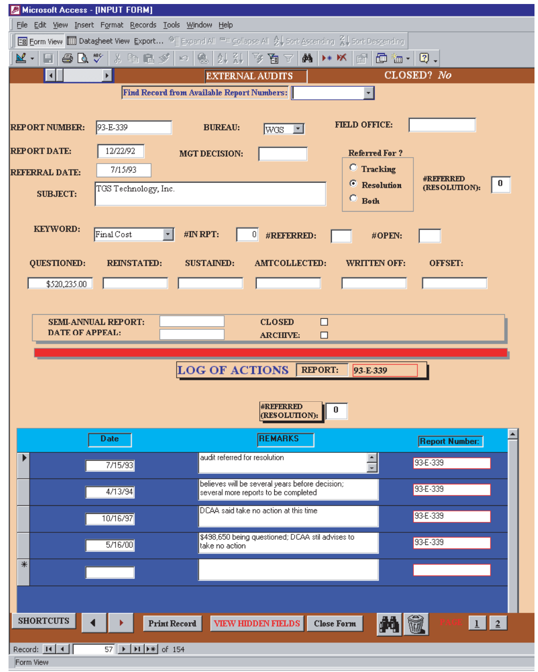


In 2001, Interior's Audit Follow-up Program monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 275 Single Audits, 76 OIG audits, and 37 GAO audits (see *Figure 25*). Audit follow-up actions included tracking, reviewing, and validating audit recommendations; developing mutually acceptable and timely resolutions to disputed audit findings and recommendations; assisting in developing timely exit strategy for the change in independent auditors for the FWS Federal Aid Audit Program; and monitoring the recovery of disallowed costs.

Interior continued to make significant improvement in the timely implementation of audit recommendations, closure of pending audit reports, and recovery of disallowed costs and other funds owed the government. For example, Interior closed 35 audit reports that had been referred during 2001 or prior years. In addition, a total of 101 of all of the recommendations referred for tracking during 2001 or prior years were implemented by the end of the year. Additionally, an 18 percent closure rate and a 13 percent recovery rate on disallowed costs were achieved.

New Management Control and Audit Follow-up Tracking System

Figure 26



During 2002, the Office of Financial Management (PFM) will launch its new Management Control and Audit Follow-up Tracking System (MCAF-TS). This new system (see *Figure 26*) was developed internally using off-the-shelf software. The MCAF-TS is a shared password protected database accessible to all users on the PFM local area network. The database allows PFM staff to track implementation progress for OIG and GAO final audit report recommendations, Single Audits, and other external audits referred to the Department for follow-up actions; FMFIA material weakness corrective actions; and audited financial statement material weaknesses, reportable conditions, and non-compliance issues. The database maximizes the use of macros and Visual Basic programming to eliminate input redundancy, enhance data integrity and data validation, and provide users with point and click options for generating summary and detailed status reports. During 2002, MCAF-TS will be enhanced to provide for ad hoc reporting formats, information queries, and data sharing with other Interior bureaus and offices.

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 now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring OIG processing (review and audit follow-up actions), are then forwarded to the OIG for distribution to the appropriate bureaus for tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution of 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.

Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees.

During 2001, 16 audits were referred to the Department for tracking, of which 7 had management decision dates less than six months from the date of the audit report.

Collecting and Offsetting Disallowed Costs

As shown in *Figure 27*, Interior closed 5 of 28 (18 percent) audits carried over from 2000 during 2001. A total of $1.38 million in disallowed costs were recovered, or about 13 percent of total disallowed costs carried over from the prior year.

Figure 27

Summary of Actions Taken on Single Audits with Disallowed Costs				Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period				28	$10,309,617
(B) New Reports				16	$148,394
Total reports in tracking				44	$10,458,011
(C) Final action taken during period				5	$1,382,540
	Collected	5	$1,382,540		
	Written Off				
	Offset				
	Reinstated				
	Referred to Treasury For Collection Action				
(D) Reports in Progress at end of period				39	$9,075,471
	Mgmt dec < 1 yr old	5	$99,259		
	Mgmt dec > 1 yr old	25	$6,659,567		
	Mgmt decision under formal appeal	9	$2,426,645		

Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During 2001, 76 audits were being tracked (63 audits carried over from 2000 and 13 new audits issued during 2001), and 18 of those audits were closed (24 percent). A total of 101 recommendations from OIG internal audit reports were implemented in 2001. For the 58 audits pending at the end of 2001, there were 359 original report recommendations, of which 147 were closed (41 percent).

Figure 28

Summary of Actions Taken on Audits with Funds to be Put to Better Use (FBU)			Number Of Reports	FBU Dollars
(A) Reports on hand at beginning of report period			3	$11,120,000
(B) New reports received during the report period			4	$1,517,696
Total reports in tracking			7	$12,637,696
(C) Reports closed during the report period			3	$3,078,700
(D) Reports in progress at the end of the report period			4	$9,558,996
Mgmt dec < 1 year old	2	$1,118,996		
Mgmt dec > 1 year old	2	$8,440,000		
Mgmt dec under formal appeal	0			

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. Interior progressed in implementing recommendations and closing FBU audits during 2001, with three of seven (43 percent) audits being closed (see *Figure 28*). These three audits included recommendations with $3.1 million in FBU dollars. The four pending audits include recommendations with $9.6 million of FBU dollars.

General Accounting Office Audits

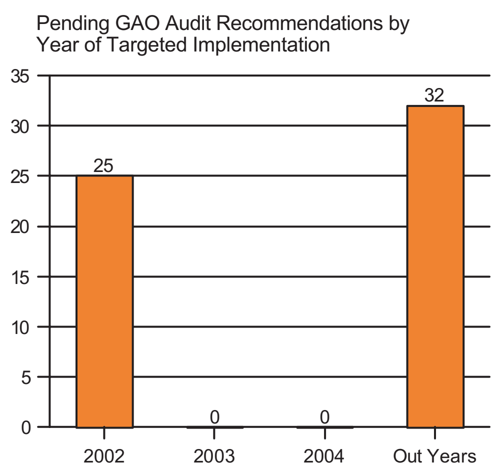
GAO audits are a major component of Interior's audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 23 GAO final audit reports were carried over from 2000. During 2001, GAO issued a total of 14 new final audit reports to the Department. Interior was successful in closing 12 of these audits during 2001. A total of 25 final audit reports and 57 recommendations were pending at the end of the fiscal year (*Figure 29*).

Figure 29

Summary of Actions Taken on Reports Issued by the GAO			
			Number Of Reports
Final Reports in tracking at the beginning of the reporting period			23
Final Reports issued during the reporting period			14
Final Reports closed during the reporting period			12
Total Final Reports in tracking at the end of the reporting period			25
Final Report recommendations closed the reporting period			4
Final Report recommendations in tracking at the end of the reporting period			57
Code	Status of Final Reports in Tracking	No. of Final Reports	
D1	Management decisions < 1 year old	2	
D2	Management decisions > 1 year old	17	
D3	Mgmt dec under formal appeal	6	

Based on current implementation plans, the Department expects to implement 25 of the 57 (44 percent) pending recommendations during 2002 (*Figure 30)*. Most of the other pending recommendations involve long-term and/or multi-phased corrective actions or have yet to be assigned a targeted implementation data. The Department tracks and monitors progress on these corrective actions and develops interim milestones where practical. Several of these pending recommendations will be reevaluated during 2002 to determine if they are cost prohibitive.

Figure 30



Biennial Review of User Fees

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

Interior did not conduct a biennial review of its fee programs in 2001. The next biennial review is scheduled for 2002.

Other Key Legal and Financial Regulatory Requirements

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

The auditor's opinion on the 2001 Department consolidated financial statements identified three instances of non-compliance with financial regulatory requirements. Those issues and Interior's remediation plans are as follows:

Debt Collection Improvement Act. Interior is required to refer eligible receivables that are delinquent to the U.S. Department of the Treasury for collection or offset. Eligible receivables include those that are not subject to litigation, related to foreclosure proceedings, or from organizations in bankruptcy. The auditor noted that three bureaus did not consistently refer receivables that were over 180-days delinquent to the Treasury: Bureau of Indian Affairs; Bureau of Reclamation; and, U.S. Geological Survey. Interior will continue to closely monitor bureau performance in this area and improve the current process of transferring eligible debt to Treasury in a timely manner.

Prompt Payment Act. Interior is required to pay bills on time and pay interest penalties when payments are late. The auditor noted that two bureaus did not consistently pay interest penalties when payments were late: Minerals Management Service and U.S. Geological Survey. Interior will continue to closely monitor bureau performance in this area and work with the bureaus experiencing difficulty in complying with the Prompt Payment Act.

Section 113 of Public Law 104-208, Advances for Interior Franchise Fund. Interior developed appropriation language supporting the Interior Franchise Fund under the Government Management Reform Act (GMRA) and in establishing the franchise fund pilot program in accordance with OMB guidelines. Interior does not believe that the recommended appropriation language was intended to require advances for all services, but was intended to allow the pilot program to receive advances so that the organizations could operate in a more business like manner. However, Interior does recognize that the existing appropriation language could be interpreted in that manner and will work with OMB and Congress to amend the appropriation to support the intent of the GMRA objectives.

Analysis of Financial Statements

To strengthen the integrity of financial operations and ensure the accuracy of financial data, Interior produces audited financial statements for the Department as well as individual bureaus. The Department's principal financial statements include: (1) Consolidated Balance Sheets; (2) Consolidated Statement of Net Cost of Operations; (3) Consolidated Statement of Changes in Net Position; (4) Statement of Custodial Activity; (5) Combined Statement of Budgetary Resources; and (6) Consolidated Statement of Financing. Overall, these statements summarize the financial activity and financial position of the Department. Additional financial information is presented in the Other Supplemental Information section of the report.

The Department's goal is to achieve unqualified (clean) audit opinions on all financial statements as well establish internal controls and comply with Federal Financial Management Improvement Act requirements. Unqualified audit opinions provide independent assurance to external users that the information being provided is reliable. The benefits of conducting financial statement audits and obtaining unqualified opinions are twofold: (1) ensuring that quality data is provided to external parties; and (2) ensuring that books and records used by management can withstand the rigors of the audit process.

Moreover, the discipline required to produce audited annual financial statements demands that appropriate management attention be directed to improving financial management and complying with applicable laws and regulations.

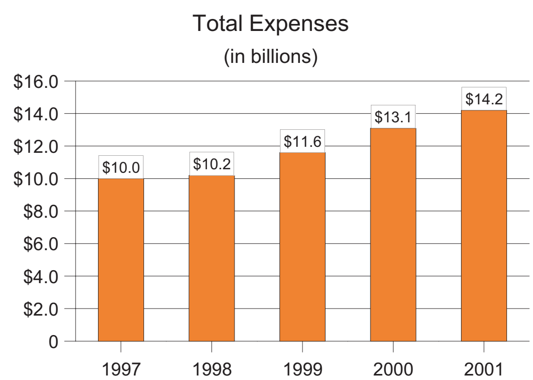
In 2001, the Department's consolidated financial statements and all bureaus that published financial statements received unqualified audit opinions on their financial statements except for the U.S. Geological Survey. The independent auditor was not able to render an opinion on USGS's financial statements.

Limitations of Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with Interior management. The financial statements and supplemental financial schedules included in this report reflect the financial position and results of operation of the Department pursuant to the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. While these statements have been prepared from the books and records of Interior in accordance with guidance provided by the Office of Management and Budget and the Federal Accounting Standards Advisory Board, the statements differ from financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the realization that Interior is an agency of the executive branch of the United States government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subjected to enactment of appropriations.

Expenses

As indicated in the Consolidated Statement of Net Cost of Operations, the 2001 gross cost of Interior operations, before earned revenue, was approximately $14.2 billion, an increase of 8.7 percent over 2000. The increase was due primarily to the additional availability of resources from an increase in current budget and spending authority from offsetting collections. An analysis of operating expenses shows that approximately 21 percent was for protecting the environment and preserving the Nation's natural and cultural resources, 24.3 percent was for managing natural resources for a healthy environment and a strong economy, 23.1 percent was for meeting responsibilities to American Indians and commitments to island communities, and the balance was for providing recreation for America, providing science for a changing world, and other program activities.

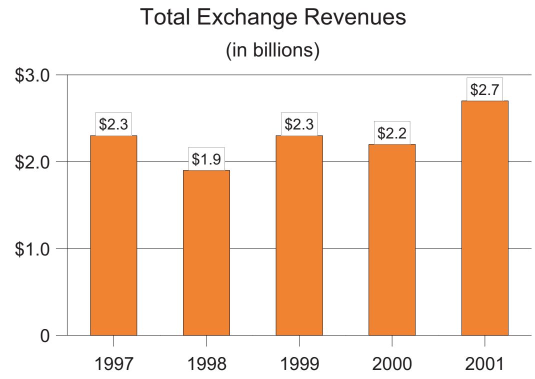


Revenues

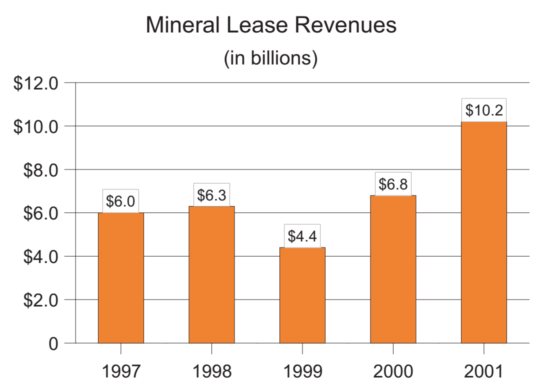
In general, Interior's strategic goals are intended to be funded by general government funds derived from tax receipts and other sources. However, an increasing number of departmental activities are being supported by other fees and collections.

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

Interior's revenues from the public derive from sales of hydroelectric power, entrance fees at parks and wildlife refuges, sales of maps, and other products and services that are directly related to the operating responsibilities of the Department. Approximately $2.7 billion of revenues were collected and were either retained in the Department after congressional appropriation to further Interior's mission, or were returned to the General Fund of the Treasury. These revenues offset the taxpayers' investment in the Department. This represents an increase of approximately 21.1 percent from 2000.



During 2001, Interior collected over $10.2 billion in mineral leasing revenue, an increase of approximately 50 percent over 2000, from Outer Continental Shelf and onshore oil, gas, and mineral lease sales and royalties, making Interior one of the largest collectors of revenue in the federal government. These receipts are presented on the Department's Statement of Custodial Activity since these collections, under federal accounting rules, are considered to be revenue of the government as a whole rather than of the Department. The revenues are distributed primarily to federal and state treasuries, Indian tribes and allottees, the Land and Water Conservation Fund, and the Historic Preservation Fund.



Budgetary Resources

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

Interior's enacted 2001 current appropriations budget was $10.4 billion, an increase of approximately 22 percent from 2000. The Total Budgetary Resources available for use in 2001 was $19.9 billion, a increase of approximately 17 percent from 2000. This amount includes Budget Authority; Unobligated Balances – Beginning of Period; and Spending Authority from Offsetting Collections. Spending Authority from Offsetting Collections was $2.8 billion, an increase of about 15 percent from 2000.

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

$ in billions	Current Appropriations	Budget Authority *	Spending Authority from Offsetting Collections	Total Budgetary Resources Available for Use
1998	$8.2	$9.9	$1.9	$16.1
1999	$8.1	$10.3	$2.8	$18.1
2000	$8.5	$11.4	$2.4	$17.1
2001	$10.4	$13.8	$2.8	$19.9

* Includes permanent appropriations and prior year funds not available for current year obligations.

Assets

Approximately 33 percent of the Department's $50.2 billion in assets (see Consolidated Balance Sheets) is composed of Property, Plant, and Equipment.

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

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

The Fund Balance with Treasury - General is $7.5 billion, an increase of 21.4 percent over 2000. These funds are in agency accounts maintained by Treasury. The Treasury Department functions like a bank, and Interior's Fund Balance with Treasury is analogous to a checking account. The portion of Fund Balance with Treasury available to the Department for spending at any point in time depends on the terms of appropriation language and other factors.

The Department has Restricted Assets for 2001 in the amount of $21.9 billion. These amounts derive primarily from royalties and lease payments generated from oil and gas extracted from the Outer Continental Shelf. Restricted Assets cover Fund Balance with Treasury, Cash, Investments, and Accounts Receivable associated with the Land and Water Conservation Fund, the Reclamation Fund, the Historic Preservation Fund, the Environmental Improvement, the Aquatic Restoration Fund, and custodial revenue pending distribution.

$ in billions	Fund Balance with Treasury	Cash, and Investments (Unrestricted)	Restricted Assets	Property, Plant, and Equipment	Other Assets
1998	$5.8	$4.2	$17.4	$17.3	$5.7
1999	$5.9	$4.4	$18.1	$16.8	$5.9
2000	$6.1	$2.7	$19.5	$16.6	$2.4
2001	$7.5	$3.0	$20.4	$16.5	$2.8

Liabilities and Net Position

Federal agencies, by law, cannot make any payments unless funds have been appropriated by Congress. The Department's unfunded liabilities (approximately $2.2 billion, or 31.6 percent of total liabilities) consist primarily of legal and environmental contingent liabilities and unfunded annual leave, both of which are considered expense and liability in the current period, but which will be paid out of funds made available to the agency in future years.

$ in billions	Funded Liabilities	Unfunded Liabilities
1997	$8.8	$1.1
1998	$9.0	$1.6
1999	$9.0	$1.6
2000	$4.4	$2.2
2001	$4.9	$2.2

Contingent liabilities reflect Interior's potential responsibility for cleanup of contaminated sites and for legal claims brought against the Department. The Department's liability for financial statement purposes for environmental cleanup is limited to those sites where Interior is or may be held to be legally liable for remediation of the hazard; for example, underground fuel tanks installed by the Department. In addition, there are numerous sites, including abandoned mines and illegal waste dumps, where other parties have caused contamination on lands managed by the Department. Although such hazards do not constitute liabilities under federal accounting rules, the Department will often, in its stewardship capacity, correct the environmental hazard. Wherever feasible, Interior will initiate collection efforts against the responsible parties. The estimated liability excludes estimates of future sites where Interior will voluntarily correct environmental hazards. The Department has recognized $268 million for potential environmental cleanup liabilities and $480 million related to other claims and litigation.

The Net Position of the Department consists of two components: (1) Unexpended Appropriations and (2) Cumulative Results of Operations. The Unexpended Appropriations account reflects spending authority made available to the Department by congressional appropriation that has not yet been used by Interior. Cumulative Results of Operations reflects the net results of the Department's operations over time. In total, Interior's Net Position, as of September 30, 2001, is $43 billion, of which $3.8 billion is Unexpended Appropriations.

Looking to the Future

The Accountability Report demonstrates the Department's success in administering its programs and managing the resources entrusted to it. However, much remains to be done. This section of the report discusses Interior's vision for the future as well as major management challenges facing the Department.

Vision for the Future

> *"My goal is to secure a new environmentalism for the Nation—one based on cooperative conservation. We can enhance conservation and fulfill our commitment to ensuring a strong economy by working with ranchers, miners, and the many other local Americans whose own lives, families, and communities are linked to our Nation's natural resources. We can do this through what I have called the Four C's: achieving conservation through consultation, cooperation, and communication."*
>
> *Secretary Gale A. Norton, January 10, 2002*

The Department of the Interior vision for the future reflects the President's vision of a shared approach to conservation and looks to American citizens to carry the torch of conservation into the 21st century. This vision reflects important national priorities with a focus on citizen-centered program delivery, improved accountability, and management excellence.

Listening to all Voices on Conservation. The President's call for a new environmentalism gives all stakeholders a greater voice in how the Nation's natural resources are managed. His vision for a shared federal and public approach to conservation comes to life in the Department's Four C's approach: conservation through consultation, cooperation, and communication. This approach is reflected in the Department's citizen-centered approach to managing parks, refuges, and other public lands. Interior is committed to listening to the Nation's citizens; tribal, state, and local governments; and non-governmental and private sector organizations and to involve citizens in decisions. Efforts are underway to listen to all voices on conservation through partnerships to use the government and its resources to remove barriers to citizen participation, to provide the help that is needed to fulfill the environmental promise of citizen stewardship, to encourage local communities to participate directly in conservation efforts, and to provide grants to a wide variety of state and tribal programs for the benefit of wildlife and habitat, species protection, habitat restoration, and the protection of national treasures.

Service to American Indians. The President stated in November 2001, "My Administration will continue to work with tribal governments on a sovereign-to-sovereign basis to provide Native Americans with new economic and educational opportunities. Indian education programs will remain a priority, so that no American child, including no Native American child, is left behind. We will protect and honor tribal sovereignty and help to stimulate economic development in reservation communities. We will work with the American Indians and Alaska Natives to preserve their freedoms, as they practice their religion and culture." During his campaign for the presidency and throughout the first year of his Administration, President

George W. Bush has recognized and upheld the unique government-to-government relationship existing between the tribes and the United States, honoring our Nation's trust responsibilities to American Indians and Native Alaskans. The Bureau of Indian Affairs and the reform efforts of the Office of Special Trustee for American Indians are currently the primary focal point for meeting that commitment within the Department.

Managing America's Public Lands. Interior manages many of America's most inspiring places that provide important opportunities for the public to experience the Nation's natural heritage. Federal lands administered by Interior also play an important role in meeting domestic needs for energy and water. As steward of the Nation's public lands and natural resources, the Department will continue to work closely with citizens and communities to balance access to lands and resources for recreation and resource use, while protecting natural and cultural resources.

Preserving America the Beautiful. A top priority of the President and the Secretary is the conservation of great wild places and unspoiled landscapes. The National Park Service manages some of the most unique and precious areas, including grand vistas and resources such as the 1.2 million-acre Grand Canyon National Park in Arizona and the 2.2 million-acre Yellowstone National Park in Wyoming. The national park system attracts more than 285 million visitors annually, and visitation at Yellowstone National Park, alone, exceeds the visitation of the entire system in 1916. To ensure a positive legacy of protecting natural, recreational, and cultural resources for Americans today and in the future, the Department is moving aggressively to conserve the natural treasures in our national parks and to eliminate the backlog of maintenance and repair.

Conserving Habitat for Species. Working hand in hand with those at the local level, the Department will chart a course that will use the strengths of each to bolster the conservation of our fish, wildlife, and other natural resources to benefit the American people. The ultimate goal of this effort will be to establish a framework for conservation in partnership with states and others to conserve species and prevent the need for listing under the Endangered Species Act. The Department is committed to the recovery of endangered species and fulfilling the goals of the Endangered Species Act, while maintaining healthy communities and a dynamic economy that depends on the Nation's lands and water.

Implementing the National Fire Plan. The 2000 fire season led to the development of the National Fire Plan, a joint Department of the Interior and U.S. Forest Service strategy to improve the effectiveness of the wildland fire program to better protect communities and the environment from future wildfire devastation. The Department made significant progress in implementing the plan's recommendations in 2001, including an unprecedented level of interagency cooperation with the Forest Service. Interior will continue to actively pursue outreach and partnership activities with states and local government agencies, tribes, other federal partners, and non-governmental organizations in the development of an implementation plan for a 10-Year Comprehensive Strategy and development of a common set of long-term goals and performance outputs with which to measure the performance of the wildland fire program.

Providing Science Support. The U.S. Geological Survey will continue to provide science support to Interior land and resource management bureaus. The Secretary remains committed to science-based resource management practices and policies. Interior bureaus use integrated and multi-disciplinary research conducted by the USGS to address a number of complex issues, including controlling invasive species, restoring habitat, and predicting the effect of different management options on surrounding land, water and wildlife. The USGS will collaborate with land and resource management bureaus to identify and prioritize their science needs to enhance USGS's responsiveness to these high priority information needs.

Providing Water to the West. The Bureau of Reclamation is the largest supplier and manager of water in the 17 western States. BOR water projects have been developed to meet agricultural, tribal, urban, and industrial needs. In recent years, the public has demanded better environmental protection and more recreational opportunities, while municipal and industrial users have demanded more high quality water. Competition for the West's limited water resources will continue to intensify in the future. The BOR will continue to work with its customers and stakeholders to find ways to balance and provide for this new mix of water resource needs by managing, developing, and protecting water and related resources in an environmentally and economically sound manner.

Managing for Success—Service, Accountability, and Excellence. The President's management agenda, released on August 25, 2001, sets forth a strategy for improving the management and performance of the federal government. The agenda contains five governmentwide goals that guide the achievement of immediate, concrete, and measurable results. The five governmentwide management reforms are: (1) Strategic Management of Human Capital; (2) Competitive Sourcing; (3) Improving Financial Performance; (4) Expanding Electronic Government; and (5) Budget and Performance Integration. The Secretary, in turn, issued a management strategy in September 2001, entitled "A Plan for Citizen-Centered Governance", which adopts the President's vision for management excellence, tailoring it to fit the Department's diverse and unique missions and organizations.

Major Management Challenges

The Department's strategy for management reform integrates the President's vision for management excellence and closely follows the President's Management Reform Agenda. As previously mentioned, this strategy is included in the "Plan for Citizen-Centered Governance," which is Interior's blueprint for improving the delivery of programs and services to the American public.

The Department's management reform strategy is also based on four key principles:

- *Customer Value* - Ensuring that all of our activities add value and ensure the effective use of resources.
- *Accountability* - Establishing clear performance measures and holding our managers and employees accountable for results.
- *Modernization* - Using technology to work smarter and provide single points of access to our services.
- *Integration* - Identifying opportunities to avoid duplication and achieve economies to enhance customer service and efficiency.

The following summarizes planned activities under each of the President's management reform initiatives and other areas that will improve the delivery of Interior's programs and services.

Strategic Management of Human Capital. The human capital for which the Department has responsibility includes approximately 70,000 full- or part-time employees who work in approximately 2,400 locations, performing a wide variety of functions. In examining how to better manage its human capital, the Department has identified near-term initiatives where past experience has demonstrated that immediate opportunities for improvement exist, as well as longer-term initiatives that will yield benefits over a longer time horizon.

The Department will study the feasibility of restructuring personnel, information technology, and acquisition management activities to provide better human capital management, improve the ability to deliver E-Government services, and increase the capability to procure goods and services more effectively and efficiently.

Competitive Sourcing. The Federal Activities Inventory Reform Act requires federal agencies to identify commercial activities performed by federal employees. Interior's competitive sourcing program focuses on the delivery and performance of improved services by using competition with non-federal sources as the opportunity to redefine the baseline requirements of performance. To facilitate this goal across separate and distinct program missions of the Department, a Center for Competitive Sourcing Excellence has been established. The Center will provide the framework and comparative techniques to be used to determine how improved and value-added service can be provided.

Improved Financial Performance. The Department recognizes the need for accurate and timely financial information to ensure the best performance and highest measure of accountability. To that end, the Department will: (1) replace critical financial management systems with an integrated financial system that will provide more accurate and more timely information, enhance the integrity of data through improved integration and control, expand E-Government capabilities, improve security in financial systems, and reduce system risks associated with the use of outdated technology; (2) employ activity based costing (ABC) as the best method to provide managers with the information to monitor and evaluate program performance and effectively allocate resources; and (3) continue to actively monitor payments and maintain adequate financial controls.

Expanded Electronic Government. Information technology is the enabler that will allow the Department to provide better, more comprehensive information and services electronically. The Department is taking action to enhance E-Government services and become a "digital Department." The Department is pursuing E-Government improvements in three areas: (1) use of E-Government to enhance internal operational efficiency; (2) use of E-Government to improve all transactions with citizens and other users; and (3) use of E-Government to transform its relationship with the public, providing information and services uniquely available at the Department.

Budget and Performance Integration. The Department recognizes the need to define and report more effectively on the results it achieves. To that end, the Department will revise its strategic plan, creating a single plan that presents departmental missions and functions in a more unified, integrated manner. Additionally, the adoption of activity-based costing will provide managers with a tool to monitor and evaluate program performance and more effectively allocate resources. This type of management information is extraordinarily valuable for integrating budget and performance and for providing management with information needed for measuring results.

In addition to implementing its reformed management strategy, the Department is also confronted with a number of key management challenges. These challenges are reported annually to Congress by the Office of Inspector General (OIG) and the General Accounting Office (GAO). Most of these challenges are being addressed by corrective action plans for the eight "mission critical weaknesses" discussed in the "Compliance With Legal and Regulatory Financial Requirements" section of the Report . The following summarizes the major management issues and briefly describes Interior's progress in resolving them.

Financial Management. The preparation of reliable financial statements as required by the Chief Financial Officers Act continues to be a major challenge for the Department and its bureaus. Although the Department has received an unqualified audit opinion on its consolidated financial statements for the past five years, several bureaus have received either a qualified opinion or a disclaimer over the same timeframe. The financial statement audits have also identified weak internal controls in several areas and noncompliance with certain laws and regulations.

Information Technology. The Department has not resolved its long-standing problems in the areas of computer security and overall system effectiveness. Annual congressional assessments of Interior's information system security has consistently ranked the Department near the bottom of the list. The Department has also reported computer security as a material weakness in 2000 and 2001. The Department's information technology security plan, issued in September 2001, provides a framework for resolving security issues by establishing minimum standards for secure operations.

Health and Safety. Ensuring the health and safety of employees and the increasing number of visitors to public lands and facilities under the Department's jurisdiction remains a high priority and a challenge. Both the Bureau of Land Management and the National Park Service have reported material weaknesses in employee and public safety. The Department's law enforcement programs have identified shortcomings (i.e., understaffing) that could affect the safety of both Interior law enforcement officers and the people they are tasked with protecting. Another significant issue is Interior's continuing liability for cleaning up sites contaminated by hazardous materials, closing abandoned mine sites, plugging oil and gas wells, repairing leaking underground storage tanks and pipelines, and controlling illegal dumping. In 2001, the Department estimates that its total liability for environmental cleanup may range from $387 million to $565 million (see Note 16, Notes to Financial Statements).

Maintenance of Facilities. The Department has not implemented an adequate, standardized maintenance system to effectively fulfill its management responsibilities. The Department manages about 57,000 buildings and quarters facilities, 120,000 miles of roads, and a wide variety of other constructed assets. In 2001, the Department estimates that the deferred maintenance backlog for its physical asset infrastructure ranges from $8.1 to $11.4 billion.

Responsibility to Indians and Insular Areas. The BIA continues to experience administrative and management problems, including trust responsibility, Indian self-determination and self-governance, facilities and road maintenance, safety management, law enforcement, housing, social services, and education. The Department's management of the Indian trust funds is a long-standing issue. Another area of concern is BIA's administration of its 185 schools and 14 dormitories, which serve about 48,000 Indian students in 23 states. OIG audits in 2001 identified problems in construction and operational planning.

The insular areas have long-standing financial and program management deficiencies, particularly in accurately accounting for expenditures, collecting taxes and other revenues, controlling the level of expenditures, and delivering program services. Contributing to the long-standing problems is the fact that, although each of the insular areas has an internal audit organization, these organizations, with few exceptions, lack the staff, resources, or independence necessary to provide effective and objective audit coverage of local government operations.

Resource Protection/Restoration. The protection and restoration of natural and cultural resources is one of the Department's five strategic goals and represents an ongoing management challenge. The Department administers about 437 million acres of federal land throughout the United States and the insular areas and has numerous responsibilities for protecting the Nation's natural and cultural resources. The Department faces growing challenges in this area as the demand for economic and recreational uses of America's lands and water resources increases.

Revenue Collections. Although the Department collects in the range of $6 to $11 billion annually, OIG and GAO reports have shown that bureaus could enhance revenues collected for royalty payments, recreational fees, and costs recovered for services provided. In 16 reports issued over the last four years, the OIG identified more than $141 million in lost or potential additional revenues, including $71.7 million of undercollected royalties, $17.5 million lost because excess lands were not sold, and $6.6 million of unrecovered firefighting costs. Also, since 1998, OIG, MMS, and the Department of Justice have recovered underpaid royalties of about $500 million through settlements with energy companies.

Government Performance and Results Act (GPRA) of 1993. The Department and its bureaus face significant challenges in implementing GPRA requirements to establish performance goals and measures that effectively demonstrate mission accomplishment. Audit reports and reviews indicate that the Department needs to clarify, expand, or supplement GPRA performance measures to explain their significance or better describe reported accomplishments. Preliminary analyses also indicate that deficiencies may exist in the methods for data collection and procedures for data verification.

Procurement, Contracts, and Grants. The Department 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 governmentwide, and managing procurement activities is an unending challenge requiring constant attention. The volume of Interior's annual procurement activity exceeds $3 billion, of which an estimated $2 billion is provided to states and Indian tribes in grants and other types of federal aid assistance.

Emergency Management. The attacks on America on September 11, 2001, exposed the vulnerability of Interior employees, visitors, infrastructure, and national monuments to the extreme danger and damage caused by terrorist actions. Since September 11, the Department has responded to the threat of terrorist activities by operating at a heightened level of security supported through reallocations of budgeted funding and using supplemental appropriations authorized by the President for disaster recovery and security needs. To implement an overall strategy for providing heightened security for the future, the Department has established four priorities: (1) providing security personnel in each bureau; (2) protecting facilities that significantly affect national security or the economy; (3) identifying and upgrading the security for all appropriate facilities; and (4) strengthening law enforcement on Interior lands adjacent to the Nation's northern and southwest borders.

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Audited Financial Statements

U.S. Department of the Interior
Consolidated Balance Sheets
as of September 30, 2001 and 2000

(dollars in thousands)

	2001	2000 (as restated)
ASSETS		
Fund Balance with Treasury (Note 2)		
Fund Balance with Treasury - General	$ 7,456,823	$ 6,140,226
Fund Balance with Treasury - Restricted	18,090,204	17,280,395
Cash (Note 3)	48,087	6,896
Investments, Net (Note 4)		
Treasury Securities	5,069,265	4,645,338
Public Securities	136,177	155,639
Total Fund Balance with Treasury, Cash and Investments	30,800,556	28,228,494
Accounts Receivable, Net (Note 5)		
Public	1,653,217	1,242,695
Due from Federal Agencies	254,340	262,025
Advances and Prepayments		
Public	35,134	39,992
Due from Federal Agencies	2,370	3,427
Loans - Public, Net (Note 6)	216,809	249,627
Inventory and Operating Materials, Net (Note 7)	370,551	373,643
Investigations and Development (Note 8)	95,227	84,115
Property, Plant and Equipment, Net (Note 9)	16,488,166	16,568,367
Other Assets - Public, Net (Note 10)	244,457	249,179
Stewardship Assets (Note 11)		
TOTAL ASSETS (Note 12)	$ 50,160,827	$ 47,301,564

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Consolidated Balance Sheets (Continued)
as of September 30, 2001 and 2000

(dollars in thousands)

	2001	2000 (as restated)
LIABILITIES AND NET POSITION		
Liabilities		
Accounts Payable		
Due to the Public	$ 756,064	$ 643,527
Due to Federal Agencies	415,185	325,546
Accrued Payroll and Benefits		
Due to the Public	509,380	471,862
Due to Federal Agencies	155,519	147,550
Deferred Revenue (Note 13)		
Received from the Public	103,001	82,128
Received from Federal Agencies	288,614	121,298
Federal Employees Compensation Act Liability Due to the Public (Note 14)	663,468	584,827
Loans Due to Treasury (Note 15)	1,457,588	1,473,538
Custodial Liability Due to Federal Agencies	1,108,753	909,415
Environmental and Contingent Liability Due to the Public (Note 16)	748,359	966,952
Deferred Credits and Other Liabilities (Note 17)		
Due to the Public	702,865	541,722
Due to Federal Agencies	203,465	343,687
Total Liabilities (Note 19)	7,112,261	6,612,052
Commitments and Contingencies (Notes 16, 18)		
Net Position (Note 23)		
Unexpended Appropriations	3,817,896	3,155,865
Cumulative Results of Operations	39,230,670	37,533,647
Total Net Position	43,048,566	40,689,512
TOTAL LIABILITIES AND NET POSITION	$ 50,160,827	$ 47,301,564

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Consolidated Statements of Net Cost of Operations
for the years ended September 30, 2001 and 2000

(dollars in thousands)

	2001	2000 (Unaudited)
Protect the Environment and Preserve Our Nation's Natural & Cultural Resources		
Gross Cost	$ 3,220,707	$ 3,089,871
Earned Revenue	498,663	350,065
Net Cost	2,722,044	2,739,806
Provide Recreation for America		
Gross Cost	2,047,262	1,950,120
Earned Revenue	196,545	232,890
Net Cost	1,850,717	1,717,230
Manage Natural Resources for a Healthy Environment and a Strong Economy		
Gross Cost	3,715,045	3,133,691
Earned Revenue	1,099,300	874,695
Net Cost	2,615,745	2,258,996
Provide Science for a Changing World		
Gross Cost	1,402,824	1,345,320
Earned Revenue	386,885	393,640
Net Cost	1,015,939	951,680
Meet Our Responsibilities to American Indians and Island Communities		
Gross Cost	3,539,352	3,450,657
Earned Revenue	290,548	267,312
Net Cost	3,248,804	3,183,345
Shared Services		
Gross Cost	939,130	742,454
Earned Revenue	961,386	752,288
Net Cost	(22,256)	(9,834)
Other		
Gross Cost	432,079	309,375
Earned Revenue	278,836	183,437
Net Cost	153,243	125,938
Elimination of Intra-Department Activity		
Gross Cost	(1,049,106)	(893,956)
Earned Revenue	(1,049,106)	(855,151)
Net Cost	0	(38,805)
Totals		
Gross Cost (Note 21)	14,247,293	13,127,532
Earned Revenue	2,663,057	2,199,176
Net Cost of Operations (Note 20)	$ 11,584,236	$ 10,928,356

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Consolidated Statement of Changes in Net Position
for the year ended September 30, 2001

(dollars in thousands)

Net Cost of Operations	$ (11,584,236)
Financing Sources	
Appropriations Used	8,270,613
Royalties Retained, Interest, and Other Non-Exchange Revenue (Note 22)	3,380,341
Taxes, Fines and Penalties	615,455
Imputed Financing Sources	559,545
Abandoned Mine Fees Collected	284,449
Donated Revenue and Other Financing Sources	121,261
Transfers, Net	80,690
Other Adjustments	(31,095)
Total Financing Sources	13,281,259
Net Results of Operations	1,697,023
Increase in Unexpended Appropriations	662,031
Total Change In Net Position	2,359,054
Net Position - September 30, 2000, Restated (Note 23)	40,689,512
Net Position - September 30, 2001	$ 43,048,566

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Statements of Custodial Activity
for the years ended September 30, 2001 and 2000

(dollars in thousands)

	2001	2000 (as restated)
Revenues on Behalf of the Federal Government		
Mineral Lease Revenue		
Rents and Royalties	$ 9,491,481	$ 5,758,453
Offshore Lease Sales	669,840	426,578
Strategic Petroleum Reserve (Note 24)	61,655	560,521
Interest Revenue	-	74,659
Total Revenue	$ 10,222,976	$ 6,820,211
Disposition of Revenue		
Distribution to Department of the Interior		
National Park Service Conservation Funds	$ 1,046,493	$ 1,049,000
Bureau of Reclamation	823,929	542,731
Minerals Management Service	1,157,048	1,731,909
Bureau of Land Management	7,198	83,842
Fish and Wildlife Service	1,468	1,781
Distribution to Other Federal Agencies		
Department of the Treasury	6,405,104	4,615,466
Department of Agriculture	25,410	20,943
Department of Commerce	1,105	22
Department of Energy	61,654	560,521
Distribution to Indian Tribes and Agencies	107,982	88,021
Distribution to States and Others	141,389	129,883
Change in Untransferred Revenue	444,196	(2,003,908)
Total Disposition of Revenue	$ 10,222,976	$ 6,820,211

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Combined Statement of Budgetary Resources
for the year ended September 30, 2001
(dollars in thousands)

Budgetary Resources	
Budget Authority	$ 13,774,867
Unobligated Balances - Beginning of Period, Restated (Note 23)	2,922,604
Spending Authority from Offsetting Collections	2,770,561
Other Adjustments	423,958
Total Budgetary Resources (Note 25)	**$ 19,891,990**
Status of Budgetary Resources	
Obligations Incurred	$ 15,900,974
Unobligated Balances - Available	3,492,945
Unobligated Balances - Not Available	498,071
Total Status of Budgetary Resources	**$ 19,891,990**
Outlays	
Total Obligations Incurred	$ 15,900,975
Spending Authority from Offsetting Collections and Adjustments	(3,307,229)
Obligated Balance, Net - Beginning of Period, Restated (Note 23)	4,117,936
Obligated Balance Transferred, Net	171
Obligated Balance, Net - End of Period	(4,931,388)
Total Outlays	**$ 11,780,465**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Consolidated Statement of Financing
for the year ended September 30, 2001

(dollars in thousands)

Obligations And Non-Budgetary Resources	
Obligations Incurred	$ 15,900,975
Less: Spending Authority from Offsetting Collections and Adjustments	(3,307,229)
Exchange Revenue Not in the Budget	(849,318)
Imputed Financing	545,756
Transfers-In/Transfers-Out, Net, to Treasury or Other Agencies	(125,888)
Appropriations - Special Funds	(295,138)
Other Obligations and Non-Budgetary Resources	77,010
Total Obligations as Adjusted, and Non-Budgetary Resources	**11,946,168**
Less Resources That Do Not Fund Net Cost Of Operations	
Costs of Capitalized Assets on the Balance Sheet	416,008
Financing Sources that Funds Costs of Prior Periods	36,324
Change in Amount of Goods and Services Ordered but Not Received	540,988
Purchase Of Non-Government Securities	65,840
Change in Loans Receivable	32,819
Financing Sources for Unfunded Costs	181,500
Other Resources That Do Not Fund Net Cost Of Operations	14,772
Total Resources That Do Not Fund Net Cost of Operations	**1,288,251**
Costs That Do Not Require Resources	
Depreciation and Amortization	419,712
Bad Debt Expense	29,213
Disposition and Revaluation of Assets	213,844
Other Costs That Do Not Require Resources	29,670
Total Costs That Do Not Require Resources	**692,439**
Financing Sources Yet to be Provided	**233,880**
Net Cost Of Operations	**$ 11,584,236**

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior
Notes to Principal Financial Statements
as of September 30, 2001 and 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of the Interior (Interior or the Department) is a cabinet-level agency of the executive branch of the federal government. Created in 1849 by Congress as the Nation's principal conservation agency, Interior has responsibility for most of the Nation's publicly owned lands and natural resources. Interior's mission is: (a) to encourage and provide for the appropriate management, preservation, and operation of the Nation's public lands and natural resources for use and enjoyment both now and in the future; (b) to carry out related scientific research and investigations in support of these objectives; (c) to develop and use resources in an environmentally sound manner and provide equitable return on these resources to the American taxpayer; and (d) to carry out the trust responsibilities of the federal government with respect to American Indians and Alaska Natives.

The accompanying financial statements include all federal funds under Interior's control or which are a component of the reporting entity, including Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund), Custodial Funds and Aquatic Resources Trust Fund. The financial statements do not, however, include non-federal trust funds, trust related deposit funds, or other related accounts which are administered, accounted for and maintained by Interior's Office of Trust Funds Management on behalf of Native American tribes and individuals. Interior issues financial statements for these Tribal and other Special Trust Funds and Individual Indian Monies under separate cover. A summary of the trust fund balances and changes in trust fund balances managed on behalf of Indian tribes and individuals is included in Note 26. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as public borrowing or tax revenue, which may in part be attributable to Interior.

B. Organization and Structure of Interior

On September 30, 2001, the Department was comprised of the following nine operating bureaus and Departmental Offices (Bureaus):

- National Park Service (includes Land and Water Conservation Fund and Historic Preservation Fund)
- U.S. Fish and Wildlife Service (includes Aquatic Resources Trust Fund)
- Bureau of Land Management
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service (includes Environmental Improvement and Restoration Fund)
- U.S. Geological Survey
- Bureau of Indian Affairs
- Departmental Offices

An overview of the operating performance of the Department and its components is presented in the Management's Discussion and Analysis portion of this report. In addition, more detailed information about the Bureaus may be found in the individual financial reports prepared by each Bureau.

The U.S. Bureau of Mines (USBM) was closed in 1996. Although it no longer exists, certain transactions and data related to USBM programs and activities are reflected in Interior's 2001 and 2000 financial statements and notes.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, custodial activities, changes in net position, budgetary resources and reconciliation of net cost of operations to budgetary obligations of the U.S. Department of the Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of Interior in accordance with U.S. generally accepted accounting principles (GAAP), Office of Management and Budget (OMB) Bulletin 97-01, "*Form and Content of Agency Financial Statements*," as amended, and applicable provisions of OMB Bulletin 01-09. GAAP for Federal Entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the Federal government. These financial statements present proprietary and budgetary information while other financial reports also prepared by the Department pursuant to OMB directives are used to monitor and control the Department's use of budgetary resources.

OMB financial statement reporting guidelines for 2001 require the presentation of comparative financial statements for some but not all of the principal financial statements. Interior has presented comparative 2000 financial statements for the consolidated balance sheet, consolidated statement of net cost, and the statement of custodial activity.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

D. Fund Balance with Treasury and Cash

Interior maintains all cash accounts with the U.S. Department of the Treasury (Treasury) except for imprest fund accounts. The account, Fund Balance with Treasury, includes appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases as well as funds restricted until future appropriations are received. Cash disbursements are processed by Treasury, and Interior's records are reconciled with those of Treasury on a regular basis.

Cash consists primarily of federal funds held by private banks and investing firms for the Office of Trust Funds Management.

The U.S. Geological Survey maintains small balances of foreign currencies to be used to make payments in foreign countries. Those balances are reported at the U.S. dollar equivalent using the exchange rate in effect on the last day of the reporting period.

See Note 2 (Fund Balance with Treasury) and Note 3 (Cash) for additional information.

E. Investments

Interior invests funds in federal government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts.

The federal government securities include marketable Treasury securities and non-marketable par value or non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Par value securities are special issue bonds or certificates of indebtedness that bear interest determined by legislation or the Treasury. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

The public securities include marketable securities issued by other federal agencies and government-sponsored entities and consist mainly of various mortgage instruments, bonds and bank notes.

Investments are expected to be held until maturity and are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method for short-term securities (i.e., bills) and the interest method for longer-term securities (i.e., notes). Interest on investments is accrued as it is earned.

For certain bureaus, the market value is estimated as the sales price of the security multiplied by the bid price as of September 30, 2001. For the remainder, the market value is reported as net of investments.

Note 4 provides additional information on Investments.

F. Accounts Receivable, Net

Accounts Receivable consists of amounts owed to Interior by other federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from Interior's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances.

Note 5 provides additional information on Accounts Receivable.

G. Loans - Public, Net

Loans are accounted for as receivables after the funds have been disbursed. For loans obligated after the effective date of the Credit Reform Act, October 1, 1990, the amount of the federal loan subsidy is computed. The loan subsidy includes estimated delinquencies and defaults net of recoveries, the interest rate differential between the loan rates and Treasury borrowings, offsetting fees, and other estimated cash flows associated with these loans. The value of loans receivable is reduced by the present value of the expected subsidy costs. The allowance for subsidy cost is re-estimated annually, on September 30.

For loans obligated prior to October 1, 1990, principal, interest and penalties receivable are presented net of an allowance for estimated uncollectible amounts. The allowance is based on past experience, present market conditions, an analysis of outstanding balances and other direct knowledge relating to specific loans.

Note 6 provides additional information on Loans.

H. Inventory and Operating Materials, Net

Interior's inventory is primarily composed of maps, map products and hydrologic equipment held for sale, helium for sale, and helium stockpile inventory.

The U.S. Geological Survey has inventories of supplies and materials used for normal agency operations and inventories of maps, map products, and hydrologic equipment held for sale. Maps and map products are located at nine

Earth Science Information Centers across the United States. Inventory is available for sale without restrictions. Map and map products are valued at historical cost using a method which approximates the weighted average method and are adjusted at fiscal year-end based on actual physical counts. The map inventory does not turnover rapidly.

The hydrologic equipment inventory is located at the Hydrologic Instrumentation Facility (HIF) at the Stennis Space Center in Mississippi. Products located at the HIF can only be sold to Federal agencies. HIF products are valued at historical cost using a method which approximates the weighted average method and are adjusted at fiscal year-end based on actual physical counts.

The Helium Privatization Act of 1996, enacted October 9, 1996, directs the privatizing of Interior's Federal Helium Refining Program. Under this law, Interior ceased the production, refining, and marketing of refined helium as of April 1, 1998. Interior is authorized to store, transport, and withdraw crude helium and maintain and operate crude helium storage facilities in existence on the date of enactment.

The helium inventory held for sale is the actual above ground refined helium at the end of the fiscal year, plus the stockpile helium. The helium stockpile inventory is stored in a partially depleted natural gas reservoir. The volume of helium is accounted for on a perpetual inventory basis. Each year the amount of helium is verified by collecting reservoir data and using generally accepted petroleum engineering principles to calculate the volume. The calculated volume supports the volume carried in the inventory.

Interior may also enter into agreements with private parties for the recovery and disposal of helium on federal lands. The Bureau of Land Management believes that 95 percent of the stockpile is recoverable; however, the amount of helium that will eventually be recovered depends on the future price of helium and the ability to control the mixing of natural gas and the stockpiled helium. Gas and storage rights for the storage of helium are recorded at historical cost because no additional purchases have been made. A depletion allowance is computed annually to record gas consumed in the processing of helium for sale.

Interior's operating materials include aircraft fuel and parts that are primarily held for use. Operating materials are valued at historical cost using the moving average method.

Note 7 provides additional information on Inventory and Operating Materials.

I. Investigations and Development

Investigations and development costs represent funds specifically appropriated by the U.S. Congress that have been expended for such activities as general engineering studies and surveys that are directly related to water management projects that are not yet under construction, or that will likely result in a structural solution. These costs are accumulated until the project is either authorized for construction or the decision is made not to undertake the project. When a project is authorized, the costs are moved to the construction in progress account, and upon project completion, to a completed asset account. Costs related to projects that will not be undertaken are written off.

Note 8 provides additional information on Investigations and Development.

J. Property, Plant and Equipment, Net

General Purpose Property, Plant and Equipment. General purpose property, plant and equipment consists of buildings, structures and facilities used for general operations, power, irrigation, fish, wildlife enhancement, and recreation; land acquired for general operating purposes; equipment, vehicles, and aircraft; and construction-in-progress. Other property and equipment consists of internal use software and other general property, plant and equipment. Buildings, structures and facilities are capitalized at acquisition cost and depreciated using the straight-line amortization method over a useful life of from 20 to 50 years with the exception of dams and certain related property which are depreciated over useful lives of up to 100 years. Equipment, vehicles and aircraft are capitalized at acquisition cost and are depreciated using the straight-line amortization method over the useful lives of the property, generally ranging from five to 20 years. Capitalization thresholds are determined by the individual bureaus and generally range from $50,000 to $500,000 for buildings, structures and facilities and from $5,000 to $15,000 for equipment, vehicles and aircraft.

Construction in Progress. Construction In Progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of Construction in Progress when the entire project is completed.

In past years, the Department, through the Bureau of Reclamation, began the planning of and construction on various features included in nine projects located in California, Colorado, and North and South Dakota, for which activities have either been placed in abeyance or intended benefits have never been provided. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of weather and time and to keep the asset ready for potential completion.

Software. The Department implemented SFFAS No. 10, Accounting for Internal Use Software during the year ended September 30, 2001. This standard provides accounting standards for internal use software utilized by each agency. Internal use software includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and internally developed software using agency employees.

Internal use software is capitalized at cost if the acquisition cost is $100,000 or more ($10,000 or more in 2000). For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is 2 to 5 years using the straight-line method.

Stewardship Property, Plant and Equipment. Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *"Accounting for Property, Plant and Equipment,"* established various categories of stewardship property, plant and equipment, including stewardship land and heritage assets.

The vast majority of public lands presently under the management of the Department was acquired by the federal government as public domain land during the first century of the Nation's existence and is considered to be stewardship land. A portion of these lands has been reserved as national parks, wildlife refuges and wilderness areas, while the remainder is managed for multiple use. Heritage assets are assets with historical, cultural or natural significance. The Department is responsible for maintaining a vast array of heritage assets, including national monuments, historic structures, archeological artifacts, and museum collections.

While the stewardship property, plant and equipment managed by the Department are priceless and irreplaceable, no financial value can be placed on them. Thus, in accordance with federal accounting standards, Interior assigns no financial value to the stewardship land or heritage assets it administers, and the property, plant, and equipment capitalized and reported on the Balance Sheet excludes these assets.

The Required Supplementary Stewardship Information (RSSI) section of this report provides additional information concerning stewardship land and heritage assets.

Note 9 provides additional information on Property, Plant and Equipment.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by Interior as the result of a transaction or event that has already occurred. The financial statements should be read with the realization that the Department of the Interior is a component of a sovereign entity, that no liability can be paid by the Department absent an appropriation of funds by the U.S. Congress, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities for which an appropriation has not been enacted are, therefore, disclosed as liabilities not covered by budgetary resources, or unfunded liabilities, and there is no legal certainty that the appropriations will be enacted.

Environmental and Contingent Liabilities. The Department has responsibility to clean up its sites with environmental contamination, and it is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the federal government. Interior has accrued environmental liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with federal accounting guidance, the liability for future cleanup of environmental hazards is "probable" only when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to cleanup the contamination. Thus, expected future payments for the cleanup of environmental hazards caused by others are not recognized as liabilities by Interior. Instead, these payments arise out of Interior's sovereign responsibility to protect the health and safety of the public, and are recognized in the accounting records as remediation work is performed.

Contingent liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. Interior recognizes contingent liabilities when the liability is probable and reasonably estimable. Interior discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome of future events is more than remote. In some cases, once losses are certain, payments may be from the Judgment Fund maintained by Treasury rather than from amounts appropriated to Interior for departmental operations.

Note 16 provides additional information on Environmental and Contingent Liabilities.

L. Revenues and Financing Sources

The United States Constitution prescribes that no money may be expended by a federal agency unless and until funds have been made available by congressional appropriation. Thus, the existence of all financing sources is dependent upon congressional appropriation.

Appropriations. The vast majority of Interior's operating funds are appropriated by the Congress to the Department from the general receipts of the Treasury. These funds are made available to the Department for a specified time period, usually one fiscal year, multiple fiscal years, or indefinitely, depending upon the intended use of the funds. For example, funds for general operations are generally made available for one fiscal year; funds for long-term projects such as major construction will be available to the Department for the expected life of the project; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). The Statement of Budgetary Resources presents information about the resources appropriated to the Department.

Exchange and Non-Exchange Revenue. Interior classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park entrance fees; map sales; reimbursements for services performed for other federal agencies and the public; reimbursements for the cost of constructing and maintaining irrigation and water facilities; and other sales of goods and services. These revenues are presented on Interior's Consolidated Statement of Net Cost of Operations and serve to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including fines for violation of environmental laws, and Abandoned Mine Land duties charged per ton of coal mined. These revenues are not considered to reduce the cost of Interior's operations and are reported on the Consolidated Statement of Changes in Net Position.

With minor exceptions, all receipts of revenues by federal agencies are processed through the Department of the Treasury central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not earmarked by congressional appropriation for immediate departmental use are deposited in the general or special funds of the Treasury. Amounts not retained for use by the Department are reported as transfers to other government agencies on Interior's Statement of Changes in Net Position.

In certain cases, the prices charged by Interior are set by law or regulation, which for program and other reasons may not represent full cost (e.g., grazing fees, park entrance, and other recreation fees). Prices set for products and services offered through working capital funds are intended to recover the full costs incurred by these activities.

A portion of federal royalty collections is distributed to states. These royalty collections are transferred from the custodial fund to the operating accounts of Interior and are recognized as revenue in an amount equal to payments to the states, which are reflected on the Consolidated Statement of Changes in Net Position.

Imputed Financing Sources. In certain instances, operating costs of the Department are paid out of funds appropriated to other federal agencies. For example, the Office of Personnel Management, by law, pays certain costs of retirement programs and certain legal judgments against Interior are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to Interior and directly attributable to Interior's operations are paid by other agencies, the Department recognizes these amounts as operating expenses of Interior. In addition, Interior recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Department operations by other federal agencies.

Custodial Revenue. Interior's Minerals Revenue Management (MRM), administered by the Minerals Management Service (MMS), collects royalties, rents, bonuses, and other receipts federal and Indian oil, gas, and mineral leases, and distributes the proceeds to the Treasury, other federal agencies, states, Indian tribes, and Indian allottees, in accordance with legislated allocation formulas. MMS is authorized to retain a portion of the rental income collected as part of the custodial activity provided by the Minerals Revenue Management Program to fund its operating costs.

The methodology for accruing revenues is based on review of average monthly transactions as a basis for estimated activity at the end of the year. However, this methodology is continually evolving for custodial activity.

Royalty-in-Kind (RIK) Program. The federal government, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act (OCSLA) of 1953, may take part or all of its oil and gas royalties in-kind (a volume of the commodity) as opposed to in value (cash). MMS may either transfer the volume of oil or gas commodity taken in kind to federal agencies for internal use or sell the commodity on the open market at fair market value to generate revenue.

Since 1998, the Minerals Management Service has initiated several RIK pilot projects where the government receives oil and gas rather than cash, to determine if RIK is in the country's best interest, and if so, under what circumstances. In some cases, receiving royalties in the form of natural resources will increase the certainty of accurate royalty payments and reduce administrative costs for both industry and the government.

Aquatic Resources Trust Fund. The Department presents the Aquatic Resources Trust Fund (ARTF) in its financial statements in accordance with the requirements of Statement of Federal Financial Concepts Number 2, *"Entity and Display."* The source of funding for the ARTF includes excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are used to make grants available to states for support projects that restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands and projects that provide for public use and benefit from sport fish resources. The ARTF also provides funding for boating safety programs conducted by the U.S. Coast Guard and coastal wetlands initiatives conducted by the U.S. Corps of Engineers. The Appropriations Act of 1951 authorized amounts equal to revenues credited during the year to be used in the subsequent fiscal year. This inflow is recorded as permanent appropriations to remain available until expended.

Deferred Revenue. Unearned revenue is recorded as deferred revenue until earned.

M. Personnel Compensation and Benefits

Annual and Sick Leave Program. Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave, since from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees, rather than from amounts which had been appropriated to Interior as of the date of the financial statements. The amount accrued is based upon current pay of the employees. Sick leave and other types of leave are expensed when used and no future liability is recognized for these amounts.

Federal Employees Workers' Compensation Program. The Federal Employees Contribution Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (Labor), which pays valid claims and subsequently seeks reimbursement from Interior for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by Interior. Interior reimburses Labor for the amount of the actual claims as funds are appropriated for this purpose. There is generally a two to three year time period between payment by Labor and reimbursement by Interior. As a result, Interior recognizes a liability for the actual claims paid by Labor and to be reimbursed by Interior.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

Labor also evaluates the estimated projections to ensure that the estimated future benefit payments are appropriate. The analysis includes three tests: (1) a comparison of the current-year projections to the prior-year projections; (2) a comparison of the prior-year projected payments to the current-year actual payments, excluding any new case payments that had arisen during the current year; and (3) a comparison of the current-year actual payment data to the prior-year actual payment data. Based on the outcome of this analysis, adjustments may be made to the estimated future benefit payments.

Note 14 provides additional information on Federal Employee Compensation Act Liability.

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

Retirement Programs. Interior employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most Interior employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For FERS employees, Interior contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 11 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from Interior.

The Office of Personnel Management is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees governmentwide, including Interior employees. The Department has recognized an Imputed Cost and Imputed Financing Source for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

N. Federal Government Transactions

Interior's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the federal government. These activities include public debt and cash management activities and employee retirement, life insurance, and health benefit programs. The financial statements of Interior do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized for expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by the Treasury's Judgment Fund and the partial funding of employee benefits by the Office of Personnel Management.

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost of Operations, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Bulletin No. 97-01, *"Form and Content of Agency Financial Statements,"* the Statement of Budgetary Resources is presented on a combined basis, therefore, intra-departmental transactions and balances have not been eliminated from this statement. In accordance with OMB Bulletin No. 97-01, intradepartmental transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis. In order to present all custodial activity, the distributions to the Department's entities have not been eliminated on the Statements of Custodial Activity, however, the amounts are reported separately on the statement.

O. Income Taxes

As an agency of the federal government, Interior is exempt from all income taxes imposed by any governing body, whether it be a federal, state, commonwealth, local, or foreign government.

P. Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

NOTE 2. FUND BALANCE WITH TREASURY

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury. Fund Balance with Treasury is separated between General and Restricted. The General Fund Balance with Treasury represents the right of the Department to draw on Treasury for expenditures and liabilities. Included as part of General is Fund Balance on Behalf of Others which contains the following: (a) Royalty Collections received by the Minerals Management Service, and held by it as custodian, until disbursed to recipients; (b) certain recreation, entrance, and user fees collected at many of the parks by the National Parks Service that are to be returned to Treasury following the end of each fiscal year; and (c) collections from various sources for activities related to public land administration processed by the Bureau of Land Management and may be pending further classification or resolution.

The Restricted Fund Balance with Treasury consists of amounts related to the Land and Water Conservation Fund, the Historic Preservation Fund and the Aquatic Resources Trust Fund. However, no fund assets are available for use by Interior until appropriated by Congress.

The Land and Water Conservation Fund and the Historic Preservation Fund are administered by the National Park Service. The Land and Water Conservation Fund receives a portion of the royalties and lease payments earned by the federal government from oil and gas extracted from federal lands on the Outer Continental Shelf. This fund also receives monies from sales of federal assets by the General Services Administration and other sources.

The Reclamation Fund is a special receipt fund into which a substantial portion of Reclamation's revenue (mostly repayment of capital investment costs) and deposits by other federal agencies (mostly revenues from certain federal mineral royalties and hydropower transmission) are made. No expenditures are made directly from the Reclamation Fund; a specific appropriation is required from the Congress in order to transfer funds out of the Reclamation Fund into one or several funds.

The Historic Preservation Fund, appropriated by the Congress annually, provides matching grants to encourage private and non-federal investment in historic preservation efforts nationwide, and assists State governments, local governments, and Indian tribes with expanding and accelerating historic preservation activities nationwide. Historic Preservation Fund grants serve as a catalyst and "seed money" for preserving and protecting our nation's irreplaceable heritage for this and future generations.

The Aquatic Resources Trust Fund (ARTF) receives revenues through excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. Although funds collected and deposited in the ARTF in any one fiscal year are available for investment during the same fiscal year collected, they are not available for obligation that same year. Thus, the use of such funds collected from a prior fiscal year is restricted until the following fiscal year.

Fund Balance with Treasury by fund type as of September 30, 2001 and 2000 consists of the following:

Fund Balance with Treasury by Fund Type

(dollars in thousands)	2001	2000
General		
Appropriated	$ 6,538,400	$ 5,284,742
Revolving	717,824	503,355
Trust	93,544	107,439
Fund Balance Held on Behalf of Others	107,055	244,690
Total General	7,456,823	6,140,226
Restricted		
Land and Water Conservation Fund	12,856,417	12,799,225
Reclamation Fund	2,993,679	2,319,831
Historic Preservation Fund	2,222,437	2,152,798
Aquatic Resources Trust Fund	17,671	8,541
Total Restricted	18,090,204	17,280,395
Total Fund Balance with Treasury	$ 25,547,027	$ 23,420,621

Status of Fund Balance by Fund Type

Unobligated Balance		
Available	$ 2,208,343	$ 1,788,596
Unavailable	18,272,883	17,555,832
Obligated Balance not yet Disbursed	5,065,801	4,076,193
Total	$ 25,547,027	$ 23,420,621

NOTE 3. CASH

The cash amount includes balances held by private banks and investing firms, change-making funds maintained in offices where maps are sold over the counter, and small amounts of foreign currency.

Cash as of September 30, 2001 and 2000 consists of the following:

Cash

(dollars in thousands)	2001	2000
Cash	$ 46,614	$ 5,837
Imprest Fund	692	1,014
Cash Not Yet Deposited to Treasury	736	-
Foreign Currency	45	45
Total Cash	$ 48,087	$ 6,896

NOTE 4. INVESTMENTS, NET

A. Investments in Treasury Securities

The Office of Surface Mining, the Minerals Management Service, the U.S. Fish and Wildlife Service, Departmental Offices, the Bureau of Land Management, the Bureau of Indian Affairs, and the National Park Service invest funds in securities on behalf of various Interior programs.

The Investments as of September 30, 2001 and 2000 consist of the following:

Investments

2001

(dollars in thousands)	Investment Type	Par Value	Unamortized Premium/(Discount)	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Office of Surface Mining	Non-Marketable, par value	$ 1,866,451	$ (3,063)	$ 1,863,388	$ 1,863,388
Minerals Management Service - Conservation	Non-Marketable, market-based	961,779	(12,929)	948,850	952,482
Minerals Management Service - Custodial	Non-Marketable, market-based	28,451	(41)	28,410	28,410
U.S. Fish and Wildlife Service	Non-Marketable, market-based	479,068	(737)	478,331	478,787
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	Non-Marketable, market-based	1,304,233	(10,508)	1,293,725	1,295,118
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Marketable	124,105	2,204	126,309	124,105
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	150,677	347	151,024	151,590
Tribal Trust and Special Funds	Marketable	8,500	62	8,562	8,562
	Non-Marketable, market-based	4,415	113	4,528	4,528
Bureau of Land Management	Non-Marketable, market-based	102,987	(476)	102,511	102,511
Bureau of Indian Affairs	Marketable	63,562	0	63,562	63,562
National Park Service	Non-Marketable	65	0	65	65
Total U.S. Treasury Securities		5,094,293	(25,028)	5,069,265	5,073,108
Public Securities					
Departmental Offices - Tribal Trust and Special Funds	Marketable	134,955	(524)	134,431	134,956
Bureau of Indian Affairs	Marketable	1,746	0	1,746	1,834
Total Public Securities		136,701	(524)	136,177	136,790
Total Investments		$ 5,230,994	$ (25,552)	$ 5,205,442	$ 5,209,898

2000

(dollars in thousands)	Investment Type	Par Value	Unamortized Premium/(Discount)	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Office of Surface Mining	Non-Marketable, par value	$ 1,847,088	$ (14,917)	$ 1,832,171	$ 1,832,171
Minerals Management Service - Conservation	Non-Marketable, market-based	956,488	(51,159)	905,329	905,329
Minerals Management Service - Custodial	Non-Marketable, market-based	23,198	7	23,205	23,205
U.S. Fish and Wildlife Service	Non-Marketable, market-based	406,632	(395)	406,237	406,338
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	Non-Marketable, market-based	1,191,880	(442)	1,191,438	1,189,502
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Marketable	110,339	582	110,921	110,921
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	76,982	(1)	76,981	76,982
Tribal Trust and Special Funds	Marketable	14,500	(926)	13,574	13,574
	Non-Marketable, market-based	23,955	17	23,972	23,972
	Marketable	6,350	4	6,354	6,354
Bureau of Land Management	Non-Marketable, market-based	17,694	(331)	17,363	17,363
Bureau of Indian Affairs	Marketable	37,734	(6)	37,728	37,728
National Park Service	Non-Marketable	65	0	65	65
Total U.S. Treasury Securities		4,712,905	(67,567)	4,645,338	4,643,504
Public Securities					
Departmental Offices - Tribal Trust and Special Funds	Marketable	128,465	(621)	127,844	128,465
Bureau of Indian Affairs	Marketable	27,795	0	27,795	30,000
Total Public Securities		156,260	(621)	155,639	158,465
Total Investments		$ 4,869,165	$ (68,188)	$ 4,800,977	$ 4,801,969

Office of Surface Mining. Effective October 1, 1991, the Office of Surface Mining (OSM) was authorized to invest available Abandoned Mine Land (AML) trust funds in non-marketable securities issued by the Bureau of Public Debt. The Office of Surface Mining has authority to invest AML trust funds in Treasury bills, notes, bonds, par value special issues, and one-day certificates.

Presently, all earnings from AML investments are reinvested, providing a source of continuous funding to further enhance AML trust fund equity. There are no restrictions on federal agencies as to the use or convertibility of Treasury non-marketable securities.

A portion of the non-AML investment interest earned is transferred to the United Mine Workers of America Combined Benefit Fund to provide health benefits for certain eligible retired coal miners and their dependents. A total of $182 million and $109 million was transferred to this fund in 2001 and 2000, respectively.

Minerals Management Service (MMS). Investments consist of non-marketable, market-based Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. The MMS has limited investment authority based on two categories: Environmental Improvement and Restoration and Custodial Investments.

The Environmental Improvement and Restoration Fund (EIRF) is available for investment under the Interior and Related Agencies Appropriations Act, 1998. Congress has permanently appropriated 20 percent of the prior fiscal year interest earned by the EIRF to the Department of Commerce. The remaining 80 percent will remain in the fund to earn interest and may be appropriated by Congress to certain other agencies, as provided by the law. This investment was funded in 2000 by the settlement of the boundary dispute with the State of Alaska.

Custodial investments include Section 7 of the Outer Continental Shelf Lands Acts and Outer Continental Shelf bids. Section 7 of the Outer Continental Shelf Lands Act (OCSLA) allows for receipts from OCSLA leases having boundary disputes on federal securities. During 2000, the U.S. Supreme Court issued a Final Decree in this litigation resolving a long-standing boundary dispute with the State of Alaska, dating back to 1979. The investment was redeemed and the full balance of principal and interest was disbursed during 2000. Part of the principal and interest was transferred to the Environmental Improvement and Restoration Fund (EIRF) for investment. Therefore, there were no Section 7 investments in 2001.

MMS is also required by regulation to invest the 1/5 OCS bid amounts from the apparent high bidders for all OCS lease sales. Should any of the apparent high bids be later rejected, the 1/5 bid and actual interest earned are returned to the bidder. The investment earned on accepted bids reverts to the Treasury when the bids are accepted.

U.S. Fish and Wildlife Service. The U.S. Treasury collects, invests, and maintains on behalf of the U.S. Fish and Wildlife Service (FWS) the Aquatic Resources Trust Fund (ARTF), which includes FWS's Sport Fish Restoration Account. Although the FWS has advisory authority for ARTF investment decisions, the Treasury has legal responsibility for investing ARTF funds.

Consistent with authorizing legislation and Treasury fiscal investment policies, the Secretary of the Treasury invests such portion of the ARTF balance deemed by the program agencies not necessary to meet current withdrawals to cover program and related costs as defined by law. Such investments are in non-marketable par value or non-marketable market-based securities as authorized by legislation and are issued and redeemed by the Federal Investment Branch of the Bureau of Public Debt, in the Department of Treasury. These securities are held in the name of the Secretary of the Treasury for the ARTF and interest in investments is accrued as it is earned.

Departmental Offices. Effective in 1994, the Office of the Secretary (part of Departmental Offices) was delegated responsibility for investing funds contributed to the Utah Reclamation Mitigation and Conservation Account by the Utah Reclamation Mitigation and Conservation Commission. Investments are made in non-marketable par value or non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Interest on investments is accrued as it is earned.

Commencing with 1999, Departmental Offices assumed financial responsibility, including investment activities, for the Natural Resources Damage Assessment and Restoration Fund (NRDAR). The funds are invested in market-based securities that the Treasury issues to federal entities without statutorily determined interest rates. Funds are invested in both long and short-term securities, depending upon the program's needs for their funds.

The reporting responsibility for the Tribal Trust and Special Funds, including investments in Treasury and public securities, transferred to Departmental Offices also in 1999 in accordance with OMB and FASAB guidance. The Secretary of Interior invests Tribal Trust and Special Funds in marketable and non-marketable par value or securities issued by the Federal Investment Branch of the Bureau of the Public Debt or marketable securities issued by other federal agencies and government-sponsored entities. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

Bureau of Land Management. The Bureau of Land Management is authorized to invest in special non-marketable par value, and market-based book entry Treasury securities. These securities include U.S. Treasury bills, notes, bonds, and one-day certificates that may be purchased and sold as necessary to meet operating needs and legislated requirements. The BLM invests in these securities of the U.S. Treasury pursuant to authorizing legislation for two accounts: (1) the proceeds of certain land sales as authorized by the Southern Nevada Public Land Management Act enacted in October 1998; and (2) the proceeds of certain oil and gas lease sales authorized by the Alaska Native Claims Settlement Act and the Alaska National Interest Lands Conservation Act, as amended July 17, 2000.

National Park Service. The National Park Service administers an endowment on behalf of the Lincoln Farm Association. Investment earnings from this endowment are used to provide for maintenance and upkeep of Abraham Lincoln's birthplace.

Bureau of Indian Affairs. The Bureau of Indian Affairs (BIA) invests irrigation and power receipts in U.S. Treasury and public securities until the funds are required for project operations. Federal investments are purchased under the U.S. Treasury Overnighter Program and in marketable Treasury bills and notes. BIA's investments in public securities are discussed more fully below.

B. Investments in Public Securities

The BIA is authorized by law to invest irrigation and power receipts in marketable U.S. Treasury and public securities. Investments in public securities consist of certificates of deposit from insured institutions, various mortgage instruments, bank notes, and bonds. Mortgage instruments are issued by the Federal National Mortgage Association (Fannie Mae) and similar government-sponsored enterprises and government corporations. Bonds and bank notes are issued by Federal Home Loan Banks, the Federal Judiciary, and the Federal Farm Credit Banks. Investments in public securities reflect investments held by the BIA's Power and Irrigation program and are recorded at cost.

As stated above, Departmental Offices now have the reporting responsibility for the Indian Trust Funds, including investments in public securities as of 1999. The Secretary of Interior invests Tribal Trust and Special Funds in marketable and non-marketable par value or securities issued by the Federal Investment Branch of the Bureau of the Public Debt or marketable securities issued by other federal agencies and government-sponsored entities. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

NOTE 5. ACCOUNTS RECEIVABLE, NET

Due From the Public, Net. Accounts receivable due to Interior from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by Interior are diverse and include the sale of water and hydroelectric power by the Bureau of Reclamation and water testing and other scientific studies conducted for state and local governments by the U.S. Geological Survey. Fines and penalties are imposed by the Office of Surface Mining, the Minerals Management Service, the Fish and Wildlife Service, and other bureaus in the enforcement of various environmental laws and regulations. Unbilled receivables reflect work performed to date on long term agreements, which will be billed in the future at the completion of the project or at agreed upon milestones. In general, receivables arising from the sales of products and services are paid more promptly and with fewer uncollectible accounts than those arising from fines and penalties.

Accounts Receivable Due from the Public

(dollars in thousands)	Unbilled	Current	Past Due Accounts 1-180 days	Past Due Accounts 181-365 days	Past Due Accounts Over 1 yr	Allowance for Doubtful Accounts	2001
Minerals Management Service	$ -	$ 238,484	$ -	$ -	$ -	$ -	$ 238,484
Minerals Management Service - Custodial	-	1,342,531	20,066	16,542	111,979	(270,281)	1,220,837
Bureau of Reclamation	27,107	7,936	6,290	5,326	10,649	(15,605)	41,703
U.S. Geological Survey	63,066	12,580	9,120	1,129	3,984	(14,168)	75,711
Bureau of Indian Affairs	19,929	12,151	7,108	460	3,657	(23,212)	20,093
Bureau of Land Management	3,796	5,129	656	275	1,576	(1,237)	10,195
National Park Service	758	3,063	1,471	1,986	1,139	(1,447)	6,970
U.S. Fish and Wildlife Service	-	3,281	3,902	316	488	(490)	7,497
Office of Surface Mining	23,328	811	949	90	2,346	(1,372)	26,152
Departmental Offices & Other	3,137	1,892	248	173	127	(2)	5,575
Total Accounts Receivable - Public	$ 141,121	$ 1,627,858	$ 49,810	$ 26,297	$ 135,945	$ (327,814)	$ 1,653,217

(dollars in thousands)	Unbilled	Current	Past Due Accounts 1-180 days	Past Due Accounts 181-365 days	Past Due Accounts Over 1 yr	Allowance for Doubtful Accounts	2000
Minerals Management Service	$ 353	$ 171,415	$ 3	$ -	$ 46	$ -	$ 171,817
Minerals Management Service - Custodial	-	927,413	16,122	5,793	191,592	(297,288)	843,632
Bureau of Reclamation	72,847	9,785	4,043	460	13,300	(11,008)	89,427
U.S. Geological Survey	64,081	13,620	7,555	1,204	4,395	(5,719)	85,136
Bureau of Indian Affairs	20,132	3,291	9,657	2,162	14,474	(30,613)	19,103
Bureau of Land Management	6,950	4,279	1,436	272	3,502	(3,791)	12,648
National Park Service	688	6,753	616	246	1,677	(844)	9,136
U.S. Fish and Wildlife Service	-	4,166	16	62	503	(340)	4,407
Office of Surface Mining	-	747	1,102	364	3,444	(3,165)	2,492
Departmental Offices & Other	2	2,703	2,115	4	74	(1)	4,897
Total Accounts Receivable - Public	$ 165,053	$ 1,144,172	$ 42,665	$ 10,567	$ 233,007	$ (352,769)	$ 1,242,695

Due from Federal Agencies, Net. Accounts Receivable Due from Federal Agencies arise from the sale of products and services to other federal agencies, including the sale of maps, the conduct of environmental and scientific services, and the provision of administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the federal government resulting in a lower cost of federal programs and services. Substantially, all receivables from other federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

Accounts Receivable Due from Federal Agencies

(dollars in thousands)	Receivables	Allowance for Doubtful Accounts	2001
U.S. Fish and Wildlife Service	$ 26,859	$ -	$ 26,859
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	6,628	-	6,628
U.S. Geological Survey	84,626	(19)	84,607
Minerals Management Service	35,176	-	35,176
Minerals Management Service - Custodial	66,783	-	66,783
Bureau of Reclamation	212,622	(776)	211,846
National Park Service	9,318	-	9,318
Bureau of Land Management	7,869	-	7,869
Bureau of Indian Affairs	59,313	7	59,320
Office of Surface Mining	196	-	196
Departmental Offices and Other	50,710	(488)	50,222
Intra-Departmental Eliminations	(304,484)	-	(304,484)
Total Accounts Receivable - Federal	$ 255,616	$ (1,276)	$ 254,340

(dollars in thousands)	Receivables	Allowance for Doubtful Accounts	2000
U.S. Fish and Wildlife Service	$ 28,015	$ -	$ 28,015
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	23,172	-	23,172
U.S. Geological Survey	80,802	-	80,802
Minerals Management Service	24,543	-	24,543
Minerals Management Service - Custodial	65,784	-	65,784
Bureau of Reclamation	23,315	-	23,315
National Park Service	13,717	-	13,717
Bureau of Land Management	13,600	-	13,600
Bureau of Indian Affairs	43,912	-	43,912
Office of Surface Mining	10	-	10
Departmental Offices and Other	46,368	(488)	45,880
Intra-Departmental Eliminations	(100,725)	-	(100,725)
Total Accounts Receivable - Federal	$ 262,513	$ (488)	$ 262,025

Recovery of Reimbursable Capital Costs. The Bureau of Reclamation enters into long-term repayment contracts and water service contracts with non-federal (public) water users that allow the use of irrigation, municipal and industrial (M&I) water facilities in exchange for annual payments to repay a portion of the federal investment allocated to the construction of reimbursable irrigation and M&I facilities. Also, power marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on Reclamation's behalf.

The typical repayment contract is up to 40 years but may extend to 50 years or more if authorized by the Congress. Prior to 2001, Reclamation recognized the amount of unmatured receivables (asset) and corresponding deferred revenue from unmatured receivables (liability).

For the 2001 and the comparative 2000 (as restated) financial statements, unmatured repayment contracts have been removed from the balance sheets and are not recognized until the annual amount becomes due each year at which time a current accounts receivable and a current period exchange revenue is recorded. As of September 30, 2001 and 2000, the amounts owed to Reclamation under unmatured repayment contracts were $2.6 billion and $2.8 billion, respectively.

NOTE 6. LOANS - PUBLIC, NET

Direct loans and loan guarantees made during and after 1991 are accounted for in accordance with the requirements of the Credit Reform Act of 1990 and are referred to as credit reform loans. Under credit reform, loans are comprised of two components. The first component is borrowed from Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by congressional appropriation. The Act provides that the present value of the subsidy costs associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component is not subject to repayment, the loan program receives appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates.

Prior to the Credit Reform Act, funding for loans was provided by congressional appropriation from the general or special funds. These loans, referred to as liquidating loans, are reported net of an allowance for estimated uncollectible loans or estimated losses.

The Bureau of Reclamation and the Bureau of Indian Affairs administer loan programs while the National Park Service and Departmental Offices provide loans on an individual basis under special circumstances. An analysis of the loans and the nature and amounts of the subsidy and associated administrative costs are provided in the following tables.

Loans Receivable - Public, Net (in thousands)

A. Direct Loan and Loan Guarantee Program Names	FY2001	FY2000
Bureau of Indian Affairs - Direct Loan Program	$ 42,889	$ 49,692
Bureau of Indian Affairs - Loan Guarantee Program	2,503	-
Bureau of Indian Affairs - Liquidating Fund	1,270	14,665
Bureau of Reclamation - Credit Reform Loans	80,096	90,678
Bureau of Reclamation - Liquidating Fund	60,873	74,178
National Park Service - Wolf Trap Foundation	5,037	5,397
Departmental Offices - Virgin Island	13,420	15,017
Departmental Offices - American Samoa Government	10,721	-
Total Loans - Public, Net	$ 216,809	$ 249,627

Direct Loans (dollars in thousands)

B. Direct Loans Obligated Prior to FY 1992:

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

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
	Bureau of Reclamation - Liquidating Fund	$ 73,366	$ -	$ (12,493)	$ -	$ 60,873
	Bureau of Indian Affairs - Direct Loan Program	34,795	9,399	(14,654)	-	29,540
	Departmental Offices - Virgin Island	13,114	306	-	-	13,420
	National Park Service - Wolf Trap Foundation	5,037	-	-	-	5,037
FY2001	Total	$ 126,312	$ 9,705	$ (27,147)	$ -	$ 108,870
	Bureau of Reclamation - Liquidating Fund	$ 86,934	$ -	$ (12,756)	$ -	$ 74,178
	Bureau of Indian Affairs - Direct Loan Program	38,928	9,851	(15,076)	-	33,703
	Departmental Offices - Virgin Island	14,679	338	-	-	15,017
	National Park Service - Wolf Trap Foundation	5,397	-	-	-	5,397
FY2000	Total	$ 145,938	$ 10,189	$ (27,832)	$ -	$ 128,295

C. Direct Loans Obligated After FY 1991:

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
	Bureau of Indian Affairs - Direct Loan Program	$ 23,363	$ 4,453	$ -	$ (14,467)	$ 13,349
	Bureau of Reclamation - Credit Reform Loans	117,030	-	-	(36,934)	80,096
	Departmental Offices - American Samoa Government	12,432	331	-	(2,042)	10,721
FY2001	Total	$ 152,825	$ 4,784	$ -	$ (53,443)	$ 104,166
	Bureau of Indian Affairs - Direct Loan Program	$ 27,662	$ 6,209	$ -	$ (17,881)	$ 15,990
	Bureau of Reclamation - Credit Reform Loans	132,053	-	-	(41,375)	90,678
FY2000	Total	$ 159,715	$ 6,209	$ -	$ (59,256)	$ 106,668

D. Total Amount of Direct Loans Disbursed (Post 1991):

Direct Loan Programs	FY2001	FY2000
Departmental Offices - American Samoa Government	$ 10,721	$ -
Bureau of Reclamation - Credit Reform Loans	9,685	18,985
Total	$ 20,406	$ 18,985

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

Subsidy Expense for New Direct Loans Disbursed:

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Departmental Offices - American Samoa Government	$ (28)	$ 2,070	$ -	$ -	$ 2,042
FY2001	Total	$ (28)	$ 2,070	$ -	$ -	$ 2,042

Modifications and Reestimates

	Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Direct Loan Program	$ -	$ 3,252	$ -	$ 3,252
	Bureau of Reclamation - Liquidating Fund	-	6,800	-	6,800
FY2001	Total	$ -	$ 10,052	$ -	$ 10,052
	Bureau of Indian Affairs - Direct Loan Program	$ -	$ 79	$ -	$ 79
	Bureau of Reclamation - Liquidating Fund	-	7,900	-	7,900
FY2000	Total	$ -	$ 7,979	$ -	$ 7,979

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY2001	FY2000
Bureau of Indian Affairs - Direct Loan Program	$ 3,252	$ 79
Bureau of Reclamation - Liquidating Fund	6,800	7,900
Departmental Offices - American Samoa Government	2,042	-
Total	$ 12,094	$ 7,979

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

Budget Subsidy Rates for Direct Loans for the Cohorts:

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Departmental Offices - American Samoa Government	-0.21%	15.79%	0.00%	0.00%	15.58%
FY2001	Total	-0.21%	15.79%	0.00%	0.00%	15.58%

	Direct Loan Programs					
		0.00%	0.00%	0.00%	0.00%	0.00%
FY2000	Total	0.00%	0.00%	0.00%	0.00%	0.00%

G. Schedule for Reconciling Direct Loan Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

	FY2001	FY2000
Beginning balance of the subsidy cost allowance	$ 59,256	$ 71,230
Add: Subsidy expense for direct loans disbursed during the reporting years by component:	-	-
(a) Interest rate differential costs	(28)	-
(b) Default costs (net of recoveries)	6,866	5,781
(c) Fees and other collections	(10,976)	-
(d) Other subsidy costs	-	4
Total of the above subsidy expense components	55,118	77,015
Adjustments:		
(a) Loan modification	-	-
(b) Fees received	-	-
(c) Foreclosed property acquired	-	-
(d) Loans written off	(4,700)	(42)
(e) Subsidy allowance amortization	(1,257)	(20,241)
(f) Other	(836)	319
Ending balance of the subsidy cost allowance before reestimates	48,325	57,051
Add or subtract subsidy reestimates by component:	-	-
(a) Interest rate reestimate	755	-
(b) Technical/default reestimate	4,363	2,205
Total of the above reestimate components	5,118	2,205
Ending balance of the subsidy cost allowance	$ 53,443	$ 59,256

The allowance for Subsidy Account reflects the unamortized credit reform subsidy for direct loans.

Defaulted Guaranteed Loans (dollars in thousands)

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

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
	Bureau of Indian Affairs - Liquidating Fund	$ 26,262	$ 16,062	$ -	$ (41,054)	$ 1,270
FY2001	Total	$ 26,262	$ 16,062	$ -	$ (41,054)	$ 1,270
	Bureau of Indian Affairs - Liquidating Fund	$ 27,116	$ 14,842	$ -	$ (27,292)	$ 14,666
FY2000	Total	$ 27,116	$ 14,842	$ -	$ (27,292)	$ 14,666

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

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
	Bureau of Indian Affairs - Loan Guarantee Program	$ 23,851	$ 2,538	$ -	$ (23,886)	$ 2,503
FY2001	Total	$ 23,851	$ 2,538	$ -	$ (23,886)	$ 2,503
	Bureau of Indian Affairs - Loan Guarantee Program	$ 36,914	$ 6,575	$ -	$ (43,489)	$ -
FY2000	Total	$ 36,914	$ 6,575	$ -	$ (43,489)	$ -

Loan Guarantees (dollars in thousands)

J. Guaranteed Loans Outstanding as of September 30, 2001:

Guaranteed Loans Outstanding

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Pre-1992	$ 17,052	$ 14,896
FY1992	7,905	7,030
FY1993	8,817	7,823
FY1994	19,036	17,061
FY1995	8,975	7,762
FY1996	11,679	10,311
FY1997	11,312	9,999
FY1998	10,148	8,702
FY1999	42,459	37,876
FY2000	47,304	42,217
FY2001	16,045	13,946
Total	$ 200,732	$ 177,623

New Guaranteed Loans Disbursed (Current reporting year):

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Bureau of Indian Affairs - Loan Guarantee Program	$ 16,045	$ 13,946
Total for FY2001 Programs	$ 16,045	$ 13,946
Bureau of Indian Affairs - Loan Guarantee Program	$ 13,841	$ 12,084
Total for FY2000 Programs	$ 13,841	$ 12,084

K. Liability for Loan Guarantees:

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):

	Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
FY2001	Bureau of Indian Affairs - Loan Guarantee Program	$ -	$ (47,975)	$ (47,975)
	Total	$ -	$ (47,975)	$ (47,975)
	Bureau of Indian Affairs - Loan Guarantee Program	$ -	$ (23,553)	$ (23,553)
FY2000	Total	$ -	$ (23,553)	$ (23,553)

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

Subsidy Expense for New Loan Guarantees:

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
FY2001	Bureau of Indian Affairs - Loan Guarantee Program	$ 3,121	$ 69	$ (921)	$ -	$ 2,269
	Total	$ 3,121	$ 69	$ (921)	$ -	$ 2,269
FY2000	Bureau of Indian Affairs - Loan Guarantee Program	$ 1,557	$ 616	$ (892)	$ -	$ 1,281
	Total	$ 1,557	$ 616	$ (892)	$ -	$ 1,281

Modifications and Reestimates:

	Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Loan Guarantee Program	$ -	$ -	$ (1,681)	$ (1,681)
FY2001	Total	$ -	$ -	$ (1,681)	$ (1,681)
	Bureau of Indian Affairs - Loan Guarantee Program	$ -	$ -	$ (19,040)	$ (19,040)
FY2000	Total	$ -	$ -	$ (19,040)	$ (19,040)

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	FY2001	FY2000
Bureau of Indian Affairs - Loan Guarantee Program	$ 588	$ (17,759)
Total	$ 588	$ (17,759)

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

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

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
	Bureau of Indian Affairs - Loan Guarantee Program	3.53%	5.00%	-1.80%	0.00%	6.73%
FY2001	Total	3.53%	5.00%	-1.80%	0.00%	6.73%
	Bureau of Indian Affairs - Loan Guarantee Program	2.79%	6.71%	-1.96%	0.00%	7.54%
FY2000	Total	2.79%	6.71%	-1.96%	0.00%	7.54%

N. Schedule for Reconciling Loan Guarantee Liability Balances

	FY2001	FY2000
Beginning balance of the loan guarantee liability	$ 23,553	$ 28,071
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	1,570	1,536
(b) Default costs (net of recoveries)	3,209	3,574
(c) Fees and other collections	(992)	(996)
(d) Other subsidy costs	-	-
Total of the above subsidy expense components	27,340	32,185
Adjustments:		
(a) Loan guarantee modification	-	-
(b) Fees received	921	892
(c) Interest supplements paid	(3,121)	(1,557)
(d) Foreclosed property and loans acquired	-	-
(e) Claim payments to lenders	(69)	(616)
(f) Interest accumulation on the liability balance	2,539	68
(g) Other (recovery, revenue, and prior period adjustments)	21,735	6,905
Ending balance of the loan guarantee liability before reestimates	49,345	37,877
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	-	-
(b) Technical/default reestimate	(1,370)	(14,324)
Total of the above reestimate components	(1,370)	(14,324)
Ending balance of the loan guarantee liability	$ 47,975	$ 23,553

O. Administrative Expense:

	Direct Loan Programs		Loan Guarantee Programs	
	Departmental Offices - American Samoa Government	$ 685	Bureau of Indian Affairs - Loan Guarantee Program	$ 500
	Bureau of Reclamation - Credit Reform Loans	216		
	Bureau of Indian Affairs - Direct Loan Program	-		
	Bureau of Indian Affairs - Liquidating Fund	-		
	National Park Service - Wolf Trap Foundation	-		
	Bureau of Reclamation - Liquidating Fund	-		
	Departmental Offices - Virgin Island	-		
FY2001	Total	$ 901		$ 500
	Bureau of Reclamation - Credit Reform Loans	$ 274	Bureau of Indian Affairs - Loan Guarantee Program	$ 950
	Bureau of Indian Affairs - Direct Loan Program	-		
	Bureau of Indian Affairs - Liquidating Fund	-		
	Bureau of Reclamation - Liquidating Fund	-		
	National Park Service - Wolf Trap Foundation	-		
	Departmental Offices - Virgin Island	-		
	Departmental Offices - American Samoa Government	-		
FY2000	Total	$ 274		$ 950

Bureau of Reclamation (BOR). The BOR operates loan programs which provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the western states. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956, the Distribution System Loans Act, and the Rehabilitation and Betterment Act. The loan programs are classified into two categories, Credit Reform loans and other loans made prior to the Credit Reform Act.

Other loans consist primarily of drought relief and repayment loans. The other loans receivable balances represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance amount is determined by reviewing a loans receivable aging report to identify loan balances that are considered uncollectible based on various factors, including age, past experience, present market conditions, and characteristics of debtors.

Loan interest rates vary depending on the applicable legislation; and in some cases, there is no stated interest rate on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

Bureau of Indian Affairs (BIA). The BIA provides guaranteed loans to Indian tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The BIA loan program includes the Indian Direct Loan Program (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the Credit Reform Act, and a Liquidating Fund for loans made prior to 1992.

National Park Service (NPS). The NPS has a single loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8,560,000. The loan principal is to be repaid to the National Park Service within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments, except for the first three annual payments of $215,000 per year. Repayment of the loan principal may include a credit of up to $60,000 annually, for public service tickets given to entities exempt from taxation pursuant to section 501(c) (3) of the Internal Revenue Code of 1986. The monies received for repayment of this loan may be retained until expended by the Secretary of the Interior in consultation with the Foundation for the maintenance of structures, facilities, and equipment of the park.

Departmental Offices. Departmental Offices has two types of loans, one pre-credit reform loan to the Virgin Islands and one post-credit reform loan to the American Samoa Government.

In 1977, a loan was extended to the Virgin Islands from the Federal Financing Bank, Department of Treasury. The loan receivable from the Virgin Islands has an offsetting liability to the Federal Financing Bank. It has a final payment due date of January 2, 2007. Principal and interest are due in January and July of each year. Interest is based on the amortization schedule for the loan with Federal Financing Bank. The interest is accrued at year end based upon the period of July - September.

In 2001, a loan was extended to the American Samoa Government (ASG). The total has been approved for $18.6 million and will be made available to the ASG bearing interest at a rate equal to the U.S. Treasury cost of borrowing for obligations of similar duration.

NOTE 7. INVENTORY AND OPERATING MATERIALS, NET

Inventory and Operating Materials as of September 30, 2001 and 2000 consists of the following:

Inventory and Operating Materials

(dollars in thousands)	2001	2000
Helium Held in Reserve for Future Sale	$ 355,075	$ 357,620
Published Maps and Hydrologic Equipment		
Held for Current Sale	13,674	13,801
Other Inventory Held for Current Sale	1,487	2,196
Operating Materials Held for Use	315	26
Total Inventory and Operating Materials	$ 370,551	$ 373,643

NOTE 8. INVESTIGATIONS AND DEVELOPMENT

Investigations and Development represent funds appropriated by the Congress that have been expended for such activities as general engineering studies and surveys that are directly related to project construction. Investigations and Development as of September 30, 2001 and 2000 was $95 million and $84 million, respectively.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, which is presented in the following table, consists of that property which is used in operations and, with some exceptions, consumed over time.

Construction In Progress is used for the accumulation of cost of construction or major renovation of fixed assets during the construction period. Each individual bureau sets its own policy for using the construction in progress account; however, in general, the assets are transferred out of Construction In Progress when the project is completed.

Construction in Progress includes construction in abeyance of approximately $566 million and $654 million as of September 30, 2001 and 2000, respectively. Construction in abeyance represents projects the Bureau of Reclamation began the planning of and construction on and have either been suspended or the intended benefits never provided. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of weather and time and to keep the asset ready for potential completion.

Property, Plant and Equipment categories, with corresponding accumulated depreciation, as of September 30, 2001 and 2000, are shown in the following tables.

Property, Plant, and Equipment

(dollars in thousands)	Buildings, Structures, Facilities and Land	Construction in Progress	Equipment, Vehicles, and Aircraft	Other Property and Equipment	2001
Bureau of Reclamation	$ 19,019,327	$ 1,110,014	$ 99,879	$ 28,361	$ 20,257,581
Bureau of Indian Affairs	2,449,233	150,991	203,363	17,124	2,820,711
National Park Service	924,465	70,695	276,333	662	1,272,155
U.S. Fish and Wildlife Service	1,036,811	85,390	216,469	-	1,338,670
Bureau of Land Management	213,081	20,250	232,053	11,794	477,178
U.S. Geological Survey	120,517	-	217,553	6,077	344,147
Minerals Management Service	-	-	22,031	22,219	44,250
Office of Surface Mining	-	-	5,722	-	5,722
Departmental Offices & Other	56,122	271,564	49,556	8,196	385,438
Gross Property, Plant and Equipment	$ 23,819,556	$ 1,708,904	$ 1,322,959	$ 94,433	$ 26,945,852
Accumulated Depreciation	(9,687,673)	-	(745,957)	(24,056)	(10,457,686)
Net Property, Plant, and Equipment	$ 14,131,883	$ 1,708,904	$ 577,002	$ 70,377	$ 16,488,166

(dollars in thousands)	Buildings, Structures, Facilities and Land	Construction in Progress	Equipment, Vehicles, and Aircraft	Other Property and Equipment	2000
Bureau of Reclamation	$ 19,202,888	$ 1,115,641	$ 93,758	$ 26,277	$ 20,438,564
Bureau of Indian Affairs	2,434,896	115,651	183,531	-	2,734,078
National Park Service	824,972	148,412	356,752	721	1,330,857
U.S. Fish and Wildlife Service	996,450	82,829	189,979	-	1,269,258
Bureau of Land Management	208,672	16,764	219,920	8,449	453,805
U.S. Geological Survey	120,517	-	215,330	-	335,847
Minerals Management Service	-	-	19,854	-	19,854
Office of Surface Mining	-	-	6,073	-	6,073
Departmental Offices & Other	42,142	234,356	45,091	7,137	328,726
Gross Property, Plant and Equipment	$ 23,830,537	$ 1,713,653	$ 1,330,288	$ 42,584	$ 26,917,062
Accumulated Depreciation	(9,573,727)	-	(754,379)	(20,589)	(10,348,695)
Net Property, Plant, and Equipment	$ 14,256,810	$ 1,713,653	$ 575,909	$ 21,995	$ 16,568,367

NOTE 10. OTHER ASSETS - PUBLIC, NET

Other Assets primarily consists of the Bureau of Reclamation (BOR) costs for power rights and the Bureau of Indian Affairs Fractional Land Rights Interests Pending Disposition.

In 1969, the Bureau of Reclamation entered into an agreement with five other entities for the construction of the Navajo Generating Station, in Page, Arizona. This agreement entitled Reclamation to a firm 24.3 percent of the generation of electricity for the Central Arizona Project for a term of 42 years. The BOR's costs of $101.8 million and $100.8 million for 2001 and 2000, respectively, associated with the Navajo Generating Station, were subject to respective annual amortization amounts of $10.8 million and $10.7 million.

Fractional Land Interest Pending Disposition includes the cost of fractional interests in Indian land allotments acquired under the Indian Land Consolidation Act of 2000. The Indian Land Consolidation Act of 2000 provides for the Bureau of Indian Affairs to purchase fractional shares of Trust property to be held in trust for eventual transfer to Tribal entities after revenues produced provide funds to repay Treasury for the purchase. Disposition includes sale at purchase price to tribal members holding interest in tract, transfer to tribe upon recovery of purchase price from income produced from the interest, or transfer to the tribe based on a Secretarial finding.

Other Assets, as of September 30, 2001 and 2000, are shown in the following table.

Other Assets, Net

(dollars in thousands)	2001	2000
Bureau of Reclamation	$ 229,712	$ 245,482
Bureau of Indian Affairs	8,778	3,697
U.S. Geological Survey	5,967	-
Total Other Assets	$ 244,457	$ 249,179

NOTE 11. STEWARDSHIP ASSETS

Stewardship Assets consists of public domain land, heritage assets, such as national monuments and historic sites that have been entrusted to the Department to be maintained in perpetuity for the benefit of current and future generations. No financial value is or can be placed on these assets.

As a Nation, the United States once owned nearly two billion acres of public lands. In the course of national expansion and development, public lands were sold or deeded by the federal government to the states and their counties and municipalities, to educational institutions, to private citizens, and to businesses and corporations. Other lands were set aside as national parks, forests, wildlife refuges, and military installations.

For additional discussion of stewardship land, see the Required Supplementary Stewardship Information section of this report.

NOTE 12. ASSETS ANALYSIS

Assets of the Department include entity assets, restricted and non-entity assets. Entity assets are those currently available for use by the Department. Restricted assets consist of the Land and Water Conservation Fund, Historic Preservation Fund, Aquatic Resources Trust Fund, and the Environmental Improvement and Restoration Fund. Restricted assets cannot be used until appropriated by Congress. Non-entity assets are currently held by the Department but will be forwarded to Treasury or other agencies at a future date. These assets are not available for use by the Department.

Interior's assets as of September 30, 2001 and 2000 are summarized into the following categories:

Assets Analysis

(dollars in thousands)	Entity	Restricted *	Non-Entity	2001
Fund Balance with Treasury	$ 7,349,768	$ 18,090,204	$ 107,055	$ 25,547,027
Cash	47,600	-	487	48,087
Investments, Net				
Treasury Securities	2,765,849	2,242,574	60,842	5,069,265
Public Securities	136,177	-	-	136,177
Accounts Receivable, Net				
Public	418,625	3,777	1,230,815	1,653,217
Due from Federal Agencies	175,381	8,121	70,838	254,340
Advances and Prepayments				
Public	35,134	-	-	35,134
Due from Federal Agencies	2,370	-	-	2,370
Loans - Public, Net	155,944	40,373	20,492	216,809
Inventory and Operating Materials, Net	370,551	-	-	370,551
Investigations and Development	95,227	-	-	95,227
Property, Plant and Equipment, Net	16,488,166	-	-	16,488,166
Other Assets - Public, Net	244,457	-	-	244,457
Total Assets	$ 28,285,249	$ 20,385,049	$ 1,490,529	$ 50,160,827

(dollars in thousands)	Entity	Restricted *	Non-Entity	2000
Fund Balance with Treasury	$ 5,895,536	$ 17,280,395	$ 244,690	$ 23,420,621
Cash	6,896	-	-	6,896
Investments, Net				
Treasury Securities	2,525,366	2,096,767	23,205	4,645,338
Public Securities	155,639	-	-	155,639
Accounts Receivable, Net				
Public	337,864	58,525	846,306	1,242,695
Due from Federal Agencies	170,596	25,643	65,786	262,025
Advances and Prepayments				
Public	39,992	-	-	39,992
Due from Federal Agencies	3,427	-	-	3,427
Loans - Public, Net	175,457	42,242	31,928	249,627
Inventory and Operating Materials, Net	373,643	-	-	373,643
Investigations and Development	84,115	-	-	84,115
Property, Plant and Equipment, Net	16,568,367	-	-	16,568,367
Other Assets - Public, Net	249,179	-	-	249,179
Total Assets	$ 26,586,077	$ 19,503,572	$ 1,211,915	$ 47,301,564

* In general, restricted assets are entity assets. However, a portion of the Aquatic Resources Trust Fund has been earmarked for the U.S. Coast Guard and U.S. Army Corps of Engineers, totaling $335 million and $299 million as of September 30, 2001 and 2000, respectively. These amounts are considered Non-Entity Assets.

NOTE 13. DEFERRED REVENUE

The majority of the deferred revenue received from the public represents upfront funding received from certain power customers who benefit from current and future power deliveries. The repayments are recognized as revenue incrementally as power benefits are provided. The majority of the deferred revenue received from federal agencies represents the upfront funding payments to the Interior Franchise Fund, which provides shared administrative services and commonly required products to federal agencies, that reduces the overall cost of the government.

Deferred Revenue as of September 30, 2001 and 2000 are shown below:

Deferred Revenue

(dollars in thousands)	2001	2000
Received from the Public	$ 103,001	$ 82,128
Received from Federal Agencies	288,614	121,298
Total Deferred Revenue	$ 391,615	$ 203,426

NOTE 14. FEDERAL EMPLOYEE COMPENSATION ACT LIABILITY DUE TO THE PUBLIC

The Department has recorded an estimated, unfunded liability for the expected future cost for death, disability, and medical claims under the Federal Employees Compensation Act of approximately $663 million and $585 million as of September 30, 2001 and 2000, respectively. This estimated liability is computed by the Department of Labor using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. These actuarially computed projected annual benefit payments are discounted to present value using the Office of Management and Budget's economic assumptions for ten-year Treasury notes and bonds.

The Department of Labor calculated the estimated future benefit payments based on several assumptions. The interest rate assumptions utilized to discount the estimated future benefit payments to present value are 5.21 percent in year one and thereafter. The wage inflation factors (Cost of Living Adjustments) and medical inflation factors (Consumer Price Index Medical Adjustments) used in the calculation are as follows:

FECA Wage Inflation Factors

Fiscal Year	Cost of Living Adjustment	Consumer Price Index Medical Adjustment
1990	4.43%	8.40%
1991	5.03%	9.36%
1992	5.00%	7.96%
1993	2.83%	6.61%
1994	2.77%	5.27%
1995	2.57%	4.72%
1996	2.63%	3.99%
1997	2.77%	3.11%
1998	2.70%	2.77%
1999	1.53%	3.50%
2000	1.97%	3.70%
2001	2.93%	4.42%
2002	3.33%	4.44%
2003	3.00%	4.15%
2004	2.56%	4.09%
2005 and thereafter	2.50%	4.09%

NOTE 15. LOANS DUE TO TREASURY

Interior's debt to Treasury consists of: (1) the helium production fund; (2) borrowings to finance the credit reform loan programs; and (3) borrowings to finance loans under the Federal Financing Bank.

Loans due to Treasury activity for the years ended September 30, 2001 and 2000 is summarized as follows:

Loans Due Treasury

(dollars in thousands)	2000 Beginning Balance	Net Borrowing	2000 Ending Balance	Net Borrowing	2001 Ending Balance
Helium Fund	$ 1,339,204	$ (10,000)	$ 1,329,204	$ (10,000)	$ 1,319,204
Credit Reform Borrowings	107,690	21,627	129,317	(4,046)	125,271
Federal Financing Bank	16,509	(1,492)	15,017	(1,904)	13,113
Total Loans Due to Treasury	$ 1,463,403	$ 10,135	$ 1,473,538	$ (15,950)	$ 1,457,588

A. Helium Fund - Bureau of Land Management

The Helium Fund was established in the late 1950s and early 1960s to ensure that the federal government had access to a dependable supply of helium, which at that time was considered to be a critical defense commodity. Start-up capital was loaned to the helium program, with the expectation that the capital would be repaid with the proceeds of sales to other federal government users of helium. However, subsequent changes in the market price of helium and the need of government users for the commodity made the repayment of the capital, and subsequent accrued interest, impractical. Given the intra-governmental nature of the loan, unless the loan is forgiven, the funds for repayment to Treasury must come from the Treasury, either in the form of appropriations to the helium fund to repay the loan or in the form of appropriations to other government users of helium to pay the higher prices necessary to permit loan repayment.

Net Worth Debt reported in the following table reflects the amount recorded by Treasury for the net worth capital and retained earnings of the Helium Fund. It also includes any monies expended thereafter by Interior from funds provided in the Supplemental Appropriation Act of 1959 for construction of a helium plant at Keyes, Oklahoma. Additional borrowing from Treasury represents funds borrowed for the acquisition and construction of helium plants and facilities and other related purposes including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed. However, as funding has not been received to repay the amounts due, the amounts could not be repaid.

Interest on borrowing is compound interest on the debts described above, at rates determined by the Secretary of the Treasury taking into consideration the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. The interest rate was determined at the time of each borrowing. With the passage of the Helium Privatization Act of 1996, no further interest is being accrued on this debt.

Loans Due Treasury from Helium Fund

(dollars in thousands)	2001	2000
Principal:		
Net Worth Debt	$ 37,343	$ 37,343
Additional Borrowing from Treasury	251,650	251,650
Total Principal	$ 288,993	$ 288,993
Interest:		
Beginning Balance	$ 1,040,211	$ 1,050,211
Repayments	(10,000)	(10,000)
Ending Balance	1,030,211	1,040,211
Loan Due to Treasury - Helium Fund	$ 1,319,204	$ 1,329,204

B. Loan Due Treasury under Credit Reform

The Bureau of Indian Affairs, the Bureau of Reclamation, and Departmental Offices (Office of Insular Affairs) have borrowed funds from Treasury in accordance with the Credit Reform Act of 1990 to fund loans under various loan programs. See Note 6, Loans - Public, Net for more information.

Bureau of Indian Affairs. Credit Reform Act authorizes the BIA to borrow from Treasury the amount of a direct loan disbursement, less the subsidy. The Act provides that the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets and other cash flows) associated with the direct loans an loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 365-day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act Rate that was effective at the time the loan was made and ranges from 5.87 percent to 7.77 percent. These loans have various maturity dates from 2002 to 2026.

Bureau of Reclamation. As discussed in Note 6, Reclamation makes loans which are subject to the provisions of Credit Reform. Under the Credit Reform Act, loans consist of two components - the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 5.85 percent to 6.86 percent.

Departmental Offices. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The loan has a final payment date of September 30, 2027.

C. Loan Due Treasury under Federal Financing Bank

Departmental Offices (Office of Insular Affairs) has borrowed funds from Treasury in accordance with the Federal Financing Bank Act of 1973 for the purpose of operating a direct loan and loan guarantee program. Interest is based on the amortization schedule for the loan with the Federal Financing Bank. Principal and interest payments are due in January and July of each year. Interest is accrued at year-end based upon the period of July - September. The loan has a final payment due date of January 2, 2007. (See also Note 6, Loans - Public, Net.)

NOTE 16. ENVIRONMENTAL AND CONTINGENT LIABILITY DUE TO THE PUBLIC

The Department has responsibility to clean up its sites with environmental contamination, and it is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the federal government. Interior has accrued liabilities where losses are determined to be probable and the amounts can be estimated. The Department has disclosed contingent liabilities where the conditions for liability recognition are not met and the likelihood of unfavorable outcome is more than remote.

The accrued and potential Environmental and Contingent Liability Due to the Public as of September 30, 2001 and 2000 is summarized in the categories below:

Environmental and Contingent Liabilities Due to the Public

			Potential Liabilities			
	Accrued Liabiltiies		2001		2000	
(dollars in millions)	2001	2000	Lower	Upper	Lower	Upper
Contingent Liabilities	$ 480	$ 698	$ 1,001	$ 2,121	$ 1,093	$ 1,317
Estimated Cleanup Cost	268	269	119	297	188	561
Total Environmental and Contingent Liabilities	$ 748	$ 967	$ 1,120	$ 2,418	$ 1,281	$ 1,878

Environmental Hazards. The Department is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination resulted. The major federal laws covering environmental contamination as related to Interior are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). Responsible parties, including federal agencies, are required to cleanup releases of hazardous substances at or from facilities they own, operate, or at which they arranged for the disposal of such substances.

Interior has recognized an estimated liability of $268 million and $269 million for 2001 and 2000, respectively, for sites where the Department either caused contamination or is otherwise involved in such a way that it may be legally liable for some portion of the cleanup, and the environmental cleanup liability is probable and reasonably estimable. This estimate includes the expected future cleanup costs, and for those sites where future liability is unknown, the cost of a study necessary to evaluate cleanup requirements.

Interior has an active program to find and monitor its hazardous sites, secure the affected areas, and begin remediation in priority areas. However, the vast expanse of Interior lands prevents an acre-by-acre review, so the exact total number of sites and a firm statement of cleanup costs are not determinable. Once a site has been identified, it may take several years to perform an evaluation of the site and determine the potential cost of remediation. Additional time may be required to identify, and seek the involvement of, parties responsible for the contamination.

Interior's contingent liability for potential environmental cleanup of sites that are considered reasonably estimable but do not meet the requirement for accrual, may range from $119 million to $297 million. This estimate includes the expected future cleanup costs, and for those sites where future liability is unknown, the cost of a study necessary to evaluate cleanup requirements.

In addition to the limited number of cases discussed above where Interior may be involved, other hazardous conditions exist on public lands for which the Department might fund cleanup. The estimated liability excludes estimates of future sites for which Interior will voluntarily undertake remediation without legal responsibility to do so.

Indian Trust Funds. The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the federal government for Indian tribes and individuals. There have been long-standing, complicated problems with Indian trust fund management. Interior places a high priority on comprehensive Indian trust reform efforts, including implementation of vital improvements to systems, policies, and operations necessary to ensure meeting the trust obligations to Indian tribes and individuals. Currently, there are claims and potential claims relating to past trust fund management for both tribal accounts and Individual Indian Monies (IIM) accounts. Several years ago, in accordance with congressional directives and the American Indian Trust Fund Management Reform Act of 1994, the Department and the Bureau of Indian Affairs contracted with a national accounting firm to reconcile tribal trust fund account activity over a 20-year period. Their report indicated that, while there was no evidence that tribal trust funds had been lost or stolen, the method of recordkeeping was not sufficient to reconstruct all activity or to permit a complete reconciliation of the tribal accounts. Documentation to support the accuracy of some transactions could not be located. Pursuant to the 1994 Reform Act, the Department presented to Congress a report that outlined proposed legislative settlement options for resolving disputed tribal trust account balances in 1996. However, to date no settlement process has been established to resolve tribal trust fund account balances in dispute. Several tribes have initiated litigation based on the reconciliation results.

In 1996, a number of individual Indians brought a class action lawsuit against the Interior Secretary, the Assistant Secretary-Indian Affairs, and the Secretary of the Treasury, alleging breach of trust in handling IIM trust fund accounts. The court bifurcated the case into prospective ("fixing the system") and retrospective ("correcting the accounts") relief. In February 1999, the court found defendants in contempt of court for failure to timely comply with an order for the production of records. Regarding prospective relief, the court held in a December 1999 decision that the Defendants breached certain trust duties by failing to establish written policies and procedures necessary to render an accurate accounting of the IIM trust in four areas: collecting from outside sources missing information, retention of IIM trust documents, computer and business system architecture, and staffing. The court, which retained jurisdiction for at least five years, directed the Defendants to file a revised High-Level Implementation Plan (HLIP) for trust reform and quarterly status reports on steps taken to remedy the court-identified breaches and to carry out trust reform. An appeals court affirmed this decision, indicated that the government owes IIM trust beneficiaries an accounting for all funds held in trust which are deposited or invested pursuant to a 1938 act, and confirmed that decisions about how to conduct an accounting and what accounting methods to use are properly left to the Department. The appeals court presumed that the district court should wait to schedule the trial regarding retrospective relief "until a proper accounting can be performed, at which point it will assess appellants' compliance with their fiduciary obligations." The appeals court indicated that it is proper for the district court to monitor whether the Department "takes steps so defective that they would necessarily delay rather than accelerate the ultimate provision of an adequate accounting." Also, the Court appointed a Special Master (to oversee discovery and records retention) and a Court Monitor (to review trust reform activities and report his findings to the court). The court has asked the Secretary and the Assistant Secretary - Indian Affairs why they should not be held in contempt for failing to comply with the December 1999 order to initiate a historical accounting and for committing a fraud on the court by concealing information and filing false and misleading information.

Regarding retrospective relief, the plaintiffs seek an accounting, not damages in this case. Although the plaintiffs assert that potential liability is over $20 billion, the Office of the Solicitor states that an accurate estimate of the range of potential loss cannot currently be made. Resolution of this case could support a future claim for money. The Office of Historical Trust Accounting has been established to oversee the historical accounting to IIM beneficiaries. This office will develop a comprehensive plan analyzing options for accomplishing the historical accounting with timetables and projected costs for implementation.

No estimate is made at this time regarding any financial liability that may result from settlement from tribal accounts, the IIM trust fund litigation, and any other related claims.

Other Contingent Liabilities. There are numerous claims filed against the Department and its bureaus with adjudication pending. For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including certain judgments that have been issued against Interior and which have been appealed, $480 million and $698 million has been accrued in the financial statements as of September 30, 2001 and 2000, respectively. These amounts exclude contingent liabilities reported on prior year financial statements regarding cases won on appeal. Cash settlements are expected to be paid out of the Judgment Fund maintained by Treasury rather than operating resources of Interior. However, in suits brought through the Contract Disputes Act of 1978, the Department is required to reimburse the Judgment Fund from future agency appropriations.

No amounts have been accrued in the financial records for claims where the amount or probability of judgment is uncertain. Interior's potential liability for claims that do not meet the requirements for accrual are considered reasonably estimable, and where the likelihood of an unfavorable outcome is more than remote, may range from $1,001 million to $2,121 million. Interior is the defendant in certain litigation where the damage award being sought could amount to $1 billion or more. In an MMS breach of contract case, the plaintiffs who are lessees under federal oil and gas leases claim damages of over $1.2 billion, and legal counsel considers the likelihood of an unfavorable outcome to be reasonably possible. There is another pending breach of contract lawsuit brought by a lessee of certain oil and gas leases administered by MMS. This case is in the discovery phase, and MMS and other federal agencies intend to contest it vigorously. However, if liability is found, legal counsel believes that there is reasonable possibility of an unfavorable outcome of up to $500 million. The ultimate outcome cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect Interior's financial position or results of operations.

NOTE 17. DEFERRED CREDITS AND OTHER LIABILITIES

The funded and unfunded portions of Deferred Credits and Other Liabilities as of September 30, 2001 and 2000 are shown below. See Note 19, Liabilities Not Covered by Budgetary Resources, for that portion which is unfunded.

Deferred Credits and Other Liabilities

(dollars in thousands)	Current	Non-Current	2001
Due to the Public			
Deferred Credits	$ 117,409	$ 144,876	$ 262,285
Loan Guarantee Liability	-	47,975	47,975
Other Liabilities	347,326	45,279	392,605
Total Due to the Public	$ 464,735	$ 238,130	$ 702,865
Due to Federal Agencies			
Deferred Credits	$ (1,272)	$ 14,204	$ 12,932
Receipts Transferable to Treasury	37,000	-	37,000
Other Liabilities	153,533	-	153,533
Total Due to Federal Agencies	$ 189,261	$ 14,204	$ 203,465

(dollars in thousands)	Current	Non-Current	2000
Due to the Public			
Deferred Credits	$ 130,011	$ 139,886	$ 269,897
Loan Guarantee Liability	-	23,553	23,553
Other Liabilities	187,409	60,863	248,272
Total Due to the Public	$ 317,420	$ 224,302	$ 541,722
Due to Federal Agencies			
Deferred Credits	$ (6,529)	$ 44,575	$ 38,046
Receipts Transferable to Treasury	57,487	-	57,487
Other Liabilities	248,154	-	248,154
Total Due to Federal Agencies	$ 299,112	$ 44,575	$ 343,687

As of September 30, 2001, Other Liabilities Due to the Public primarily consists of payments to the States ($238 million) and payables under the Rural Schools Act ($94 million); Other Liabilities Due to Federal Agencies primarily consists of Treasury judgment fund liability ($101 million) and undistributed collections ($48 million). As of September 30, 2000, Other Liabilities Due to the Public primarily consists of payments to the states ($171 million); Other Liabilities Due to Federal Agencies primarily consists of undistributed collections ($140 million) and the Treasury judgment liability ($84 million).

NOTE 18. OPERATING LEASES

Most of the Department's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of the Department's rental agreements with GSA will vary according to whether the underlying assets are owned by GSA (or another federal agency) or rented by GSA from the private sector. For federally-owned property, the Department generally does not execute an agreement with GSA nor is there a formal lease expiration date. Although the Department may normally vacate these properties after giving 120 to 180 days notice of its intent to vacate, in actuality, Interior will normally occupy these properties for an extended period of time with little variation from year to year. For purposes of the table below, federally-owned leases are included in years 2002 through 2006.

For non-federally owned property leased from GSA, the Department will execute a formal lease agreement with GSA with specific terms and expiration dates, although again the Department may normally cancel the agreement with 120 days notice. For purposes of the table below, these leases are included according to the stated expiration date.

All GSA leases assume a 2002 lease escalation in accordance to GSA budget estimates, normally 3 percent but ranging up to 14 percent for selected locations. An escalation of 3 percent per year is assumed for all periods after 2002.

Government vehicles and equipment rentals are included in personal property. Government vehicles are leased from GSA, frequently exceeding one year, although a definite lease period may not be specified. The estimated future operating lease payments for personal property for 2002 is based on a 3 percent increase over the 2001 actual personal property expense amount for 2001. For subsequent years up to 2006 the amounts are inflated each year at 3 percent over the previous year.

The aggregate of the Department's future payments due under noncancellable operating leases for real property and personal property; and the Department's estimated real property rent payments to GSA are presented in the table below:

Future Operating Lease Payments
(dollars in thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2002	$ 188,011	$ 57,541	$ 19,892	$ 265,444
2003	185,336	58,851	20,409	264,596
2004	182,818	59,086	20,444	262,348
2005	179,886	59,519	20,467	259,872
2006	180,851	60,612	21,010	262,473
Thereafter	212,865	134,686	-	347,551
Total Future Lease Payments	$ 1,129,767	$ 430,295	$ 102,222	$ 1,662,284

NOTE 19. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided.

The Department anticipates that the liabilities listed below will be funded from future budgetary resources when required. The Department receives budgetary resources for the Federal Employees Compensation Act liability and the environmental and contingent liability when they are needed for disbursements. The accrued benefit and payroll due to the public represents annual leave. Budgetary resources are generally provided for annual leave when it is taken.

Interior's liabilities not covered by budgetary resources as of September 30, 2001 and 2000 are as follows:

Liabilities Not Covered by Budgetary Resources

(dollars in thousands)	2001	2000
Environmental and Contingent Liability Due to the Public	$ 748,359	$ 966,952
Federal Employees Compensation Act Liability Due to the Public	663,468	584,827
Accrued Payroll and Benefits - Unfunded Portion Only		
Due to the Public	285,347	268,022
Due to Federal Agencies	110,809	106,332
Deferred Credits and Other Liabilities - Unfunded Portion Only		
Due to the Public	347,131	185,218
Due to Federal Agencies	92,227	83,610
Total Liabilities Not Covered by Budgetary Resources	$ 2,247,341	$ 2,194,961
Total Liabilities Covered by Budgetary Resources	4,864,920	4,417,091
Total Liabilities	$ 7,112,261	$ 6,612,052

NOTE 20. NET COST BY RESPONSIBILITY SEGMENT

During the year ended September 30, 2001, the Department revised the presentation of the Consolidated Statement of Net Cost of Operations and related disclosures to present gross costs, earned revenues, and net costs by program and by responsibility segment. The Department's presentation is consistent with the strategic goals included in the Department's strategic plan and in accordance with the Government Performance and Results Act.

The Department restated the Consolidated Statement of Net Cost of Operations and related disclosures for the year ended September 30, 2000 to conform to the current year presentation. The restated Consolidated Statement of Net Cost of Operations and disclosures for the year ended September 30, 2000 have not been audited.

The table on the following pages presents the Department's net cost of operations by program and by responsibility segment.

U.S. Department of the Interior
Consolidating Statement of Net Cost of Operations
for the year ended September 30, 2001
with comparative totals for the year ended September 30, 2000
(dollars in thousands)

	Bureau of Indian Affairs	National Park Service	Bureau of Land Management	U.S. Fish and Wildlife Service	U.S. Geological Survey
Protect the Environment and Preserve Our Nation's Natural and Cultural Resources					
Gross Cost	$ -	$ 700,335	$ 480,998	$ 1,626,897	$ -
Earned Revenue	-	120,803	78,874	134,295	-
Net Cost	-	579,532	402,124	1,492,602	-
Provide Recreation for America					
Gross Cost	-	1,761,378	86,497	164,894	-
Earned Revenue	-	172,774	11,445	11,312	-
Net Cost	-	1,588,604	75,052	153,582	-
Manage Natural Resources for a Healthy Environment and a Strong Economy					
Gross Cost	-	-	748,985	-	-
Earned Revenue	-	-	156,161	-	-
Net Cost	-	-	592,824	-	-
Provide Science for a Changing World					
Gross Cost	-	-	119,638	-	1,283,186
Earned Revenue	-	-	7,535	-	379,350
Net Cost	-	-	112,103	-	903,836
Meet Our Responsibilities to American Indians and Island Communities					
Gross Cost	2,759,751	-	332,564	-	-
Earned Revenue	250,393	-	837	-	-
Net Cost	2,509,358	-	331,727	-	-
Shared Services					
Gross Cost	-	-	18,047	-	37,975
Earned Revenue	-	-	44,991	-	41,075
Net Cost	-	-	(26,944)	-	(3,100)
Other					
Gross Cost	-	-	-	-	2,971
Earned Revenue	-	-	-	-	259
Net Cost	-	-	-	-	2,712
Elimination of Intra-Department Activity					
Gross Cost	(12,664)	-	(44,585)	(584)	(42,689)
Earned Revenue	(12,664)	-	(44,585)	(584)	(42,689)
Net Cost	-	-	-	-	-
Totals					
Gross Cost	2,747,087	2,461,713	1,742,144	1,791,207	1,281,443
Earned Revenue	237,729	293,577	255,258	145,023	377,995
Net Cost of Operations	$2,509,358	$2,168,136	$1,486,886	$1,646,184	$903,448

U.S. Department of the Interior
Consolidating Statement of Net Cost of Operations (continued)
for the year ended September 30, 2001
with comparative totals for the year ended September 30, 2000
(dollars in thousands)

Bureau of Reclamationn	Office of Surface Mining	Minerals Management Service	Departmental Offices and Other	Intra Departmental Eliminations	2001	2,000 (Unaudited)
$ 172,227	$ 224,123	$ -	$ 16,127	$ -	$ 3,220,707	$ 3,089,871
59,706	2,174	-	102,811	-	498,663	350,065
112,521	221,949	-	(86,684)	-	2,722,044	2,739,806
34,493	-	-	-	-	2,047,262	1,950,120
1,014	-	-	-	-	196,545	232,890
33,479	-	-	-	-	1,850,717	1,717,230
1,415,001	166,682	1,376,024	8,353	-	3,715,045	3,133,691
803,467	-	117,327	22,345	-	1,099,300	874,695
611,534	166,682	1,258,697	(13,992)	-	2,615,745	2,258,996
-	-	-	-	-	1,402,824	1,345,320
-	-	-	-	-	386,885	393,640
-	-	-	-	-	1,015,939	951,680
-	-	-	447,037	-	3,539,352	3,450,657
-	-	-	39,318	-	290,548	267,312
-	-	-	407,719	-	3,248,804	3,183,345
298,445	-	-	584,663	-	939,130	742,454
284,519	-	-	590,801	-	961,386	752,288
13,926	-	-	(6,138)	-	(22,256)	(9,834)
27,422	-	235,077	166,609	-	432,079	309,375
17,513	-	235,432	25,632	-	278,836	183,437
9,909	-	(355)	140,977	-	153,243	125,938
(265,663)	-	-	(107,414)	(575,507)	(1,049,106)	(893,956)
(265,663)	-	-	(107,414)	(575,507)	(1,049,106)	(855,151)
-	-	-	-	-	-	(38,805)
1,681,925	390,805	1,611,101	1,115,375	(575,507)	14,247,293	13,127,532
900,556	2,174	352,759	673,493	(575,507)	2,663,057	2,199,176
$781,369	$388,631	$1,258,342	$441,882	$ -	$11,584,236	$10,928,356

Net Cost of Operations - Activity with the Public and Federal Agencies

	Expenses Incurred with the Public	Expenses Incurred with Federal Agencies	Revenues Earned from the Public	Revenues Earned from Federal Agencies	Net Cost of Operations
Protect the Environment and Preserve Our Nation's Natural & Cultural Resources	$ 2,683,077	$ 537,630	$ 371,594	$ 127,069	$ 2,722,044
Provide Recreation for America	1,653,116	394,146	158,256	38,289	1,850,717
Manage Natural Resources for a Healthy Environment and a Strong Economy	2,905,819	809,226	656,413	442,887	2,615,745
Provide Science for a Changing World	1,060,299	342,525	175,641	211,244	1,015,939
Meet Our Responsibilities to American Indians and Island Communities	3,133,364	405,988	125,192	165,356	3,248,804
Shared Services	508,185	430,946	24,574	936,813	(22,256)
Other	259,486	172,593	(28,149)	306,985	153,243
Elimination of Intra-Department Activity	-	(1,049,107)	-	(1,049,107)	-
Totals	$ 12,203,346	$ 2,043,947	$ 1,483,521	$ 1,179,536	$ 11,584,236

NOTE 21. EXPENSES

By law, Interior, as an agency of the federal government, is dependent upon other government agencies for centralized services. Some of these services, such as tax collection and management of the public debt, are not directly identifiable to Interior and are not reflected in the Department's financial condition and results. However, in certain cases, other federal agencies incur costs that are directly identifiable to Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by the Office of Personnel Management. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting," the Department recognizes identified costs paid for the Department by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Expenses paid by other agencies on behalf of Interior were $546 million and $322 million for the years ended September 30, 2001 and 2000, respectively, and are included in Salaries and Benefits and Other Expenses.

The following table reflects the classification of operating expenses recognized by the Department as of September 30, 2001 and 2000.

Expenses

(dollars in thousands)		2001		Unaudited 2000
Operating Expenses				
Salaries and Benefits	$	4,997,052	$	4,563,613
Contractual Services		3,331,570		3,025,674
Grant, Subsidies and Contributions		2,246,539		2,345,746
Non Production Costs		1,280,370		693,282
Rent, Communication and Utilities		555,220		479,084
Supplies and Materials		443,840		413,367
Travel and Transportation		310,740		271,643
Acquisition of Non-Capitalized Property		272,045		293,599
Cost of Goods Sold		118,254		121,470
Acquisition of Heritage Assets		92,758		26,618
Acquisition of Stewardship Property		75,622		269,437
Printing & Reproduction		26,251		26,253
Other Expenses		350,439		127,662
Inter-Bureau Eliminations		(575,507)		(428,909)
Total Operating Expenses	$	13,525,193	$	12,228,539
Total Non-Operating Expenses		722,100		898,993
Total Expenses	$	14,247,293	$	13,127,532

The following tables reflect data provided to the Department of Treasury by Budget Functional Classification (BFC) Code for inclusion in the Consolidated Financial Statements of the federal government, based on guidance and direction from the Department of Treasury. These BFC codes are established by the Office of Management and Budget and the Department of Treasury for governmentwide reporting purposes and differ from the classifications used for the Department's segment reporting.

2001 Gross Cost and Earned Revenue by Budget Functional Classification

(dollars in thousands)		Gross Cost		Earned Revenue *		2001 Net Cost
Natural Resources	$	10,515,480	$	(3,601,823)	$	6,913,657
Transportation		254,465		-		254,465
Community and Regional Development		2,345,277		(272,873)		2,072,404
Education and Training		88,360		(220)		88,140
General Government		638,186		(23,044)		615,142
Other		1,454,631		(1,111,167)		343,464
Total, Before Eliminations	$	15,296,399	$	(5,009,127)	$	10,287,272
Conservation Funds, Custodial Revenues, and Other		-		1,296,964		1,296,964
Total Intra-Departmental Eliminations		(1,049,106)		1,049,106		-
Department of the Interior's Net Cost of Operations	$	14,247,293	$	(2,663,057)	$	11,584,236

* Earned Revenue includes $1,296,964 thousand of Conservation fund and Custodial Revenue not presented on the Department's Statement of Net Cost of Operations. To prevent double counting by Treasury, this amount excludes Custodial Revenue transferred to the Conservation Fund and certain other federal agencies.

2000 Gross Cost and Earned Revenue by Budget Functional Classification (Unaudited)

(dollars in thousands)	Gross Cost	Earned Revenue *	2000 Net Cost
Natural Resources	$ 9,544,200	$ (4,476,411)	$ 5,067,789
Transportation	270,185	(45)	270,140
Community and Regional Development	2,261,977	(229,852)	2,032,125
Education and Training	81,312	(370)	80,942
General Government	607,647	(25,770)	581,877
Other	1,262,985	(5,590,442)	(4,327,457)
Total, Before Eliminations	$ 14,028,306	$ (10,322,890)	$ 3,705,416
Conservation Funds, Custodial Revenues, and Other	(6,818)	7,268,563	7,261,745
Total Intra-Departmental Eliminations	(893,956)	855,151	(38,805)
Department of the Interior's Net Cost of Operations	$ 13,127,532	$ (2,199,176)	$ 10,928,356

* Earned Revenue includes $7,268,563 thousand of Conservation fund and Custodial Revenue not presented on the Department's Statement of Net Cost of Operations. To prevent double counting by Treasury, this amount excludes Custodial Revenue transferred to the Conservation Fund and certain other federal agencies.

2001 Intra-Governmental Gross Cost and Earned Revenue by BFC

(dollars in thousands)	Gross Cost	Earned Revenue	2001 Net Cost
Natural Resources	$ 2,675,124	$ (2,063,043)	$ 612,081
Transportation	8,707	-	8,707
Community and Regional Development	327,790	(160,219)	167,571
Education and Training	6,589	(96)	6,493
General Government	65,459	(5,045)	60,414
Other	9,383	(239)	9,144
Total	$ 3,093,052	$ (2,228,642)	$ 864,410
Total Intra-Departmental Eliminations	(1,049,106)	1,049,106	-
Total	$ 2,043,946	$ (1,179,536)	$ 864,410

2000 Intra-Governmental Gross Cost and Earned Revenue by BFC (Unaudited)

(dollars in thousands)	Gross Cost	Earned Revenue	2000 Net Cost
Natural Resources	$ 1,955,927	$ (1,628,445)	$ 327,482
Transportation	13,388	(202)	13,186
Community and Regional Development	287,527	(156,447)	131,080
Education and Training	10,992	(215)	10,777
General Government	35,835	(8,792)	27,043
Other	58,436	(218,161)	(159,725)
Total	$ 2,362,105	$ (2,012,262)	$ 349,843
Total Intra-Departmental Activity and Other	(863,855)	872,378	8,523
Total	$ 1,498,250	$ (1,139,884)	$ 358,366

NOTE 22. ROYALTIES RETAINED, INTEREST, AND OTHER NON-EXCHANGE REVENUE

Royalties Retained, Interest, and Other Non-Exchange Revenue includes minerals receipts transferred to the Department totaling approximately $3,148 million. These distributions include amounts transferred to the National Park Service for the Land and Water Conservation and Historic Preservation Fund and to the Minerals Management Service for distribution to states and to offset costs incurred by MMS related to royalty collections. These amounts are exchange revenue, but are presented on the Statement of Changes in Net Position in accordance with federal accounting standards. In addition, this line includes approximately $232 million of non-exchange interest revenue.

NOTE 23. PRIOR PERIOD ADJUSTMENTS

The Department reclassified certain amounts to conform to the current year presentation and restated certain amounts. The following table presents the changes and related explanations.

(dollars in thousands)	As Originally Reported	As Restated	Net Change Increase (Decrease)
Balance Sheet			
ASSETS			
Fund Balance with Treasury			
Fund Balance with Treasury - General	$ 6,147,380	$ 6,140,226	$ (7,154)
Fund Balance with Treasury - Restricted (A, B)	17,600,471	17,280,395	(320,076)
Cash (N)	42,630	6,896	(35,734)
Investments, Net			
Treasury Securities (A, N)	3,418,166	4,645,338	1,227,172
Public Securities	155,639	155,639	0
Total Fund Balance with Treasury, Cash and Investments	27,364,286	28,228,494	864,208
Accounts Receivable , Net			
Public (P, C, M)	3,917,737	1,242,695	(2,675,042)
Due from Federal Agencies (A, B, G)	548,107	262,025	(286,082)
Advances and Prepayments			
Public	45,261	39,992	(5,269)
Due from Federal Agencies	(2,617)	3,427	6,044
Loans - Public, Net	242,833	249,627	6,794
Inventory and Operating Materials, Net	378,152	373,643	(4,509)
Investigations and Development (D)	160,288	84,115	(76,173)
Property, Plant and Equipment, Net (D, E)	16,705,049	16,568,367	(136,682)
Other Assets - Public, Net (F, G)	616,875	249,179	(367,696)
Stewardship Assets			
TOTAL ASSETS	$ 49,975,971	$ 47,301,564	$ (2,674,407)
LIABILITIES AND NET POSITION			
Liabilities			
Accounts Payable			
Due to the Public (H)	$ 577,455	$ 643,527	$ 66,072
Due to Federal Agencies (A)	25,051	325,546	300,495
Accrued Payroll and Benefits			
Due to the Public (I)	496,324	471,862	(24,462)
Due to Federal Agencies	147,550	147,550	0
Deferred Revenue			
Received from the Public (C)	2,879,393	82,128	(2,797,265)
Received from Federal Agencies	120,527	121,298	771
Federal Employees Compensation Act Liability Due to the Public	584,827	584,827	0
Loans Due to Treasury	1,473,538	1,473,538	0
Custodial Liability Due to Federal Agencies (B, P)	1,012,299	909,415	(102,884)
Environmental and Contingent Liability Due to the Public	966,952	966,952	0
Deferred Credits and Other Liabilities			
Due to the Public (F, I, J)	485,483	541,722	56,239
Due to Federal Agencies (J)	227,564	343,687	116,123
Total Liabilities	$ 8,996,963	$ 6,612,052	$ (2,384,911)
Commitments and Contingencies			
Net Position			
Unexpended Appropriations (G, L)	$ 3,553,756	$ 3,155,865	$ (397,891)
Cumulative Results of Operations (D, E, G, H, K, L, M)	37,425,252	37,533,647	108,395
Total Net Position	$ 40,979,008	$ 40,689,512	$ (289,496)
TOTAL LIABILITIES AND NET POSITION	$ 49,975,971	$ 47,301,564	$ (2,674,407)
Statement of Net Cost of Operations (Unaudited)			
Gross Cost (D, E, G, H, K)	$ 12,279,795	$ 13,127,532	$ 847,737
Earned Revenue (M)	2,199,531	2,199,176	(355)
Net Cost of Operations	$ 10,080,264	$ 10,928,356	$ 848,092
Budgetary Resources			
Unobligated Balances, Net - End of Period (O)	$ 3,071,292	$ 2,922,604	$ (148,688)
Obligated Balance, Net - End of Period (O)	$ 4,036,569	$ 4,117,936	$ 81,367
Statement of Custodial Activity			
Mineral Lease Revenue			
Rents and Royalties (P)	$ 5,683,308	$ 5,758,453	$ 75,145
Offshore Lease Sales	426,578	426,578	0
Strategic Petroleum Reserve	560,521	560,521	0
Interest Revenue	75,501	74,659	(842)
Total Mineral Lease Revenue	$ 6,745,908	$ 6,820,211	$ 74,303
Disposition of Revenue			
Transfers			
Distribution to Department of the Interior			
National Park Service Conservation Funds	$ 1,049,000	$ 1,049,000	$0
Bureau of Reclamation	542,731	542,731	0
Minerals Management Service (K)	1,020,354	1,731,909	711,555
Bureau of Land Management	83,842	83,842	0
Fish and Wildlife Service	0	1,781	1,781
Distribution to Other Federal Agencies			
Department of Treasury (B)	4,305,742	4,615,466	309,724
Department of Agriculture	20,943	20,943	0
Department of the Commerce	1,802	22	(1,780)
Department of the Energy	560,521	560,521	0
Distribution to Indian Tribes and Agencies			
Indian Tribes and Agencies	88,021	88,021	0
Distribution to States and Others			
States and Others (K)	822,547	129,883	(692,664)
Change in Untransferred Revenue (P)	(1,749,595)	(2,003,908)	(254,313)
Total Disposition of Revenue	$ 6,745,908	$ 6,820,211	$ 74,303

Explanation of Net Change

Interior's fiscal year 2000 financial statements have been reformatted to conform to the fiscal year 2001 format and have been restated for the following items:

(A) Based upon review of the relevant accounting standards and in consultation with OMB, it was determined that the Aquatic Resources Trust Fund (ARTF) should be reported as part of the financial statements of Interior and the U.S. Fish and Wildlife Service. Previously, the ARTF was reported by the Department of Transportation. In addition, Accounts Receivable – Federal have been reduced by approximately $405 million, since FWS receivables from the ARTF have been eliminated. See ARTF balances presented below.

(B) The accounting treatment for undistributed custodial receipts transferred to Treasury at year-end has been changed. Previously, all amounts transferred at year-end were presented as Fund Balance with Treasury under the premise that these funds would be returned to Interior at the start of the next fiscal year for final distribution to the appropriate recipients. Under the revised accounting model, amounts to be retained by Treasury are recorded as current year distributions and amounts to be distributed to other parties are reflected as a receivable from Treasury and a custodial liability to the recipient entities. This change resulted in a decrease in Fund Balance with Treasury of approximately $329 million, an increase in Accounts Receivable – Federal of approximately$66 million and a net decrease of Custodial Liability of approximately $263 million. On the Statement of Custodial Activity, Distributions to Treasury increased by approximately $309 million, the Change in Untransferred Collections increased by $254 million. The difference between the $309 and the $254 is the $74 million prior period adjustment (correction) and the $18 million EIRF interest Revenue.

(C) BOR has long-term, unmatured repayment contracts related to the construction of water projects, which are generally repayable over 40 years or longer when certain conditions are met. Based upon research performed, it was determined that these contracts do not meet the criteria for recognition as a receivable until the current amount becomes due each year. Consequently, Long-term Receivables and related Deferred Revenue - Public have been reduced by approximately $2,821 million.

(D) Costs related to engineering and environmental studies for future water projects are recognized as Investigations and Development until a decision is made regarding the feasibility of the project. Review of this account during fiscal year 2001 identified capitalized amounts which should have either been expensed in prior years or moved to Construction in Progress. As a result, Investigations and Development have been reduced by approximately $76 million, Construction in Progress has increased by approximately $12 million and Prior Period Adjustments and Expenses have increased by approximately $64 million.

(E) Review of Construction in Progress and other Property, Plant and Equipment (PP&E) balances and clarification of capitalization policies resulted in a decrease of PP&E and increase to Prior Period Adjustments and Expenses of approximately $149 million.

(F) Based on analysis of the relevant accounting standards, Bureau of Land Management's unmatured timber sales contracts of approximately $33 million have been removed from Other Assets and Deferred Credits - Public.

(G) The Department receives contract authority from the Federal Highway Trust Fund which in prior years was treated as an asset. As a result of review of this authority during fiscal year 2001, Other Assets were reduced by approximately $334 million, Unexpended Appropriations was reduced by approximately $295 million and Accounts Receivable – Federal increased by approximately $31 million and Transfers increased by approximately $8 million.

(H) Accounts Payable accruals have been reviewed and corrected resulting in an increase to Accounts Payable - Public and Expenses of approximately $66 million.

(I) One bureau incorrectly included a $24 million liability to the public in Accrued Payroll and Benefits. Correction of this error resulted in a decrease in Accrued Payroll and Benefits and increase in Deferred Credits and Other Liabilities - Public.

(J) One bureau corrected the classification of $140 million in Deferred Credits from payable to the Public to payable to federal agencies.

(K) The Department changed its accounting for required payments to states from federal on-shore mineral revenue collections. Previously, these distributions were not treated as an expense of the federal government. Based upon review of the accounting standards and additional guidance received from FASAB, these payments are considered to be expenses of the Minerals Management Service and the Department. Accordingly, Expenses increased by approximately $721 million. On the Statement of Custodial Activity, Distributions to MMS increased by approximately $721 million and Distributions of receipts directly to states decreased by the same amount.

(L) Review and analysis of Unexpended Appropriations at one bureau resulted in a correction of $66 million which decreased that account and increased Cumulative Results of Operations.

(M) Previously, one bureau had recorded a receivable and revenue for a deficit in operations and maintenance (O&M) costs for the Central Valley Project which will be recoverable from customers. Upon further review, it was determined that since the deficit will be recovered through the rate setting process, the receivable and related revenue should be recognized as the water and power are sold rather than as a current stand-alone receivable. As a result, Accounts Receivable – Public has been reduced by approximately $205 million, Revenue decreased by approximately $15 million and beginning Cumulative Results decreased by approximately $190 million.

(N) One bureau reclassified certain investments from Other Monetary Assets to investments, resulting in a decrease to Cash and an increase to Investments with Treasury of approximately $37 million.

(O) Obligated and Unobligated budgetary resources balances changed due to corrections to Undelivered Orders and accruals.

(P) Errors in the recording of the Minerals Revenue accrual were corrected, resulting in an increase to Rents and Royalties of $75 million, an increase to Accounts Receivable – Public of $354 million, and an increase to Custodial Liability due to federal agencies of $354 million, and an increase to Change in Untransferred Revenues of $75 million.

In addition to the changes identified above, various minor errors were corrected, for example to remove approximately $7 million related to expired accounts from Fund Balance with Treasury and Unexpended Appropriations.

Aquatic Resources Trust Fund. Interior's 2001 financial statements reflect balances of the Aquatic Resources Trust Fund (ARTF), which provides funding sources to the Sport Fish Restoration Account and balances that are distributed to the U.S. Coast Guard Boat Safety Program and the Army Corps of Engineers Coastal Wetlands Program. Previously, the ARTF was reported by the Department of Transportation. The table below reflects summarized information of the ARTF as of September 2001 and 2000.

(dollars in thousands)	2001	2000
Fund Balance with Treasury	$ 17,671	$ 8,540
Investments, Net	1,293,724	1,191,438
Taxes Receivables, Net	6,352	22,833
Interest Receivables, Net	276	339
Total Assets	$ 1,318,023	$ 1,223,150
Payables for Invested Balances		
Fish and Wildlife	$ 410,832	$ 405,062
Corps of Engineers	265,321	235,661
Coast Guard	70,095	63,596
Total Payable for Invested Balances	$ 746,248	$ 704,319
Total Net Position	571,775	518,831
Total Liabilities and Net Position	$ 1,318,023	$ 1,223,150
Tax and Interest Revenue	$ 470,874	439,511
Net Transfers	(417,930)	(384,378)
Total Changes in Fund Balance	$ 52,944	55,133
Fund Balance, Beginning of Year	$ 518,831	463,697
Fund Balance, Ending of Year	$ 571,775	518,830

NOTE 24. STRATEGIC PETROLEUM RESERVE

The Department collected $62 million in 2001 and $561 million in 2000 in the form of petroleum, which was transferred to the government's Strategic Petroleum Reserve managed by the U.S. Department of Energy.

NOTE 25. STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement "exclusively" derived from the entity's budgetary general ledger in accordance with budgetary accounting rules which are incorporated into generally accepted accounting principles for the federal government. The total Budgetary Resources of $19,892 million includes new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations and any adjustment to these resources. Interior's unobligated balance available at September 30, 2001 is $3,493 million.

Borrowing authority included in the Budgetary Authority of $13,775 million for 2001 is $29.6 million. This Borrowing Authority is primarily related to operations of the Office of Insular Affairs and the Bureau of Reclamation. Obligations Incurred at September 30, 2001 of $15,901 million includes $4,570 million for resources obligated for undelivered orders and $1,172 million for actual and accrued accounts payable.

All Interior bureaus use one or more permanent no-year appropriations to finance operating costs and the purchase of PP&E.

Interior received donations from the public in the form of financial and non-financial donations. Interior received $111 million in donations in 2001.

Interior's Budgetary Authority includes amounts with certain legal or other restrictions. These include:

• Authority Permanently Not Available Pursuant to Public Laws	$21.9 million
• Canceled Authority	$26.9 million
• Capital Transfers and Redemption of Debt	$51.3 million
• Other Authority Withdrawn	$18.8 million
Total	$118.9 million

The President's 2003 budget request reports budgetary authority of $13,533 million for 2001 that includes current and permanent authority. This amount includes $248 million for amounts added to the 2003 Administration proposal to shift the full cost of the Civil Service Retirement System and Federal Employees Health Benefits program to salary and expenses accounts. Estimates of these amounts were shown in the President's 2001 and 2002 budgets for comparability purposes. Further, the 2001 budget authority reported in the President's 2003 budget proposal includes amounts transferred to other federal agencies and other differences in reporting related to borrowing authority, contract authority, and special handling of accounts for scoring purposes under the Budget Enforcement of 1990 and other budgetary reporting requirements.

NOTE 26. INDIAN TRUST FUNDS

The Department, through the Office of the Special Trustee's (OST's) Office of Trust Funds Management, maintains approximately 1,400 accounts for Tribal and Other Special Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately $2,805 million and $2,736 million as of September 30, 2001 and 2000, respectively.

The balances that have accumulated in the Tribal and Other Special Trust funds have resulted from judgment awards, settlements of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

The trust fund balances for Tribal and Other Special Trust Funds contain two categories:

1. Trust funds held for Indian tribes (considered non-federal funds), and
2. Trust funds held by the Department of the Interior, for future transfer to a tribe upon satisfaction of certain conditions or where the corpus of the fund is non-expendable (considered federal funds).

The non-federal and federal funds are reflected as separate components of the fund balance in the Tribal and Other Special Trust Funds financial statements. The trust funds considered federal funds are reflected in the Department's financial statements.

The OST also maintains about 248,000 Individual Indian Monies (IIM) accounts with a fund balance of approximately $404.1 million and $399.9 million as of September 30, 2001 and 2000, respectively.

The IIM Fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. IIM account holders realize receipts primarily from royalties on natural resource depletion, land use agreements, and enterprises having a direct relationship to trust fund resources and investment income.

Summaries of the financial statements of the Tribal and Other Special Trust Funds and the IIM Trust Funds are at the end of this note. The amounts in the summaries do not include the values related to trust lands or other trust resources managed by the Department.

Financial Statements and Basis of Accounting. The Tribal and Other Special Trust Fund statements of assets and trust fund balances and statements of changes in trust fund balances were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The cash basis of accounting differs from GAAP in that receivables and payables are not recorded and investment premiums and discounts are not amortized. Receipts are recorded when received, disbursements are recorded when paid, and investments are stated at historical cost.

The IIM Trust Fund statements of assets and trust fund balances and statements of changes in trust fund balances were prepared using a modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The modified cash basis of accounting differs from GAAP in that receivables and payables are not recorded with the exception of accrued interest and dividends. Receipts are recorded when received with the exception of interest and dividends and disbursements are recorded when paid. Interest and dividends are recorded when earned, including amortization of investment discounts and premiums. Investments are stated at amortized cost.

The statements of assets and trust fund balances and statements of changes in trust fund balances for the Tribal and Other Special Trust Funds and the IIM Trust Funds are presented on the following pages.

Audit Results. With Office of Inspector General oversight, independent auditors audited the Tribal and Other Special Trust Funds and the IIM Trust Funds financial statements as of and for the years ended September 30, 2001 and 2000. The independent auditor's reports were qualified as a result of the following:

- The cash balances reflected in the financial statements are materially greater than balances reported by the U.S. Department of the Treasury.

- The independent auditors were unable to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances and changes in trust fund balances reflected in the financial statements as a result of inadequacies in certain Department of the Interior accounting systems.

Certain parties do not agree with the trust fund balances reflected in the financial statements and these parties have filed, or are expected to file claims against the Department.

Cash Differences. There are unreconciled differences of approximately $33.2 million between the total cash balances reflected by the Office of Trust Fund Management (OTFM) for Tribal and Other Special Trust Funds and IIM and the balances reported by Treasury as of September 30, 2001 and September 30, 2000. Treasury reports reflect balances less than OTFM balances.

For more information, see the Note 16 regarding Environmental and Contingent Liability Due to the Public.

Tribal and Other Special Trust Funds
Statements of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 748,467	$ 395,367
Investments	2,056,550	2,340,819
TOTAL ASSETS	$ 2,805,017	$ 2,736,186
TRUST FUND BALANCES		
Held for Indian tribes	$ 2,610,916	$ 2,558,638
Held by Department of the Interior and considered to be	-	-
U.S. Government funds	194,101	177,548
TOTAL TRUST FUND BALANCES	$ 2,805,017	$ 2,736,186

Tribal and Other Special Trust Funds
Statements of Changes in Trust Fund Balances - Cash Basis
for the years ended September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
Receipts	$ 360,435	$ 329,441
Interest Received	169,074	164,736
Gain (Loss) on disposition of investments, Net	6,602	1,647
Disbursements	(467,280)	(355,391)
Increase in trust fund balances, net	$ 68,831	$ 140,433
Trust Fund Balances - Beginning of Year	2,736,186	2,595,753
Trust Fund Balances - End of Year	$ 2,805,017	$ 2,736,186

Note: The independent auditors' expressed a qualified opinion on these financial statements.
See " Audit Results" section above.

Individual Indian Monies Trust Funds
Statements of Assets and Trust Fund Balances - Modified Cash Basis
as of September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 44,140	$ 19,039
Investments	354,580	375,383
Accrued interest receivable	5,420	5,447
TOTAL ASSETS	$ 404,140	$ 399,869
TRUST FUND BALANCES, held for Individual Indians	$ 404,140	$ 399,869

Individual Indian Monies Trust Funds
Statements of Changes in Trust Fund Balances - Modified Cash Basis
for the years ended September 30, 2001 and 2000
(dollars in thousands)

	2001	2000
Receipts	$ 199,641	$ 215,257
Interest and dividends earned	26,262	30,271
Gain (Loss) on disposition of investments, Net	84	(364)
Disbursements	(221,716)	(294,575)
Increase (decrease) in trust fund balances, net	$ 4,271	$ (49,411)
Trust Fund Balances - Beginning of Year	399,869	449,280
Trust Fund Balances - End of Year	$ 404,140	$ 399,869

Note: The independent auditors' expressed a qualified opinion on these financial statements.
See " Audit Results" section above.

NOTE 27. CONSOLIDATED STATEMENT OF FINANCING

The line item Costs That Will Be Financed with Budgetary Resources Received in Future Periods, shown on the Combined Statement of Financing, represents cost for 2000 that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 19. This line item does not include costs incurred in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The imputed financing costs of $546 million for 2001 on the consolidated statement of financing are lower than the $560 million reported on the consolidated statement of changes in net position as Interior capitalized $14 million of benefits financed by the Office of Personnel Management as part of construction in progress.

Unaudited Required Supplementary Information

U.S. Department of the Interior
Combining Statement of Budgetary Resources
for the year ended September 30, 2001

(dollars in thousands)

	Bureau of Indian Affairs	National Park Service	Fish and Wildlife Service
Budgetary Resources			
Budget Authority	$ 2,823,356	$ 2,734,662	$ 2,115,247
Unobligated Balances - Beginning of Period	641,977	905,940	464,210
Spending Authority from Offsetting Collections	139,691	62,034	120,163
Other Adjustments	38,939	89,864	96,348
Total Budgetary Resources	**3,643,963**	**3,792,500**	**2,795,968**
Status of Budgetary Resources			
Obligations Incurred	2,903,109	2,591,185	2,096,909
Unobligated Balances - Available	558,442	938,665	669,875
Unobligated Balances - Not Available	182,412	262,650	29,184
Total Status of Budgetary Resources	**3,643,963**	**3,792,500**	**2,795,968**
Outlays			
Total Obligations Incurred	2,903,110	2,591,185	2,096,909
Spending Authority from Offsetting Collections and Adjustments	(205,187)	(176,550)	(219,376)
Obligated Balance, Net - Beginning of Period	667,521	678,951	864,071
Obligated Balance Transferred, Net	171	-	-
Obligated Balance, Net - End of Period	(854,167)	(946,098)	(1,015,233)
Total Outlays	**2,511,448**	**2,147,488**	**1,726,371**

U.S. Department of the Interior
Combining Statement of Budgetary Resources
for the year ended September 30, 2001
(dollars in thousands)

Bureau of Land Management	U.S. Geological Survey	Bureau of Reclamation	Office of Surface Mining	Minerals Management Service	Department Offices and Other	Total
$ 1,805,559	$ 887,950	$ 935,889	$ 497,877	$ 1,189,153	$ 785,174	$ 13,774,867
243,566	86,131	236,655	70,157	10,412	263,556	2,922,604
135,216	430,640	691,120	2,213	405,106	784,378	2,770,561
29,768	3,210	57,251	20,943	19,768	67,867	423,958
2,214,109	**1,407,931**	**1,920,915**	**591,190**	**1,624,439**	**1,900,975**	**19,891,990**
1,838,049	1,288,397	1,620,301	537,100	1,609,910	1,416,014	15,900,974
375,719	104,553	299,968	50,420	12,666	482,637	3,492,945
341	14,981	646	3,670	1,863	2,324	498,071
2,214,109	**1,407,931**	**1,920,915**	**591,190**	**1,624,439**	**1,900,975**	**19,891,990**
1,838,049	1,288,397	1,620,301	537,100	1,609,910	1,416,014	15,900,975
(169,664)	(438,010)	(791,292)	(25,567)	(426,247)	(855,336)	(3,307,229)
303,383	129,649	643,092	277,325	78,425	475,519	4,117,936
-	-	-	-	-	-	171
(490,593)	(122,547)	(580,070)	(351,915)	(73,373)	(497,392)	(4,931,388)
$ 1,481,175	**$ 857,489**	**$ 892,031**	**$ 436,943**	**$ 1,188,715**	**$ 538,805**	**$ 11,780,465**

Deferred Maintenance

The Department of the Interior owns, builds, purchases, and contracts services for assets such as schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets are used to support the Department's stated mission. Interior's assets include some deteriorating facilities for which repair and maintenance have not been adequately funded. Current and prior budgetary restraints require that repair and maintenance on these assets be postponed for future years. Interior refers to this unfunded repair and maintenance of facilities and infrastructure as deferred maintenance.

Inadequately funded maintenance may result from reduced budgets, reallocation of maintenance funds for emergency requirements, insufficient management systems or practices, and competition for resources from other program needs. Deterioration of facilities can adversely impact public health and safety, reduce employees' morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. Undue wear on facilities may not be immediately noticeable to users, but inadequate maintenance can require that a facility be replaced or undergo major reconstruction before the end of its expected useful life.

Due to the scope, nature, and variety of the assets entrusted to the Department, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance cannot be determined at this time. Interior has calculated estimates of deferred maintenance based on data from a variety of systems, procedures, and data sources. However, the accumulation of deferred maintenance cost estimates is not the primary purpose of many of these sources, so the Department acknowledges that the reliability of these sources as a basis for deferred maintenance estimates can vary greatly.

Interior's current estimate for deferred maintenance includes property categories such as building facilities, fixed and heavy equipment, bridges and roads, dams, irrigation systems, and reservoirs. The estimate generally includes costs for items such as: (1) construction contract administration and inspection; (2) construction materials; (3) transportation; (4) removal of existing appurtenances, e.g., guard rails, furnishings, and equipment items that are not physically attached to property, along with related storage, inventorying, and tagging; (5) fixed equipment; (6) employee costs; and (7) indirect costs and/or contract support costs. The estimate excludes costs for items such as routine annual and preventive maintenance of facilities and other infrastructure. In addition, the estimate generally excludes vehicles and most other categories of operating equipment.

Initial studies indicate that the estimated amounts needed to fund the correction of deferred maintenance for property, plant, and equipment (PP&E) throughout the Department may range from approximately $8.1 to $11.4 billion *(Figure 30)*.

Figure 30

Estimated Deferred Maintenance (in millions)

	Estimated Range of Deferred Maintenance General PP&E	Estimated Range of Deferred Maintenance Stewardship PP&E	Total Estimated Range of Deferred Maintenance
Bureau of Indian Affairs	$2,731 to $2,813	$223 to $230	$2,954 to $3,043
Bureau of Land Management	$70 to $125	$115 to $207	$185 to $332
Bureau of Reclamation	$26 to $26	-	$26 to $26
Fish and Wildlife Service	$843 to $1,140	-	$843 to $1,140
National Park Service	$3,776 to $6,293	$303 to $505	$4,079 to $$6,798
U.S. Geological Survey	$60 to $100	-	$60 to $100
Total	$7,506 to $10,497	$641 to $942	$8,147 to $11,439

Intra-Governmental Transaction Disclosures

Intra-governmental amounts represent transactions between federal entities included in the federal government's annual financial report. These transactions include assets, liabilities, revenues, transfers, and expenses (see *Figures 31, 32, and 33*).

Figure 31

Department of the Interior Intra-Governmental Assets (in thousands)

Trading Partner	Fund Balance with Treasury	Investments	Accounts Receivable	Advances and Prepayments
Treasury	$25,547,027	$5,069,265	$81,204	
Agriculture			24,210	
Commerce			2,071	
Navy			1,670	
EPA			14,904	
Education			6,264	
NASA			5,622	
Energy			20,707	
Corps of Engineers			5,842	
Defense			32,404	
Transportation			45,076	
HHS			5,323	
GSA				$1,912
Other			9,043	458
Total	$25,547,027	$5,069,265	$254,340	$2,370

Figure 32

Department of the Interior Liabilities to Federal Agencies (in thousands)

Trading Partner	Accounts Payable	Deferred Revenue	Accrued Payroll and Benefits	Loans	Deferred Credits and Other Liabilities	Custodial Liability
Treasury	$10,939		$9,304	$1,457,588	$201,970	$1,108,753
OMB		$8,780				
Agriculture	1,788	6,049				
Education		8,691				
Commerce	4,191	2,848				
Justice		3,240				
Labor	5,916		113,755			
Navy		5,553				
Army	1,619	1,287				
GSA	20,254	6,069				
NSF		5,135				
OPM			32,219			
HHS		28,785				
Corps of Engineers	271,543	10,376				
Defense	4,776	185,621				
Transportation	72,495	1,079				
EPA		1,636				
AID		7,483				
Energy	11,899	4,364				
Other	9,765	1,618	241		1,495	
Total	$415,185	$288,614	$155,519	$1,457,588	$203,465	$1,108,753

Figure 33

Department of the Interior Intra-Governmental Revenue, Transfers, and Expenses (in thousands)					
Trading Partner	**Transfers, Net**	**Other Non-Exchange Revenue**	**Imputed Financing Sources**	**Sales of Goods and Services**	**Total Expenses**
Agriculture	$105,681			$48,862	
Corps of Engineers	87,267		$226	46,154	
OPM			253,578		$780,053
Treasury	45,620	$242,000	251,947	88,906	464,523
Energy	(96,277)		53,794	391,369	124,428
Commerce	3,525			12,471	
Army				16,398	
Navy				14,551	
USPS				13,353	
SSA				14,931	
GSA	(61,828)			37,301	446,600
EPA				45,442	
AID				13,665	
HHS				21,128	
NASA				10,431	
Education				128,292	
DOD				230,003	
Transportation	(165,132)				
Other	454	1,609		46,278	228,343
Total	($80,690)	$243,609	$559,545	$1,179,535	$2,043,947

Working Capital Funds and Franchise Funds

Interior has four working capital funds established by law to finance a continuing cycle of operations, with the receipts from the operations available for use by the funds without further action by Congress. The four working capital funds, which operate as revolving funds, are established in the Bureau of Reclamation, the Bureau of Land Management, the U.S. Geological Survey, and the Departmental Offices. The costs of providing services and operating the funds are fully recovered from customers. The major working capital fund customers are Interior bureaus and offices and other federal agencies; however, some services are provided to states and nongovernment entities. Some of the significant services provided to customers consist of central reproduction, telecommunications, aircraft services, supplies, publications, training, computer processing and related activities, engineering and technical services, and certain cross-servicing activities such as payroll, personnel, and financial and accounting services. The services provided by the working capital funds are usually those that may be performed more advantageously on a reimbursable basis.

In addition, Interior manages the Interior Franchise Fund (IFF) that is a part of the Franchise Fund Pilot program authorized by the Government Management Reform Act of 1994. The purpose of the IFF is to pilot new approaches for providing shared administrative services to reduce the cost of government to the taxpayer by fostering competition and entrepreneurship among providers of commonly required products and services to federal agencies. Some of the significant services include procurement support, financial systems and related services, and other administrative support services. The IFF is a separate legal entity that allows Interior to share cost savings with others that result from providing cost effective and efficient services to federal agencies. By building on this experience of providing cost effective and efficient services, Interior can provide even greater cost savings within Interior and in working with other agencies. It also provides a cost effective way to partner with the private sector, through established relationships with vendors that understand and have worked with the federal government to provide quality services to federal organizations.

The following summarizes the condensed information about assets, liabilities, and net position of the Interior working capital and franchise funds for the year ended September 30, 2001 and 2000. The financial information presented includes intra-departmental transactions.

U.S. Department of the Interior
Supplemental Balance Sheet
Combined Working Capital Funds
as of September 30, 2001
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
Assets						
Fund Balance with Treasury & Cash	$ 49,844	$ 41,593	$ 66,994	$ 95,200	$ 219,779	$ 473,410
Accounts Receivable						
Public, Net	-	72	2,039	2,530	36	4,677
Due from Federal Agencies	-	8,168	2,155	32,748	15,730	58,801
Property, Plant & Equipment	73,101	36,490	5,587	34,311	-	149,489
Other Assets	577	8,730	(7)	2,798	509	12,607
Total Assets	$ 123,522	$ 95,053	$ 76,768	$ 167,587	$ 236,054	$ 698,984
Liabilities and Net Position						
Liabilities to the Public						
Accounts Payable and Other	$ 1,355	$ 10,346	$ 4,804	$ 34,432	$ 248	$ 51,185
Liabilities to Federal Agencies						
Accounts Payable and Other	1,731	13,310	65,303	44,419	235,471	360,234
Total Liabilities	3,086	23,656	70,107	78,851	235,719	411,419
Net Position						
Cumulative Results of Operations	120,436	71,397	6,661	88,736	335	287,565
Total Net Position	120,436	71,397	6,661	88,736	335	287,565
Total Liabilities and Net Position	$ 123,522	$ 95,053	$ 76,768	$ 167,587	$ 236,054	$ 698,984

U.S. Department of the Interior
Supplemental Balance Sheet
Combined Working Capital Funds
as of September 30, 2000
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
Assets						
Fund Balance with Treasury & Cash	$ 38,245	$ 47,233	$ 57,024	$ 61,552	$ 85,336	$ 289,390
Accounts Receivable, Net						
Public	-	85	2,403	229	16	2,733
Due from Federal Agencies	-	9,161	2,103	27,145	16,044	54,453
Property, Plant & Equipment, Net	56,446	37,136	4,246	32,701	-	130,529
Other Assets, Net	138	-	(7)	2,040	1,219	3,390
Total Assets	$ 94,829	$ 93,615	$ 65,769	$ 123,667	$ 102,615	$ 480,495
Liabilities and Net Position						
Liabilities to the Public						
Accounts Payable and Other	$ 163	$ 5,898	$ 4,725	$ 23,258	$ 22	$ 34,066
Liabilities to Federal Agencies						
Accounts Payable and Other	1,730	11,247	56,387	15,085	102,559	187,008
Total Liabilities	1,893	17,145	61,112	38,343	102,581	221,074
Net Position						
Cumulative Results of Operations	92,936	76,470	4,657	85,324	34	259,421
Total Net Position	92,936	76,470	4,657	85,324	34	259,421
Total Liabilities and Net Position	$ 94,829	$ 93,615	$ 65,769	$ 123,667	$ 102,615	$ 480,495

U.S. Department of the Interior
Supplemental Statement of Net Cost of Operations
Combined Working Capital Funds
for the year ended September 30, 2001
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
Expenses						
Operating Expenses	$ 9,395	$ 291,554	$ 37,263	$ 339,368	$ 235,046	$ 912,626
Depreciation and Amortization	8,928	6,823	693	3,831	-	20,275
Net Loss (Gain) on Disposition of Assets	(275)	66	16	1,192	-	999
Bad Debt Expense	-	2	-	-	-	2
Other Expenses	-	-	3	5,226	-	5,229
Total Expenses	$ 18,048	$ 298,445	$ 37,975	$ 349,617	$ 235,046	$ 939,131
Revenues						
Sales of Goods and Services to the Public	$ 65	$ 18,614	$ (1,604)	$ 5,759	$ 2,014	$ 24,848
Sales of Goods and Services to Federal Agencies	22,594	265,905	42,679	349,696	233,333	914,207
Other Revenues	22,332	-	-	-	-	22,332
Total Revenues	44,991	284,519	41,075	355,455	235,347	961,387
Net Cost of (Profit From) Operations	$ (26,944)	$ 13,927	$ (3,100)	$ (5,838)	$ (301)	$ (22,256)

U.S. Department of the Interior
Supplemental Statement of Net Cost of Operations
Combined Working Capital Funds
for the year ended September 30, 2000
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
Expenses						
Operating Expenses	$ 8,385	$ 280,549	$ 35,746	$ 268,376	$ 128,838	$ 721,894
Depreciation and Amortization	9,135	6,610	424	2,753	-	18,922
Net Loss (Gain) on Disposition of Assets	(400)	198	-	(38)	-	(240)
Bad Debt Expense	-	15	-	-	488	503
Other Expenses	-	-	-	1,375	-	1,375
Total Expenses	$ 17,121	$ 287,371	$ 36,170	$ 272,466	$ 129,326	$ 742,454
Revenues						
Sales of Goods and Services to the Public	$ 61	$ 26,346	$ 1,604	$ 1,986	$ 3,654	$ 33,651
Sales of Goods and Services to Federal Agencies	21,585	255,248	36,730	270,404	125,786	709,753
Other Revenues	3,659	(5)	-	5,230	-	8,884
Total Revenues	25,306	281,588	38,334	277,620	129,440	752,288
Net Cost of (Profit From) Operations	$ (8,185)	$ 5,783	$ (2,164)	$ (5,154)	$ (114)	$ (9,834)

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Unaudited Required Supplementary Stewardship Information

Stewardship Assets and Investments

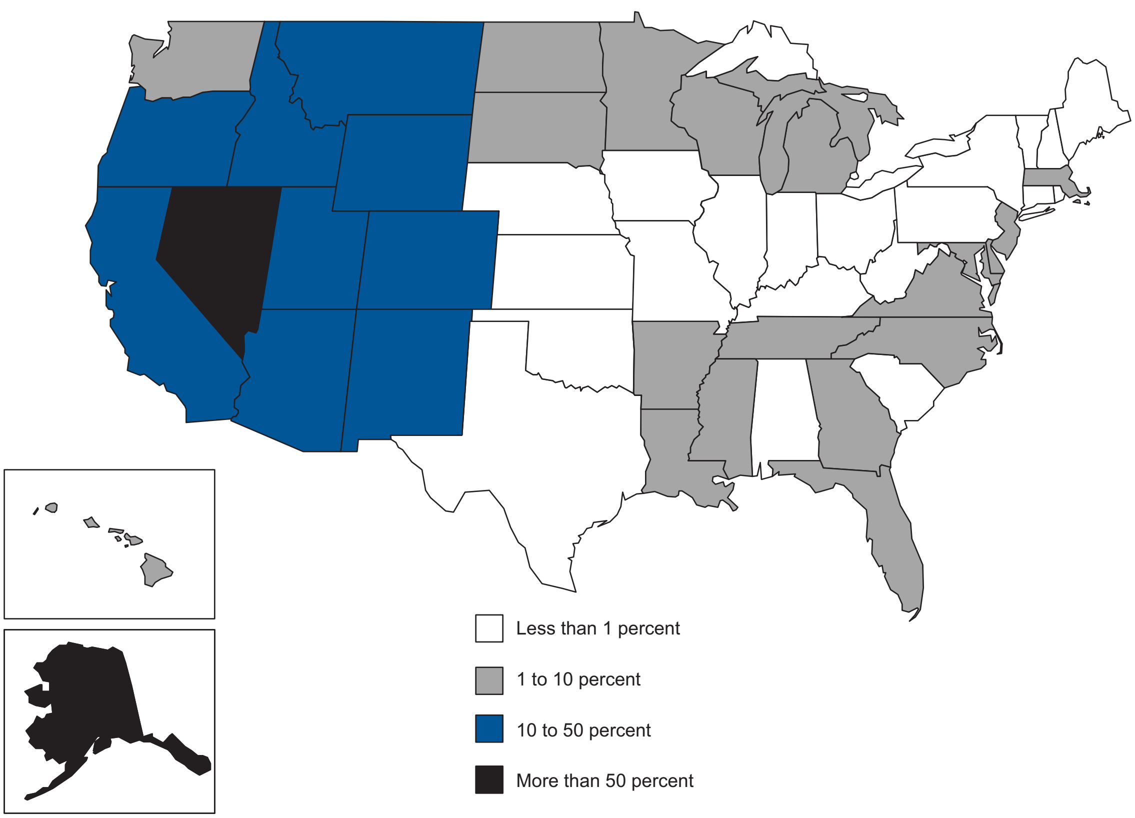
The Department of the Interior administers over 500 million acres of America's land mass and serves as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres are considered stewardship land. The 437 million acres of stewardship land does not include approximately 56 million acres of tribally and individually owned land held in trust by the Bureau of Indian Affairs. Interior also supervises mineral leasing and operations on an estimated 700 million acres of mineral estate that underlie both federal and other surface ownerships. These stewardship assets are valued for their environmental resources, their recreational and scenic values, the cultural and paleontological resources they contain, their vast open spaces, and the resource commodities and revenue they provide to the federal government, states, and counties.

Stewardship Lands

Most of the public lands managed by Interior were once a part of the 1.8 billion acres of public domain lands acquired by the Nation between 1781 and 1867. Each of America's 50 states (*Figure 34*), the Pacific Islands, the Virgin Islands, Guam, and Puerto Rico contain lands that are managed by the Department of the Interior.

Figure 34

Percentage of Each State's Acreage Managed by Interior
(as of September 30, 2001)



Use of Stewardship Lands

Interior-administered lands include the National Wildlife Refuge System, the National Park System, and the vast expanses of public land managed by the Bureau of Land Management (BLM). In addition, the Bureau of Reclamation (BOR) manages a nominal acreage (approximately 5.7 million acres) of stewardship land. The Fish and Wildlife Service (FWS) manages lands primarily to conserve and protect fish and wildlife and their habitat. The National Park Service (NPS) manages lands to conserve, preserve, protect, and interpret the nation's natural, cultural, and recreational resources. The Bureau of Reclamation manages lands to develop and protect water and related resources in an environmentally and economically sound manner for the American people. The BLM is guided by the principles of multiple use and sustained yield in managing its public lands for a variety of purposes. Congress has defined multiple use as management of the public lands and their various resource values so they are utilized in the combination that will best meet the present and future needs of the American people. The resources and uses embraced by the multiple use concept include mineral development; natural, scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber; watersheds; and wildlife and fish habitat.

Types of Stewardship Lands

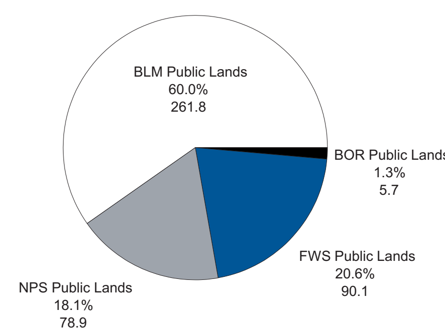
Figure 35 shows the federal acreage of Interior stewardship lands by land type. In addition to the approximately 90 million acres shown for the National Wildlife Refuge System, there are approximately 5.2 million additional acres within the system that are not federally owned; these are managed by the Fish and Wildlife Service cooperatively through agreements with landowners and other partners. The National Park System also contains lands that are not federally owned (approximately 5.5 million acres owned by state and local governments and private landowners). The National Park Service has no management responsibility for these lands except in cases where cooperative agreements with landowners authorize direct federal land management.

America's parks, refuges, and other public lands consist of rangelands, forest lands, riparian areas, wetlands, lakes, reservoirs, streams, grasslands, swamps, marshes, and seashores, as well as mountaintops, glaciers, barren mountains, sand dunes, playas, and deserts.

Figure 35

Types of Interior Stewardship Lands

(federal acres in millions)



Total DOI Acreage - 437 million

Note - this acreage does not include 56 million acres of land held in trust status by the BIA for Indian tribes and individual allottees.

Management Units of Interior Stewardship Lands

The Department has stewardship responsibility for a unique variety of physical units or lands. These units include National Parks, Fish and Wildlife Refuges, National Scenic and Historic Trails, and National Monuments. There are approximately 3,434 physical units with a total of approximately 437 million federal acres for which the Department has stewardship responsibility. *Figure 36* shows these units, broken out by responsible bureau, the type of unit, and federal and non-federal acreage.

Condition of Stewardship Lands

Bureau of Land Management Public Lands: The BLM assesses the condition of the lands it manages based on the land type and the multiple use and sustained yield goals identified through its land use planning process. *Figure 37* shows condition by land type. In adhering to its mandate for multiple use and sustained yield, the BLM's land management programs include significant efforts to restore riparian areas and wetlands; preserve significant cultural and natural features; create opportunities for commercial activities; protect endangered species; develop opportunities for recreation and leisure activities; protect public health, safety, and resources; manage wild horses and burros;

Figure 36

Interior Stewardship Lands

Bureau of Land Management Public Lands

Management Unit	Number	Federal Acreage	Non-Federal Acreage	Total Acreage	Miles
National Wild and Scenic River Segments	36	1,006,228	0	1,006,228	2,062
National Wilderness Areas	148	6,253,783	0	6,253,783	-
Wilderness Study Areas	604	17,191,707	0	17,191,707	-
National Conservation Areas	13	14,353,957	0	14,353,957	-
National Scenic Area	1	101,000	0	101,000	-
Headwaters Forest Reserve	1	7,400	0	7,400	-
National Recreation Areas	1	1,000,000	0	1,000,000	-
National Historic Trails	9	-	-	-	3,650
National Scenic Trails	2	-	-	-	640
National Recreation Trails	27	-	-	-	415
Outstanding Natural Area	1	100	0	100	-
Herd Management Areas	209	29,888,790	0	29,888,790	-
National Monument	15	4,730,831	0	4,730,831	-
Areas of Critical Environmental Concern	851	13,988,608	0	13,988,608	-
Research Natural Areas	152	347,214	0	347,214	-
Lake Todatonten Special Management Area	1	37,579	0	37,579	-
National Natural Landmarks	45	417,429	0	417,429	-
National Back Country Byways	55	-	-	-	2,972
Globally Important Bird Areas	2	1/	0	1/	-
BLM Special Management Area Subtotal	2,173	89,324,626	0	89,324,626	9,739
National Multiple Use Lands 2/	-	172,436,769	0	172,436,769	-
Bureau of Land Management Subtotal	**2,173**	**261,761,395**	**0**	**261,761,395**	**9,739**

Fish and Wildlife Service - National Wildlife Refuge System

Management Unit	Number	Federal Acreage	Non-Federal Acreage	Total Acreage	Miles
National Wildlife Refuges	537	89,146,000	2,910,000	92,056,000	-
Refuge Coordination Areas	50	197,000	119,000	316,000	-
Waterfowl Production Areas	202	728,000	2,138,000	2,866,000	-
National Fish Hatcheries and Other Fish Facilities	87	12,000	9,000	21,000	-
Fish and Wildlife Service Subtotal	**876**	**90,083,000**	**5,176,000**	**95,259,000**	**0**

National Park Service Public Lands

Management Unit	Number	Federal Acreage	Non-Federal Acreage	Total Acreage	Miles
International Historic Site	1	28	16	44	-
National Battlefields	11	12,259	928	13,187	-
National Battlefield Parks	3	8,062	1,614	9,676	-
National Battlefield Sites	1	1	0	1	-
National Historic Sites	77	20,191	17,086	37,277	-
National Historic Parks	40	118,436	44,857	163,293	-
National Lakeshores	4	145,427	83,412	228,839	-
National Memorials	28	8,081	451	8,532	-
National Military Parks	9	35,814	3,027	38,841	-
National Monuments	74	2,566,193	176,780	2,742,973	-
National Parks	57	49,858,629	2,109,597	51,968,226	-
National Preserves	17	21,532,889	2,174,342	23,707,231	-
National Recreation Areas	18	3,388,374	303,494	3,691,868	-
National Reserves	2	11,027	22,099	33,126	-
National Rivers	6	312,056	112,218	424,274	-
National Wild and Scenic Rivers	9	73,586	240,516	314,102	3,029
National ScenicTrails	3	165,202	67,968	233,170	27,673
National Seashores	10	478,193	116,326	594,519	-
Parks (other)	11	37,933	1,474	39,407	-
Parkways	4	164,200	10,665	174,865	-
National Park Service Subtotal	**385**	**78,936,581**	**5,486,870**	**84,423,451**	**30,702**

Bureau of Reclamation Project Lands

Management Unit	Number	Federal Acreage	Non-Federal Acreage	Total Acreage	Miles
Reclamation Project Lands	**-**	**5,769,422**	**-**	**5,769,422**	**-**

Department of the Interior Total

	Total Units	Federal Acreage	Non-Federal Acreage	Total Acreage	Miles
Total Stewardship Lands 3/	**3,434**	**436,550,398**	**10,662,870**	**447,213,268**	**40,441**

1/ The 56,500 acres contained in the two Globally Important Bird Areas are a subset of acres reported in National Conservation Areas and the Outstanding Natural Area.

2/National Multiple Use Land means an area of land that can be used simultaneously for two or more purposes, often by two or more different persons or groups.

3/ This total does not include approximately 56 million acres of tribally and individually owned land held in trust status by the Bureau of Indian Affairs and approximately 205,000 acres of BIA administered federal land on which BIA agency offices and Indian schools reside. This BIA acreage is not considered stewardship land.

Figure 37

Type and Condition of BLM Lands		
Land Type	**Acres/Miles**	**Condition**
Rangeland		
a. Alaska Rangeland	5 million acres	Late seral (good) ----------------- All 1/
b. Continental USA Rangelands	161 million acres	Potential natural community (excellent) ----------- 6% Late seral (good) ----------------- 31% Mid seral (fair) -------------------- 35% Early seral (poor) ---------------- 12% Unclassified ---------------------- 16%
Forested Land		
a. Forest	11 million acres	35 million acres ------------------ Healthy
b. Woodlands	36 million acres	12 million acres ------------------ Needing Restoration
Riparian Areas and Wetlands		
a. Riparian Areas	178,000 miles/ 10 million acres	Alaska Properly Functioning ----------- 91% Functioning but at risk --------- Trace Nonfunctional --------------------- 1% Unknown -------------------------- 8% Lower 48 States Properly Functioning ------------ 42% Functioning but at risk ---------- 43% Nonfunctional --------------------- 11% Unknown ---------------------------- 4%
b. Wetlands	13 million acres	Alaska Properly Functioning ----------- 98% Unknown -------------------------- 2% Lower 48 States Properly Functioning ----------- 51% Functioning but at risk --------- 14% Nonfunctional --------------------- 2% Unknown ------------------------- 33%
Aquatic Areas (Lakes, Reservoirs, and Streams)	3 million acres 116,485 miles	Alaska: Good Lower 48 States: Unknown
Other Habitat	23 million acres	Unclassified

1/ Seral is a series of stages in ecological succession. The early seral stage is a highly disturbed vegetation community, less able to produce forage. Disturbances may be natural, such as fire, or may be caused by humans.

manage wildlife habitat and fisheries; administer mining laws; manage rangelands; oversee forest management, development, and protection; and manage wilderness and wild and scenic rivers.

National Wildlife Refuge System Lands: Stewardship lands managed by the Fish and Wildlife Service include refuges, fish hatcheries, and other special designations. These lands are used and managed in accordance with the explicit purpose of the statutes that authorize their acquisition or designation and that direct their use and management. The FWS conducts activities to manage stewardship lands so that fish, wildlife, and plants that depend on these lands for habitat are benefitted over both the short- and long-term. Lands placed in the land conservation systems managed by the FWS are protected into perpetuity as long as they remain in the National Wildlife Refuge System or the National Fish Hatcheries System. As new acquisitions enter these conservation systems, lands are managed to maintain their natural state, to mitigate any adverse effects of previous actions by others, or to enhance existing conditions to improve benefits to fish and wildlife resources. The FWS safeguards the stewardship values of the lands it administers through management actions taken on individual refuges and hatcheries; however, such actions take into consideration the needs and purposes of entire conservation systems. These conservation systems provide integrated habitat and life support for permanent resident populations as well as migratory populations needing temporary stopover sites to rest, breed, and feed and to survive their nationwide and, in some cases, worldwide seasonal migrations. While some individual units of stewardship lands can be improved at any time during their management cycles, the condition of the stewardship lands as a whole, which are protected by inclusion in both the National Wildlife Refuge System and the National Fish Hatcheries System, is sufficient to support the mission of the FWS and the statutory purposes for which these conservation systems were authorized.

The Fish and Wildlife Service assesses the condition of its stewardship land and resources by monitoring habitat characteristics and determining whether management actions are needed to change those characteristics to benefit their usefulness to fish and wildlife resources. The condition of these stewardship lands is not static. Land or habitat condition may be changing, either through the application of management techniques or through natural stressors or processes acting on those lands. It is the goal of the FWS to provide habitat that optimizes the usefulness of stewardship lands to benefit fish and wildlife resources.

National Park System Lands: NPS stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. Subsets of lands within the authorized boundaries of the NPS can have additional stewardship asset designations such as wilderness areas, wild and scenic rivers, and trails. Stewardship areas such as wilderness areas may encompass land owned by entities other than NPS. Changes in NPS boundaries occur only when authorized by Presidential Proclamation or by an Act of Congress. While individual units of stewardship land can be improved, the condition of NPS stewardship lands as a whole is generally sufficient to support the NPS mission. The NPS conducts various activities to preserve and protect land resources, and to mitigate the effects of activities conducted previously on or near parks that adversely affect the natural state of the land.

Reclamation Project Lands: The Bureau of Reclamation operates largely as a business-type entity whose primary stated mission is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public. BOR provides water and power throughout the 17 western states. Site reviews are performed on 20 percent of the Reclamation project lands each year, with 100 percent required to be reviewed within a 5-year period. Reviews for hazardous waste, improper dumping, or trespass, along with on-site reviews of concessions, provide further safeguarding of the land's condition. While periodic reviews are performed, it is not feasible or cost effective to do full condition assessments of all Reclamation project lands, a large portion of which lie under water or structures. Additionally, there are often large tracts of inaccessible wilderness surrounding the upper surface of the water's edge, which would be difficult and costly to assess. This notwithstanding, the condition of the BOR project lands as a whole is sufficient to support the mission of the agency and is consistent with the statutory purposes for which the lands were withdrawn.

Net Change in Stewardship Land Acreage from 2000 to 2001

Federally owned stewardship lands under the jurisdiction of the Department of the Interior at the end of 2001 decreased by approximately .5 million acres from 2000. *Figure 38* shows the distribution of this decrease. The BLM's total federal acreage decreased by approximately 2.6 million acres from 2000 (less than one percent). This decrease resulted from the net effect of acquisitions, disposals, exchanges, withdrawals, restoration transactions, and reviews of records. The FWS increased its federal acreage by approximately 1.4 million acres that resulted from the Service's acquisition of fee title or other interests. These lands provide permanent protection for valuable wetland, riparian, coastal, and upland habitat for fish, wildlife, and plant species, including threatened and endangered species. The FWS also increased the number of National Wildlife Refuge System units from 530 in 2000 to 537 in 2001. This increase resulted from the addition of seven new refuges. Reclamation's reduction of 4,954 acres resulted from efforts to reconcile and/or verify its land records in response to a Chief Financial Officer audit.

Figure 38

Net Change in Stewardship Land

Bureau	1998 Acreage	1999 Acreage	2000 Acreage	2001 Acreage	Net Change 2000 to 2001	% Increase or Decrease
Bureau of Land Management	263,621,285	264,174,745	264,398,133	261,761,395	-2,636,738	-1.0%
Fish and Wildlife Service	88,410,000	88,555,848	88,724,049	90,083,000	1,358,951	1.5%
National Park Service	77,415,476	77,937,494	78,197,904	78,936,581	738,676	0.9%
Bureau of Reclamation	Not reported	5,774,376	5,774,376	5,769,422	-4,954	-1.0%
TOTAL	429,446,761	436,442,463	437,094,462	436,550,398	-544,065	-0.4%

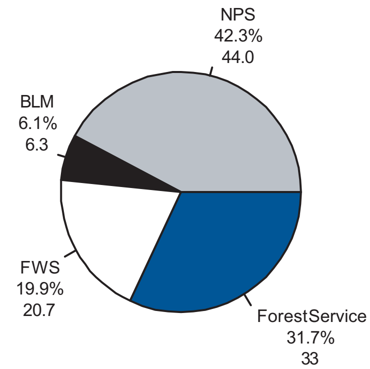
Natural Heritage Assets

National Wilderness Preservation System

The National Wilderness Preservation System was created by the Wilderness Act of 1964. A wilderness area is an area designated by Congress to assure that increasing populations, expanding settlement, and growing mechanization do not occupy and modify all areas of the United States. Designations ensure that some lands are preserved and protected in their natural condition. In contrast to those areas where humans and their works dominate the landscape, wilderness is where the earth and its community of life are untrammeled by human beings, where humans themselves are visitors who do not remain. These areas, which are generally greater than 5,000 acres, appear to have been affected primarily by the forces of nature, with human development substantially unnoticeable.

Figure 39

National Wilderness Preservation System
(acres in millions)



Total Wilderness System: 104 million acres

America's wilderness system encompasses over 100 million acres (*Figure 39*). The Department of the Interior manages approximately 67 percent of this wilderness system, with 44 million acres in NPS within 45 different wilderness areas, 20.7 million acres in FWS with 75 areas in 26 states, and 6.3 million acres in BLM. The remaining acreage is managed by the U.S. Forest Service.

In addition to the designated National Wilderness Areas, the BLM has 604 wilderness study areas encompassing over 17 million acres. Almost 9 percent of BLM-managed public lands are designated as either a wilderness or wilderness study area. Wilderness Study Areas have wilderness characteristics, making them worthy for consideration as a Wilderness Area.

National Wild and Scenic Rivers System

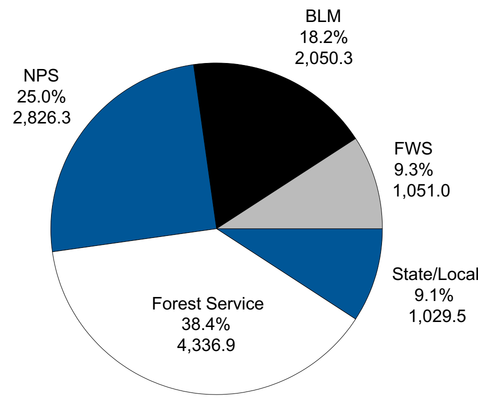
From 7.5 miles of the Loxahatchee River in Florida to the 392 miles of the Fortymile River system in Alaska, the National Wild and Scenic Rivers System protects some of America's most treasured river resources. For a river to be eligible for the National System, it must be in a free-flowing condition and possess one or more "outstandingly remarkable values." Values to be considered are scenery, recreation, fish and wildlife, geology, history, culture, or other similar values. When evaluating rivers for possible designation, the Department also considers whether the river is suitable for designation. Suitability factors include the amount of public land acreage in the immediate environment of the river; funds required for land acquisition, facility development and administration; local or state interest in helping to manage the river; support for designation; and competing uses for the river. Studies to determine eligibility and suitability may be the responsibility of either Interior, the Department of Agriculture, or a shared responsibility, depending on who manages lands adjacent to the river. Studies are submitted to Congress with a Presidential recommendation; Congress then decides whether to add the river to the National System. A second method of designation is by the Secretary of the Interior. This method requires nomination by the Governor of the State following inclusion of the river in a State system by or pursuant to State law, and agreement by the State to protect the river without cost to the federal government, other than for management of any federal lands, if such exist along the river. Only 17 of 160 rivers have entered the National System by this method.

As of December 2001, there were 160 rivers in the National Wild and Scenic Rivers System totaling 11,294 river miles. Within Interior, three agencies have river management responsibilities: National Park Service, Fish and Wildlife Service, and Bureau of Land Management. The Department of Agriculture rivers are managed by the U.S. Forest Service. Rivers are classified as either wild, scenic, recreational, or some combination thereof. Over 50 percent of the river miles in the National Wild and Scenic Rivers System are managed by Interior (*Figure 40*).

The four river-managing agencies have formed an Interagency Wildlife and Scenic Rivers Coordinating Council to promote more effective and efficient management of wild and scenic rivers. The Council works to assure consistency in management practices across agency lines, coordinates with federal regulatory agencies to assure activities do not damage National System rivers, shares expertise in river management, and provides training to agency staff. Since its inception in 1995, it has been a model for interagency cooperation.

Figure 40

Wild and Scenic Rivers Management
(in miles)



Total National Wild and Scenic River System - 11,294 miles

National Natural Landmarks

National Natural Landmarks are management areas having national significance because they represent one of the best-known examples of a natural region's characteristic biotic or geologic features. These areas must be located within the boundaries of the United States or on the Continental Shelf and are designated by the Secretary of the Interior. To qualify as a National Natural Landmark, an area must contain an outstanding representative example(s) of the Nation's natural heritage, including terrestrial communities, aquatic communities, land forms, geological features, habitats of native plant and animal species, or fossil evidence of the development of life on earth.

The Fish and Wildlife Service manages 43 National Natural Landmarks, the Bureau of Land Management manages 45, and the National Park Service manages 18. These Landmarks total about 4.1 million acres.

Paleontological Sites

Since the early 1800s, professional and amateur paleontologists have made discoveries that helped launch the new scientific discipline of paleontology in America, filling our Nation's museums of natural history with the remains of spectacular creatures that have captured the public's imagination. Today, the public lands continue to provide paleontological resources that fuel scientific discovery and evoke public wonder. Interior bureaus manage these fragile and nonrenewable resources as a public trust not only to assure preservation of their scientific values, but also to see that their educational and recreational values are realized.

While Interior bureaus take paleontological resources into account on all public lands, within the Bureau of Land Management (BLM), more than 50 properties totaling nearly 300,000 acres, including Areas of Critical Environmental Concern, Research Natural Areas, and other special management areas, are managed wholly or in part for paleontological values. The BLM manages a number of interpreted areas for their paleontological resources, including the Cleveland-Lloyd Dinosaur Quarry in Utah; the Trail Through Time in Colorado; the Paleozoic Trackway near Las Cruces, New Mexico; and the Red Gulch Dinosaur Tracksite in Wyoming. Over 100 Paleontological Resource permits are administered each year by the BLM.

While only eight National Park Service (NPS) units were established primarily for their paleontological resources, significant fossil resources have been documented in 150 NPS areas. Many of the fossil resources protected and interpreted within NPS units are of international significance and are critical to the understanding of the history of life on earth.

The Bureau of Reclamation has identified 32 paleontological sites, including six reservoir areas known to contain many paleontological locales. Contracts for paleontological surveys of two reservoirs to identify in-situ fossil and trace fossil resources were issued in 2001 with reports to be issued in 2003. Vandalism to trace fossils that occurred at the Red Fleet Reservoir in 2001 has been resolved and mitigated to Reclamation's satisfaction.

Several significant paleontological discoveries and studies continued in 2001. The Petersen Quarry in New Mexico yielded two theropod dinosaurs, an Allosaurus, two large sauropod dinosaurs, and an as yet unnamed small specimen. The excavation of two very complete mammoth tusks in southern New Mexico provided the second known occurrence of these ancient animals in this area. While doing work in the Grand Staircase-Escalante National Monument, the remains of the first crested hadrosaur ("duck-billed") dinosaur ever discovered in southwestern Utah were located by a paleontologist from the Museum of Northern Arizona.

National Trails System

The National Trails System, created by law in 1968, includes 14 National Scenic Trails; eight National Historic Trails; over 800 National Recreation Trails; and two side/connecting trails. The NPS provides trailwide coordination for 16 of the 22 national scenic and historic trails. These 22 trail corridors cover almost 40,000 miles in combined length and cross 56 NPS areas and 90 National Forests; thousands of miles of trail also cross BLM lands.

Condition of Natural Heritage Assets

Natural heritage assets represent a subset of stewardship lands. As such, the condition of these natural assets is as good as or better than that described for each land type under the Stewardship Lands section of this report.

Net Change in Natural Heritage Assets from 2000 to 2001

The number of acres designated as wilderness increased by 974,251 acres and the number of units increased by ten during 2001. The number of river miles included in the National Wild and Scenic River System that are managed by the Department increased by 14, and the number of rivers or river segments increased by one. *Figure 41* shows the net change in these and other selected natural heritage designations from 2000 to 2001.

The Convention on Wetlands of International Importance, adopted in 1971, in Ramsar, Iran, provides a framework for the conservation of wetlands worldwide. Marsh, fen, peatland, or water, whether static or flowing; fresh, brackish, or salt water; and riparian or coastal zones adjacent to wetlands are included in and protected by the Ramsar Convention which is embraced by more than 100 nations throughout the world. The special value of 775 Wetlands of International Importance have been recognized in 93 countries. The FWS has 20 refuges that encompass 17 United States Ramsar sites.

The Western Hemisphere Shorebird Network was created in 1986 to foster international shorebird conservation through partnerships among countries throughout the Americas. Sites are accepted into the network if they satisfy biological criteria and all owners and stakeholders agree to make a commitment to shorebird conservation. At present, 21 sites are managed within FWS, nine of which hold international status. In 2001, three new regional sites were approved: J. Clark Salyer National Wildlife Refuge (NWR) in North Dakota; Edwin B. Forsythe NWR in New Jersey; and Kvichak Bay (not FWS land) in Bristol Bay, Alaska. This brings the total sites to 187 and the number of shorebird habitat acres to 20 million.

Figure 41

Net Change in Selected Natural Heritage Designations

Special Management Area	1997 No.	1997 Acres/Miles	1998 No.	1998 Acres/Miles	1999 No.	1999 Acres/Miles	2000 No.	2000 Acres/Miles	2001 No.	2001 Acres/Miles	Net change in No.	Net change in Acres/Miles
Areas of Critical Environmental Concern	696	10,371,582	739	13,110,029	740	13,111,829	838	14,045,540	851	13,988,608	13	-56,932
Biosphere Reserve	1	2,000										
BLM National Multiple Use Lands		180,727,043	-	178,148,368		175,795,666	-	172,999,844	-	172,436,769	-	-563,075
Headwaters Forest Reserve	-	-	-	-	-	-	1	7,400	1	7,400	-	-
Herd Management Area	199	33,167,752	201	33,168,712	200	36,069,895	200	36,069,895	209	29,888,790	9	-6,181,105
International Historic Site	1	22	1	22	1	23	1	28	1	28	-	-37,579
Lake Todatonten Special Management Area	-	-	-	-	1	37,579	1	37,579	1	37,579	-	-
National Back Country Byways - in miles	69	3,518	64	3,518	64	3,518	55	2,972	55	2,972	-	-
National Battlefield Parks	3	8,007	3	8,033	3	8,042	3	8,060	3	8,062	-	2
National Battlefields	11	11,520	11	11,803	11	11,944	11	11,940	11	12,259	-	319
National Battlefield Sites	1	1	1	1	1	1	1	1	1	1	-	-
National Conservation Areas	8	11,689,774	8	11,692,190	8	11,692,190	9	11,796,146	13	14,353,957	4	2,557,811
National Fish Hatcheries other Fish Facilities	70	14,000	83	14,000	83	16,083	83	12,000	87	12,000	4	0
National Historic Parks	38	113,807	38	114,452	38	114,714	39	115,566	39	118,436	-	2,870
National Historic Sites	75	18,415	74	19,410	76	19,524	76	20,138	76	20,191	-	53
National Historic Trails - in miles	9	3,590	8	3,530	8	3,533	8	3,533	9	3,650	1	117
National Lakeshores	4	145,313	4	145,421	4	145,648	4	145,744	4	145,427	-	-317
National Memorials	27	7,956	28	7,979	28	8,041	28	8,041	28	8,081	-	40
National Military Park	9	34,811	9	35,058	9	35,169	9	35,640	9	35,814	-	174
National Monuments	72	1,746,537	74	3,798,104	74	3,781,074	79	4,977,462	87	7,297,024	8	2,319,562
National Natural Landmarks	43	599,042	43	599,042	43	599,042	43	599,042	45	417,429	2	-181,613
National Parks	54	49,318,943	54	49,179,435	54	49,647,714	55	49,839,065	55	49,858,629	-	19,564
National Preserves	16	21,523,387	16	21,405,495	16	21,410,193	16	21,492,412	16	21,532,889	-	40,477
National Recreation Areas	19	4,353,060	20	4,360,942	20	4,403,534	20	4,406,267	20	4,388,374	-	-17,893
National Recreation Trails - in miles	26	429	26	429	26	429	26	429	27	415	1	-14
National Reserves	2	10,630	2	10,630	2	10,830	2	10,933	2	11,027	-	94
National Rivers	5	310,814	6	311,930	6	311,094	6	311,143	6	312,056	-	913
National Scenic Area	1	65,280	1	101,000	1	101,000	1	101,000	1	101,000	-	
National Scenic Trails - in miles	5	502*	5	568*	5	568*	5	27,837	5	28,313	-	476
National Seashores	10	477,518	10	477,559	10	478,339	10	478,290	10	478,193	-	-97
National Wild and Scenic River Segments	45	2,022*	43	2,038*	43	2,038*	44	5,077	45	5,091	1	14
National Wilderness Areas	136	5,251,363	136	5,243,012	136	5,243,332	138	5,279,532	148	6,253,783	10	974,251
National Wildlife Refuges	512	87,176,000	516	87,495,000	521	87,627,516	530	87,790,000	537	89,146,000	7	1,356,000
Outstanding Natural Area	1	100	1	100	1	100	1	100	1	100	-	-
Parks (Other)	11	37,608	11	37,608	11	37,723	11	37,723	11	37,933	-	210
Parkways	4	163,238	4	163,605	4	164,039	4	164,100	4	164,200	-	100
Reclamation Project Lands	-	-	-	-		5,774,376		5,774,376	-	5,769,422	-	-4,954
Refuge Coordination Areas	50	197,000	50	197,000	50	197,049	50	197,000	50	197,000	-	-
Research Natural Areas	100	326,449	152	347,214	152	347,214	152	347,214	152	347,214	-	-
Waterfowl Production Areas	198	692,000	199	704,000	200	715,200	201	725,000	202	728,000	1	3,000
Wilderness Study Areas	622	18,020,549	622	17,298,430	622	17,298,430	618	18,017,211	604	17,191,707	-14	-825,504

*NPS reported in acres

Cultural Heritage Assets

Interior is steward for a large, varied, and scientifically important body of cultural heritage assets (*Figures 42 and 43*). These resources include archaeological sites, historical structures, cultural landscapes, and other resources. Many are listed on the National Register of Historic Places, acknowledging their importance to American history. Some are National Historic Landmarks that are exceptional in illustrating the heritage of the United States.

Interior's heritage assets come from public domain or acquired lands, historic properties under Interior's management, and donations. The Department has a responsibility to inventory, preserve, and interpret these resources for the benefit of the American public. The Department does not normally dispose of such property. Interior bureaus have information on the numbers and types of resources and their condition; not all resources have been inventoried and, for many resources, adequate condition information is lacking.

Interior conducts the World Heritage Sites program for the federal government under applicable law (1980) and program regulations (1982). Sites, including non-federal properties nominated with their owners' support, are nominated by the Assistant Secretary for Fish and Wildlife and Parks in a public process and approved by the International World Heritage Committee. Eighteen of the 20 World Heritage Sites in the United States are located within the National Park Service. Several examples include Carlsbad Caverns National Park, New Mexico; Everglades National Park, Florida; Grand Canyon National Park, Arizona; the Statue of Liberty, New York; and Yosemite National Park, California.

Figure 42

Types of Cultural Heritage Assets	
Type	**Description**
National Register of Historic Places	The National Register of Historic Places is America's official listing of sites important to history and prehistory. Properties listed in the National Register include districts, sites, buildings, structures, and objects that are significant in American history, architecture, archaeology, engineering, and culture. These resources contribute to an understanding of the historical and cultural foundations of the Nation.
Historic Structures	Historic structures are constructed works consciously created to serve some human activity or purpose. Structures are historic because they individually meet the criteria of the National Register of Historic Places or are contributing elements of sites or districts that meet National Register criteria. As such, historic structures are significant at the national, state, or local level and are associated with the important people and history of this nation. Structures that do not meet National Register criteria may be considered historic due to management responsibilities established by legislation or through management planning processes. Such structures include moved, reconstructed, or commemorative structures as well as structures that have achieved significance within the last 50 years.
National Historic Landmarks	National Historic Landmarks are districts, sites, buildings, structures, or objects possessing exceptional value in commemorating or illustrating the history of the United States. The Historic Sites Act of 1935 authorizes the Secretary of the Interior to designate National Historic Landmarks as the federal government's official recognition of the national importance of historic properties. These places possess exceptional value or quality in illustrating or interpreting the heritage of the United States in history, architecture, archaeology, technology, and culture as well as possessing a high degree of integrity of location, design, setting, materials, workmanship, feeling, and association.
Cultural Landscapes	A cultural landscape is a geographic area, including both natural and cultural resources, associated with an historic event, activity, or person. Cultural landscapes are complex resources that range from large rural tracts covering several thousand acres to formal gardens of less than an acre. The Department of the Interior recognizes four cultural landscape categories: historic designed landscapes, historic vernacular landscapes, historic sites, and ethnographic landscapes. These landscapes individually meet the criteria of the National Register of Historic Places, are contributing elements of sites or districts that meet National Register criteria, or have value to associated communities.
Archaeological Sites	Archaeological sites are locations that contain material remains or physical evidence of past human activity of various sorts. Archaeological sites include prehistoric structures, middens, and roadways, such as those found on many of the lands managed by the Department of the Interior in the Southwest. Sites also include the ancient earthen mounds in the midwestern and southern parts of the nation, many of them managed by Interior bureaus. Other archaeological sites come from historic times and are associated with the settlement of the United States by Euroamericans, African-Americans, and Asian Americans.
World Heritage Sites	The preservation of common world heritage is the objective of the International Convention Concerning the Protection of the World Cultural and Natural Heritage. This international agreement, signed to date by more than 150 nations, was adopted by the General Conference of the United Nations Educational, Scientific, and Cultural Organization (UNESCO) in 1972. Its primary mission is (a) to define and conserve the world's heritage by drawing up a list of sites whose outstanding values should be preserved for all humanity and (b) to ensure protection through a closer cooperation among nations.

Figure 43

Number, Net Change, and Condition of Cultural Heritage Assets							
Type of Asset	**Number of Assets**					**Net Change in Assets 2000 to 2001**	**Condition**
	1997	**1998**	**1999**	**2000**	**2001**		
Bureau of Land Management							
National Register of Historic Places	241 Listings 3,301 Contributing Properties	248 Listings 3,625 Contributing Properties	255 Listings 3,610 Contributing Properties	263 Listings 4,107 Contributing Properties	272 Listings 4,177 Contributing Properties	+9 Listings +70 Contributing Properties	Acceptable
Archaeological and Historical Properties	212,000 Properties	220,800 Properties	227,993 Properties	235,574 Properties	245,977 Properties	+10,403 Properties	Acceptable
National Historic Landmarks	22 Landmarks	22 Landmarks	22 Landmarks	22 Landmarks	22 Landmarks	--	Acceptable
Fish and Wildlife Service							
National Register of Historic Places	93 Listings	93 Listings	99 Listings	81 Listings	84 Listings	+3 Listings	Poor
Archaeological and Historical Properties	11,000 Properties	11,000 Properties	11,000 Properties	11,000 Properties	11,000 Properties	--	Poor
National Historic Landmarks	9 Landmarks	9 Landmarks	9 Landmarks	9 Landmarks	9 Landmarks	--	Poor
National Park Service							
Historic and Prehistoric Structures	19,998 Structures	23,167 Structures	24,225 Structures	25,727 Structures	26,233 Structures	+506 Structures	Good 44% Fair 39% Poor 12%
Archaeological Sites	60,000 Sites	60,000 Sites	60,000 Sites	63,000 Sites	63,000 Sites 2/	--	Good 41% Fair 39% Poor 15%
National Historic Landmarks	143 Landmarks	178 Landmarks	193 Landmarks	2,300 Landmarks	2,300 Landmarks	--	
Inventoried Cultural Landscapes	875 Landscapes	1,593 Landscapes	359 Landscapes	2,743 Landscapes	2,921 Landscapes 1/	+178 Landscapes	Good 31% Fair 45% Poor 23%
Bureau of Reclamation							
National Register of Historic Places	61 Listings	61 Listings	61 Listings	49 Listings	49 Listings	--	Unclassified
Archaeological and Historical Properties			10,724 Properties	10,936 Properties	12,182 Properties	+1,246 Properties	Unclassified
National Historic Landmarks			5 Landmarks	5 Landmarks	5 Landmarks	--	Unclassified
Bureau of Indian Affairs							
National Register of Historic Places	31 Listings	31 Listings	35 Listings	35 Listings	46 Listings	+11 Listings	Unclassified

1/ Condition information is available on only 454 of the 2,921 landscapes.

2/ NPS estimates that as many as 1.5 million archaeological sites may exist within units of the NPS; about 63,000 have been identified and 55,700 are recorded in the Archaeological Sites Management Information System.

Museum Collections

Department of the Interior museum collections contain more than 132 million museum objects (*Figure 44*), including 71 million artifacts and specimens and 61 million documents. Disciplines represented include art, ethnography, archaeology, documents, history, biology, paleontology, and geology. Archaeology and documents account for more than 122 million of the total when documents are reported in terms of number of objects. If converted to linear feet, the 122 million documents reported this year is equivalent to more than 38,000 linear feet of archival documents. The increase is due primarily to improved reporting rather than to new acquisitions. Numbers are relatively stable for all disciplines as bureaus continue to refine their estimates. Museum collections managed by Department of the Interior bureaus are important both for their intrinsic value and for their associations with federal lands and resources managed by Interior bureaus. *Figure 45* shows the change of the Interior Museum collection from 1998 to 2001.

Departmental Manual Chapter 411, Section 3.4A (Managing Museum Property), states that bureaus may accession museum property by donation, purchase, transfer, or field collections, and, depending on bureau specific authority, by exchange.

Collections may be deaccessioned due to loss, theft, repatriation to tribes in compliance with the Native American Graves Protection and Repatriation Act (NAGPRA), or destruction. Only the National Park Service, the Interior Arts and Crafts Board (IACB), and the National Business Center (NBC) have specific authority for voluntary deaccessions, so most of the bureaus do not dispose of museum property items. Reported collections size may also decrease as best-guess estimates are converted to precise numbers when items are cataloged.

Highlights for 2001 include cataloging more than three million objects as well as improving both their accountability and availability for public access. Bureau museum highlights are provided in *Figure 46*. Information on accessions, deaccessions, and conditions is incomplete. Available information is provided below in individual bureau discussions.

Figure 44

2001 Data and 2000 Baseline Data for Interior Museum Collections That Are Catalogued or Part of Backlog						
	Total Collection Size	Held Within Interior	Held in Other Institutions	Number of Objects Catalogued (2000 Actual)	Number of Objects Catalogued (2001 Actual)	Estimated Cataloguing Backlog
Bureau of Indian Affairs 1/	3,983,000	601,238	3,382,243	128,241	238,587	3,745,413
Bureau of Land Management 2/	23,842,000	5,900,000	17,942,000	2,299,451	2,378,428	21,463,572
Bureau of Reclamation	9,391,000	4,900,710	4,490,039	4,804,510	6,112,143	3,278,857
Fish and Wildlife Service	4,713,000	1,105,320	3,607,932	1,327,000	1,537,300	3,175,700
National Park Service	90,259,000	87,268,512	2,990,014	37,265,175	38,580,584	51,678,416
Indian Arts and Crafts Board 3/	11,184	11,184	0	11,615	10,259	925
National Business Center	3,982	2,097	1,885	2,058	2,298	1,684
Minerals Mgmt Service	54	54	0	54	54	0
U.S. Geological Survey 4/	39,527	260	39,267	39,339	39,527	0
Office of Trust Funds Mgmt 5/	19	19	0	0	19	0
Interior Totals	**132,242,766**	**99,789,394**	**32,453,380**	**45,877,433**	**48,899,199**	**83,344,567**

1/ Increase in collection size from 252,000 reported in 2000 reflects previously unreported collections.
2/ Departmental Offices are working with BLM to obtain revised estimates of collection size. No data are reported for 2001.
3/ The Indian Arts and Crafts Board baseline declined due to transfer of headquarters collection to the National Museum of the American Indian.
4/ USGS baseline was increased to include Biological Resources Division collections.
5/ 2001 represents the first time the Office of Trust Funds Management Museum Property has been reported.

Figure 45

Change in Interior Museum Collection 1998 to 2001					
Bureau	**1998**	**1999**	**2000**	**2001**	**Net Change 2000 to 2001**
Bureau of Indian Affairs	681,961	453,275	252,000	3,983,000	3,731,000
Bureau of Land Management	23,842,413	23,842,413	23,842,000	23,842,000	-
Bureau of Reclamation	7,027,484	8,427,502	8,274,000	9,391,000	1,117,000
Fish and Wildlife Service	4,445,736	4,096,210	4,430,000	4,713,000	283,000
National Park Service	73,395,486	76,494,942	80,356,000	90,259,000	9,903,000
Indian Arts & Crafts Board	19,805	12,396	12,000	11,184	-816
National Business Center	4,763	4,759	4,000	3,982	-18
Minerals Management Service	54	54	54	54	-
U.S. Geological Survey	64	39,227	39,000	39,527	527
Office of Trust Funds Management	-	-	-	19	-
Totals	109,417,766	113,370,778	117,209,054	132,242,766	12.8%

Figure 46

2001 Interior Museum Program Highlights	
DOI Entity	**Selected Activities**
Bureau of Indian Affairs	- Issued bureau policy manual for managing BIA museum property. - Completed procedures handbook for accessioning and cataloguing property.
Bureau of Land Management	- Upgraded security, fire protection, and storage at the Anasazi Heritage Center in Colorado. - Upgraded security, environmental controls, storage, laboratory, and research space at the Billings Center in Montana. - Retrofitted the National Historic Oregon Trail Interpretive Center to withstand high winds. - Upgraded computer and photographic equipment and software for collections management. - Received a "Save America Treasures" grant for conservation of archaeological materials at the Anasazi Heritage Center in Colorado.
Bureau of Reclamation	- Increased numbers of objects cataloged from 4.8 million to 6.1 million. - Upgraded Web sites for BOR museum collection and related heritage programs. - Continued efforts to identify additional repositories, consolidate selected collections, and upgrade documentation, security, and environmental controls.
Fish and Wildlife Service	- Continued conservation and documentation of Civilian Conservation Corps and Works Progress Administration materials associated with 22 refuges and two fish hatcheries in the Rocky Mountain Great Plains Region. - Supported Museum of the Rockies efforts to locate paleontology collections from Charles M. Russell National Wildlife Refuge in Montana. - Transferred collections among FWS units to provide best available storage conditions. - Catalogued 213,000 objects and documents.
National Park Service	- Cataloged 2.7 million items and corrected 2,128 planning, environmental, storage, security, and fire protection deficiencies in parks. - Installed eight major exhibits in parks and completed historic furnishings installations in seven parks. - Distributed 850 copies of Exhibit Conservation Guidelines in CD format.
National Business Center	- Maintained an active program of changing exhibits and special events at the Interior Museum in the Main Interior Building in Washington, D.C. - Initiated limited weekend hours to increase public access to the Interior Museum.
Indian Arts and Crafts Board	- Lent objects for exhibits in Colorado, South Dakota, and Wyoming. - Upgraded exhibit gallery space and climate control equipment at the Southern Plains Indian Museum in Oklahoma.
U.S. Geological Survey	- Completed documentation of all newly accessioned USGS museum collections, avoiding creation of a cataloging backlog. - Initiated purchase of collections management software to upgrade documentation of the collection. - Upgraded USGS museum program Web pages.

The management of Interior's Museum Program is divided between two offices. The Office of Acquisition and Property Management develops departmentwide policies and strategies and provides oversight for the museum programs in all bureaus and offices. The Branch of Museum Services in the Department's National Business Center provides departmentwide training and technical assistance to bureaus and offices and manages operations of the Department's museum and interpretation of the art and architecture of the Main Interior building.

The Bureau of Indian Affairs reports just under four million museum objects, of which approximately 85 percent are housed in 33 non-federal institutions. The remainder are distributed among 109 units in the BIA where they support BIA's relationships with tribes. The large increase in number from 251,500 reported in 2000 reflects previously unreported collections. Data on 2001 accessions and condition of museum collections are not available. The BIA added two staff positions in late 2001, resulting in improved planning, guidance, and program activities involving BIA museum collections and compliance with the Native American Graves Protection and Repatriation Act (NAGPRA). The BIA acquires the majority of its collection through gifts or donations from tribal representatives and individuals, as well as direct purchase of artwork and artifacts.

The Bureau of Land Management manages most of its collections through partnerships with approximately 178 non-federal repositories. The condition of collections in non-federal facilities is unknown. The total collection size was last estimated at 24 million objects from the public lands; these survey numbers need to be revised. A total of 17.9 million objects are reported to be at the non-federal repositories, while 5.9 million objects and documents have been reported in BLM facilities. The condition of collections at three internal BLM facilities is "safeguarded", as confirmed by a validation review conducted by the BLM in 1999. The condition of collections in the 178 non-federal repositories has not been determined. Departmental offices are working with the BLM to obtain revised data from all BLM field units and from non-federal institutions that hold BLM collections.

The Bureau of Reclamation reports 9.4 million museum objects and documents, of which 4.9 million (52 percent) are in 41 BOR facilities and 4.5 million (48 percent) are in 68 non-federal institutions. Data on accessions and condition is not available. The BOR exceeded documentation targets by cataloging 1.3 million museum objects during 2001.

The Fish and Wildlife Service collections consist of 4.7 million objects and documents, of which 1.1 million (23 percent) are managed at 150 bureau units, and 3.6 million (77 percent) are managed at 226 non-federal institutions. Collections consist of archaeological materials excavated from FWS-managed cultural resources; paleontological collections; objects and documents associated with the agency's history; wildlife art; and wildlife, fisheries, and botanical specimens. The condition of FWS museum collections is estimated to be generally adequate to good. The FWS also manages seized and forfeited wildlife specimens and products, which are lent to zoos and other institutions for educational use and to the National Eagle Repository in Denver, Colorado, which distributes eagle parts and feathers to Indian tribes.

National Park Service collections include 34 million artifacts and specimens and 56 million archival documents. Of the total 90 million objects and documents, 87 million objects (97 percent) are housed at 332 park units. A total of 142 non-federal institutions house about three million National Park Service museum objects (3 percent). Park Service museum management staff responded to over 47,000 public research requests and over 18,000 research requests from within the parks. They also managed approximately 2,200 loans for over 9.5 million objects. Over 332,000 objects, specimens, and archival documentation were exhibited. The Park Service acquires and documents collections that support the mission and scope of each park, using these collections to increase public enjoyment and understanding of our Nation's heritage.

The Indian Arts and Crafts Board (IACB) holds museum objects at IACB museums. Attendance at the three museums totaled 62,000. The IACB acquired seven objects during 2001, three by purchase and four by gift. The general condition of Board collections is stable and safeguarded, as documented in conservation and fire protection surveys at the three Board museums. Of the 11,189 objects at the three IACB museums in Montana, Oklahoma, and South Dakota, 10,259 (94 percent) are inventoried.

The National Business Center's Interior Museum collections contain 3,982 objects, of which 2,097 (53 percent) are in the Main Interior Building; the remaining 1,885 are at a repository managed by the National Park Service. During 2001, the Interior Museum collections at the National Park Service repository were moved to a new building. The condition of NBC collections is generally good, although there are concerns about deterioration from environmental threats and deferred preventive conservation measures.

The Minerals Management Service maintains a small collection of 54 objects in its administrative offices. There were no accessions or deaccessions during the year. The collection is fully documented and in stable condition.

The U. S. Geological Survey's museum collection consists of 39,527 specimens, of which 260 specimens are housed in four USGS facilities and 39,267 specimens are housed in partnership with two non-federal institutions. USGS Biological Resources Division staff acquire biological specimens through field collections each year. During 2001, 188 specimens were acquired. These specimens were obtained by donation and transfer. All objects are fully documented and are in good condition. There were no withdrawals from the collections.

The number of objects reported as catalogued is a minimum number based on available data. More than 12.5 million objects have been cataloged since baseline data was collected in 1998. Additional collections at non-federal repositories may have been catalogued, but precise data is not available.

Beyond ensuring basic accountability, the Department encourages increasing public access to the collections and use of museum collections to support the Department's missions.

Library Collections

The Interior Department Library contains over 1.1 million holdings dealing with the broad range of matters related to the Department's mission to use and conserve natural resources and to meet its trust responsibilities to Native American Indians and Alaska Natives. Departmental policy dictates that copies of all publications produced for or by its bureaus and offices be deposited in the Library, thus assuring a continuing, reliable source of information.

The U.S. Geological Survey's library collections cover all aspects of the earth sciences and related interdisciplinary subjects. The collection is comprehensive, covering as much as possible of worldwide literature in the library. There are 21 libraries within the USGS, including the Library Services Group Libraries at the National Center (the largest library) and its three branch libraries. The libraries, with the exception of Library Services Group Libraries, serve USGS personnel field offices, have separate administrations, and have small, specialized collections. Extensive sets of state and foreign geological survey publications, as well as publications from geological and other scientific societies, universities and institutions, and other government agencies throughout the world are included in the library's collection. Special collections include the George F. Kurt collection of books on gems and minerals, the Alvison collection on Russian geology, a minerals and mining collection, extensive photographs taken during USGS field work, field notebooks, and additional material relating to USGS projects.

The USGS library system contains 1.4 million books and periodicals and 1.6 million non-book items for a total of three million items. During 2001, 33,825 units were added and 9,932 units were withdrawn. Materials are acquired through extensive exchange agreements with institutions and agencies worldwide, as well as through research projects and purchases from a wide variety of publishers and institutions. Items are withdrawn only after the professional library staff has made a critical analysis of the collection. Approximately 35 percent of the collection is in good condition, 40 percent is in fair condition, and 25 percent is in poor condition.

Investment in Research and Development

The U.S. Geological Survey Research and Development program was authorized by the March 3, 1879, legislation that created the U.S. Geological Survey to provide for the examination of geological structures, mineral resources, and products within and outside the national domain. Earth science research and information is used to save lives and property, safeguard human health, enhance the economic vitality of the Nation and its people, assess resources, characterize environments, and predict the impact of contamination.

The USGS provides credible, objective, and unbiased information needed by managers of the Nation's natural resources and resource managers within Interior. This information aids in solving critical societal problems through research, investigation, and the application of state-of-the-art geographic and cartographic methods. U.S. Geological Survey research assesses and predicts biological consequences of various policies and management practices. Interior's investment in research and development for 2001 is shown in *Figure 47*.

Figure 47

USGS Investment in Research and Development (in millions)

Type of Research	1998*	1999	2000	2001
Basic Research	$62.6	$78.0	$63.0	$63.0
Applied Research	506.6	672.0	655.0	572.0
Development	30.8	39.0	53.0	53.0
Total	**$600.0**	**$789.0**	**$771.0**	**$688.0**

* 1998 data is based on obligations in lieu of expense data

Investment in Human Capital

The Bureau of Indian Affairs administers its trust responsibility for education with the long-range goal of promoting healthy Indian communities through lifelong learning. This goal is achieved by providing quality educational opportunities from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual, and cultural aspects of the people served.

Through various BIA programs, a significant investment in education has been made in the future of American Indians and Alaska Natives. The BIA is committed to providing quality education from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual, and cultural aspects of the persons served. For school year 2000-2001, 185 schools were provided funding through BIA appropriations. Of this number, 65 were BIA-operated schools and 120 were contract/grant schools. A total of approximately 48,000 students were enrolled in school year 2000-2001, of which approximately 19,000 students were enrolled at BIA-operated schools and approximately 29,000 students were enrolled at contract/grants schools. The BIA provides scholarships, adult education opportunities, and post secondary associate and a baccalaureate degreee program in elementary education. In 2001, a total of $720.4 million was expended for education programs benefitting American Indian and Alaska Natives. In 2000, a total of $612 million was expended for education programs.

In 2001, the Bureau of Reclamation, the National Park Service, and the Fish and Wildlife Service provided $51.6 million in residential education and job training for disadvantaged youth through the Job Corps program. In 2000, the three bureaus provided $51.9 million in residential education and job training for disadvantaged youth. Interior's investment in human capital is shown in *Figures 48 and 49*.

Figure 48

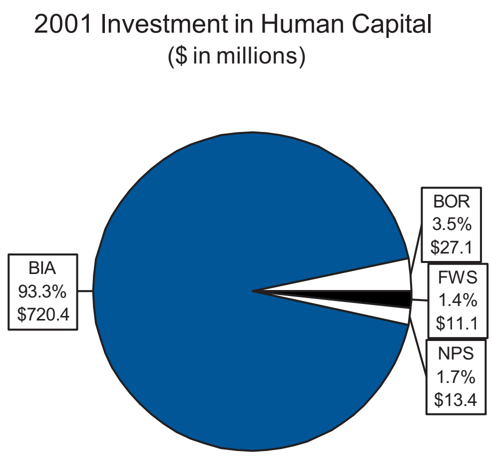
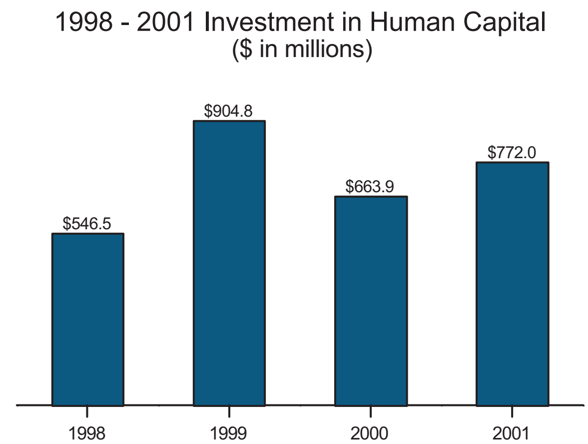


Figure 49



Investment In Non-Federal Physical Property

The Department invests in non-federal physical property. Non-federal physical property refers to expenses incurred by the federal government for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. Grants for maintenance and operations are not considered investments. In 2001, Interior expended approximately $486.9 million for non-federal physical property.

The Office of Insular Affairs provides capital improvement grants to United States insular areas to assist the islands in developing more efficient and effective governments. The capital investment in non-federal physical property in the islands was approximately $38.3 million in 2001 (*Figures 50 and* 51). While the assets for the Compact Free Association are non-federal assets, the investments are in foreign countries, not "state or local governments" as generally understood. The use of Compact Funds is subject only to the Compact and its related agreements and no other federal grant or contract regulation. In addition, the Compacts of Free Association do not require these governments to report on the use of a fiscal year's funds until the third quarter of the ensuing fiscal year. Thus, the data submitted for these two entities has not been reported since 1999.

Figure 50

Insular Area Capital Investment
($ in millions)

	1998	1999	2000	2001	change from 2000 to 2001
Commonwealth of Northern Marianas	$9.0	$9.7	$14.1	$16.5	$2.4
Palau	1.4	1.1	0.8	0.0	-0.8
Marshall Islands	0.2	0.4	0.6	0.0	-0.6
Federated States of Micronesia	1.4	2.4	0.6	1.0	0.4
American Samoa	7.2	11.5	11.0	8.6	-2.4
U.S. Virgin Islands	0.5	3.4	3.4	2.4	-1.0
Guam	1.9	4.2	1.4	9.8	8.4
Total	**$21.6**	**$32.7**	**$31.9**	**$38.3**	**$6.4**

Figure 51

Insular Area Infrastructure Improvements ($ in thousands)																
	Commonwealth of the Northern Marianas		Palau		Marshall Islands		Federated States of Micronesia		American Samoa		U.S. Virgin Islands		Guam		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Public Buildings 1/	$2,653	$4,487	$636	$0	$567	$0	$0	$0	$1,598	$161	$0	$590	$97	$1,549	$5,551	$6,787
Schools 2/	$3,950	$5,693	$0	$0	$0	$0	$0	$0	$4,094	$4,587	$3,419	$1,004	$195	$0	$11,658	$11,284
Utilities 3/	$1,641	$2,046	$115	$0	$0	$0	$21	$337	$1,325	$706	$0	$755	$254	$2,701	$3,356	$6,545
Transportation 4/	$3,515	$2,226	$0	$0	$0	$0	$0	$0	$1,533	$85	$0	$0	$0	$5,092	$5,048	$7,403
Sewage 5/	$2,387	$2,040	$89	$0	$0	$0	$547	$646	$1,344	$2,952	$0	$66	$879	$490	$5,246	$6,194
Other 6/	$0	$0	$0	$0	$0	$0	$26	$0	$1,039	$83	$0	$0	$0	$0	$1,065	$83
Total	$14,146	$16,492	$840	$0	$567	$0	$594	$983	$10,933	$8,574	$3,419	$2,415	$1,425	$9,832	$31,924	$38,296

1/ Includes public buildings and hospitals
2/ Includes schools and school gyms
3/ Includes electric, water, and power
4/ Includes transportation, roads, airports, and tank farms (storage for airplane and boat gasoline)
5/ Includes solid waste, waste water, and sewer/drainage
6/ Includes ports

Grants were not issued to Palau because, although they did have qualifying projects, reimbursement for costs accrued in 2001 was not requested. The Marshall Islands government did not receive funding due to a lack of qualifying projects. Increases in funding were experienced by Guam because of the drawdowns related to a $7 million road project started during the fiscal year and by the Federated States of Micronesia because of the pace of activity in the construction project for the Chuuk Public Utilities Corporation's wastewater rehabilitation program, which was mobilized in 2001.

The Bureau of Indian Affairs and the Federal Highway Administration jointly administer the Indian Reservation Roads and Bridges Program. In 2001, approximately $269.6 million was expended on 1,493 projects, comprising an estimated 8,390 miles of roads.

In 2001, the Fish and Wildlife Service provided approximately $179 million in grants to state and local governments that resulted in the purchase, construction, or major renovation of physical property that they owned. The primary purpose for which these grants are awarded is to protect habitat for fish and wildlife resources.

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Unaudited Other Supplementary Information

U.S. Department of the Interior
Consolidating Balance Sheet
as of September 30, 2001
(dollars in thousands)

	Bureau of Indian Affairs	National Park Service	Bureau of Land Management	Fish and Wildlife Service
ASSETS				
Fund Balance with Treasury				
Fund Balance with Treasury - General	$ 1,157,576	$ 2,102,244	$ 899,870	$ 1,176,671
Fund Balance with Treasury - Restricted	-	15,078,853	-	17,671
Cash	265	865	49	140
Investments, Net				
Treasury Securities	63,562	65	102,510	1,772,056
Public Securities	1,746	-	-	-
Total Fund Balance with Treasury, Cash and Investments	1,223,149	17,182,027	1,002,429	2,966,538
Accounts Receivable, Net				
Public	20,094	6,970	10,195	7,497
Due from Federal Agencies	59,319	9,318	7,868	33,487
Advances and Prepayments				
Public	150	1,572	262	663
Due from Federal Agencies	2,660	1,948	2,878	2,055
Loans - Public, Net	46,662	5,037	-	-
Inventory and Operating Materials, Net	-	-	356,466	-
Investigations and Development	-	-	-	-
Property, Plant and Equipment, Net	1,328,416	755,702	252,906	783,115
Other Assets - Public, Net	8,777	-	-	-
Stewardship Assets				
TOTAL ASSETS	$ 2,689,227	$ 17,962,574	$ 1,633,004	$ 3,793,355
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable				
Due to the Public	$ 91,112	$ 120,184	$ 46,876	$ 81,128
Due to Federal Agencies	39,792	20,258	21,902	346,596
Accrued Payroll and Benefits				
Due to the Public	50,585	136,617	86,036	61,443
Due to Federal Agencies	24,781	52,749	22,115	16,322
Deferred Revenue				
Received from the Public	7,324	6,039	847	3,261
Received from Federal Agencies	1,559	38,152	14,901	26,196
Federal Employees Compensation Act Liability Due to the Public	121,112	240,749	84,166	52,882
Loans Due to Treasury	26,492	-	1,319,204	-
Custodial Liability Due to Federal Agencies	-	-	-	-
Environmental and Contingent Liability Due to the Public	553,865	9,652	24,904	46,807
Deferred Credits and Other Liabilities				
Due to the Public	48,225	336	171,903	1,404
Due to Federal Agencies	138,608	17,989	59,584	11,840
Total Liabilities	1,103,455	642,725	1,852,438	647,879
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	959,813	896,024	471,044	466,047
Cumulative Results of Operations	625,959	16,423,825	(690,478)	2,679,429
Total Net Position	1,585,772	17,319,849	(219,434)	3,145,476
TOTAL LIABILITIES AND NET POSITION	$ 2,689,227	$ 17,962,574	$ 1,633,004	$ 3,793,355

U.S. Department of the Interior
Consolidating Balance Sheet
as of September 30, 2001

(dollars in thousands)

U.S. Geological Survey	Bureau of Reclamation	Office of Surface Mining	Minerals Management Service	Department Offices and Other	Elimination of Intra Department Activity	Total
$ 264,415	$ 933,064	$ 49,008	$ 87,902	$ 786,073	$ -	$ 7,456,823
-	2,993,679	-	1	-	-	18,090,204
47	108	-	-	46,613	-	48,087
-	-	1,863,388	977,260	290,424	-	5,069,265
-	-	-	-	134,431	-	136,177
264,462	3,926,851	1,912,396	1,065,163	1,257,541	-	30,800,556
75,711	41,703	26,152	1,459,321	5,574	-	1,653,217
84,608	211,846	196	101,959	50,222	(304,483)	254,340
4,507	4,514	-	23	23,443	-	35,134
1,574	15,247	-	93	78,891	(102,976)	2,370
-	140,968	-	-	24,142	-	216,809
13,674	-	-	-	411	-	370,551
-	95,227	-	-	-	-	95,227
146,047	12,827,193	2,576	28,977	363,234	-	16,488,166
5,968	229,712	-	-	-	-	244,457
$ 596,551	$ 17,493,261	$ 1,941,320	$ 2,655,536	$ 1,803,458	$ (407,459)	$ 50,160,827
$ 92,046	$ 180,403	$ 54,764	$ 50,776	$ 38,775	$ -	$ 756,064
16,953	28,499	50	3,511	44,842	(107,218)	415,185
83,361	38,843	6,402	17,071	29,022	-	509,380
12,727	17,380	1,168	3,009	5,268	-	155,519
2,214	81,947	-	782	587	-	103,001
46,382	5,248	790	1,246	238,725	(84,585)	288,614
36,245	93,729	4,929	7,501	22,155	-	663,468
-	85,331	-	-	26,561	-	1,457,588
-	-	-	1,287,620	-	(178,867)	1,108,753
367	30,664	80,100	-	2,000	-	748,359
20,797	187,845	528	266,938	4,889	-	702,865
(2,861)	5,086	12	-	9,996	(36,789)	203,465
308,231	754,975	148,743	1,638,454	422,820	(407,459)	7,112,261
213,311	168,397	40,318	8,434	594,508	-	3,817,896
75,009	16,569,889	1,752,259	1,008,648	786,130	-	39,230,670
288,320	16,738,286	1,792,577	1,017,082	1,380,638	-	43,048,566
$ 596,551	$ 17,493,261	$ 1,941,320	$ 2,655,536	$ 1,803,458	$ (407,459)	$ 50,160,827

U.S. Department of the Interior
Consolidating Statement of Changes in Net Position
for the year ended September 30, 2001

(dollars in thousands)

	Bureau of Indian Affairs	National Park Service	Bureau of Land Management
Net Cost of Operations	$ (2,509,358)	$ (2,168,136)	$ (1,486,886)
Financing Sources			
Appropriations Used	2,249,863	1,827,219	1,379,375
Royalty Revenue Retained by Interior, Net	22,027	1,049,495	-
Taxes, Fines and Penalties	708	47	14
Imputed Financing Sources	82,040	64,724	47,831
Abandoned Mine Fees	-	-	-
Donated Revenue and Other Financing Sources	28,678	67,121	10,011
Transfers, Net	214,721	(504,713)	71,640
Other Adjustments	1,836	(32,909)	-
Total Financing Sources	2,599,872	2,470,985	1,508,871
Net Results of Operations	90,514	302,849	21,985
Increase (Decrease) in Unexpended Appropriations	196,026	211,794	184,345
Total Change In Net Position	286,540	514,643	206,330
Net Position - September 30, 2000, Restated	1,299,232	16,805,206	(425,764)
Net Position - September 30, 2001	$ 1,585,772	$17,319,849	$ (219,434)

U.S. Department of the Interior
Consolidating Statement of Changes in Net Position
for the year ended September 30, 2001

(dollars in thousands)

Fish and Wildlife Service	U.S. Geological Survey	Bureau of Reclamation	Office of Surface Mining	Minerals Management Service	Department Offices and Other	Total
$ (1,646,184)	$ (903,448)	$ (781,369)	$ (388,631)	$ (1,258,342)	$ (441,882)	$ (11,584,236)
992,733	834,040	173,924	94,550	133,093	585,816	8,270,613
99,538	-	959,601	89,453	1,160,149	78	3,380,341
615,050	(661)	28	268	-	1	615,455
33,084	40,238	109,091	3,535	165,379	13,623	559,545
-	-	-	284,449	-	-	284,449
35,307	1,355	51,710	-	-	(72,921)	121,261
224,000	22,588	104,808	(48)	5,433	(57,739)	80,690
-	(12)	-	-	-	(10)	(31,095)
1,999,712	897,548	1,399,162	472,207	1,464,054	468,848	13,281,259
353,528	(5,900)	617,793	83,576	205,712	26,966	1,697,023
85,501	27,251	(36,298)	3,839	(872)	(9,555)	662,031
439,029	21,351	581,495	87,415	204,840	17,411	2,359,054
2,706,447	266,969	16,156,791	1,705,162	812,242	1,363,227	40,689,512
$ 3,145,476	$ 288,320	$ 16,738,286	$ 1,792,577	$ 1,017,082	$ 1,380,638	$ 43,048,566

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Independent Auditors' Report

United States Department of the Interior

Office of Inspector General

Washington, D.C. 20240

February 27, 2002

Memorandum

To: Secretary
Department of the Interior

From: Earl E. Devaney
Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior Fiscal Year 2001 Annual Departmental Report on Accountability (No. 2002-I-0018)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Department of the Interior's (DOI) financial statements for fiscal year 2001. In addition, the Office of Inspector General (OIG) audited the amounts for the balance sheet, statement of custodial activity and related notes for fiscal year 2000. The KPMG and OIG audits were performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States of America, Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency *Financial Audit Manual.*

AUDIT RESULTS

In its audit report dated February 25, 2002 (Attachment 1), KPMG stated that in its opinion the DOI's financial statements for fiscal year 2001 present fairly, in all material respects, the financial position of the DOI as of September 30, 2001, and its net cost of operations, changes in net position, custodial activity, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended in accordance with accounting principles generally accepted in the United States of America. In our report dated February 25, 2002 (Attachment 2), we stated that in our opinion the DOI's fiscal year 2000 consolidated balance sheet and statement of custodial activity present fairly, in all material respects, the financial position of the DOI as of September 30, 2000, and its custodial activity for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KPMG identified 15 internal control weaknesses and 4 instances of noncompliance with laws and regulations, as follows:

INTERNAL CONTROL WEAKNESSES

Material Weaknesses

- General and Application Controls Over Financial Management Systems
- Timeliness of Transaction Entry and Reconciliation
- Controls Over Undelivered Orders and Accruals
- Controls Over Property, Plant, and Equipment
- Reconciliation of Intra-Departmental and Intra-Governmental Transactions
- Indian Trust Fund Management

Reportable Conditions

- Financial Accounting Processes at the Geological Survey
- Controls Over Revenue Process
- Controls Over Recording and Disclosing Claims and Assessments
- Controls Over Aquatic Trust Fund
- Recording of Budgetary Accounts
- Controls Over Interior Franchise Fund
- Controls Over Credit Card Purchases
- Accounting for Inventory
- Deferred Maintenance Reporting

NONCOMPLIANCE WITH LAWS AND REGULATIONS

- Debt Collection Improvement Act of 1996
- Prompt Payment Act
- Public Law 104-208 Advances for Interior Franchise Fund
- Federal Financial Management Improvement Act of 1996

KPMG made 39 recommendations to correct the problems in these areas. In DOI's response, which was incorporated in the report, it indicated general concurrence with the findings and recommendations. **It is imperative that DOI expeditiously correct the material internal control weaknesses in order to prepare financial statements in the future that are timely and accurate.**

KPMG is responsible for the auditors' report on the fiscal year 2001 financial statements and for the conclusions expressed in their report. We monitored the progress of the audit at key points and reviewed KPMG's report and related working papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the DOI's financial statements for fiscal year 2001 or on conclusions about the effectiveness of internal controls or on conclusions about compliance with laws and regulations for fiscal year 2001. Our review disclosed no instances where KPMG did not comply, in all material respects, with *Government Auditing Standards*.

MANAGEMENT CHALLENGES

We identified, in accordance with Public Law 106-531, *Reports Consolidation Act of 2000*, the most serious management challenges facing the DOI. The challenges, which are discussed in detail in "Management Challenges" (Attachment 3), are in the following areas:

- Financial Management
- Information Technology
- Health and Safety
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection/Restoration
- Revenue Collections
- Implementation of the Government Performance and Results Act
- Procurement, Contracts, and Grants
- Emergency Management

The Independent Auditors' Report is intended for the information of the management of DOI, the Office of Management and Budget, and the United States Congress. The report, however, is a matter of public record, and its distribution is not limited.

Section 5(a) of the *Inspector General Act* (5 U.S.C. App. 3) requires the OIG to list this report in its semiannual report to the Congress. In addition, the OIG provides this audit report to the Congress.

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions, please contact me at (202) 208-5745.

Attachments (3)

2001 M Street, N.W.
Washington, D.C. 20036

INDEPENDENT AUDITORS' REPORT

Secretary and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheet of the U.S. Department of the Interior (Interior) as of September 30, 2001, and the related consolidated statements of net cost of operations, changes in net position, and financing, the statement of custodial activity, and the combined statement of budgetary resources (hereinafter referred to as the financial statements) for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered Interior's internal control over financial reporting and tested Interior's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

The consolidated balance sheet as of September 30, 2000 and the related statement of custodial activity for the year then ended, were audited by the Office of Inspector General of the U.S. Department of the Interior and their report thereon is contained within the accompanying Accountability Report.

Summary

As stated in our opinion on the financial statements, we conclude that Interior's financial statements as of and for the year ended September 30, 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in identifying the following reportable conditions:

Reportable Conditions That Are Considered to be Material Weaknesses

A. Improve general and application controls over financial management systems
B. Improve timeliness of transaction entry and reconciliation
C. Improve controls over undelivered orders and accruals
D. Improve controls over property, plant, and equipment
E. Improve reconciliation of intra-departmental and intra-governmental transactions
F. Improve Indian trust fund management controls

Other Reportable Conditions

G. Improve financial accounting processes at the U.S. Geological Survey
H. Improve controls over the revenue process
I. Improve controls for recording and disclosing claims and assessments
J. Improve controls over the Aquatic Resources Trust Fund

K. Improve recording of budgetary transactions
L. Improve controls over Interior Franchise Fund financial reporting
M. Improve controls over credit card purchases
N. Improve accounting for inventory
O. Improve deferred maintenance reporting

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of those referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

P. Debt Collection Improvement Act of 1996
Q. Prompt Payment Act
R. Section 113 of Public Law 104-208 - Advances for Interior Franchise Fund

In addition, our tests of compliance with FFMIA section 803(a) requirements disclosed instances where Interior's financial management systems did not substantially comply with Federal financial management systems requirements, federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

The following sections discuss our opinion on Interior's financial statements, the results of our consideration of the Interior's internal control over financial reporting, the results our tests of the Interior's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Interior as of September 30, 2001, and the related consolidated statements of net cost of operations, changes in net position, and financing, the statement of custodial activity, and the combined statement of budgetary resources, for the year then ended. The consolidated balance sheet as of September 30, 2000 and the related statement of custodial activity for the year then ended, were audited by the Office of Inspector General of the U.S. Department of the Interior and their report thereon is contained within the accompanying Accountability Report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interior as of September 30, 2001, and its net cost of operations, changes in net position, custodial activity, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements,* as amended. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. Based upon our limited procedures, we determined that Interior did not complete the intragovernmental balance reconciliations with its trading partners, as specified by OMB requirements because Interior's trading partners did not provide information by Interior component or Treasury fund symbol.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the consolidated balance sheet and consolidated statement of changes in net position, rather than to present the financial position and changes in net position of Interior's components individually. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Interior's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

We noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A through F are material weaknesses:

A. Improve General and Application Controls over Financial Management Systems

Interior does not have adequate information technology security and general controls to protect its financial information systems. These conditions could affect Interior's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. Interior needs to improve its security and general controls to meet the minimum requirements of OMB Circular A-130, *Management of Federal Information Resources,* as discussed below.

1. Entity-wide Security Program - An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective incident response and monitoring capability. Interior has not finalized and communicated an entity-wide security plan which identifies established security plans, security program management and related personnel, as well as ongoing management of security policies and procedures. In addition, Interior has not consistently performed security and risk assessments of financial systems or initiated a formal program for management review and accreditation of its security program and major applications.

2. Access Controls - Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that (1) users have only the access needed to perform their duties; (2) access to very sensitive resources, such as security software programs, is limited to very few individuals; and (3) employees are restricted from performing incompatible functions or functions beyond their responsibilities. We noted that Interior does not have adequate controls to prevent or detect unauthorized access to its financial systems. Interior needs to improve controls over password security, other logical access, physical access, and network administration. We also noted that Interior does not consistently review security violation logs and does not terminate user accounts in a timely manner. Finally, we noted that certain operating systems are not configured to provide optimal security and protection to prevent access to sensitive datasets and libraries.

3. Software Development and Change Controls - Establishing controls over the modification of software programs assists in ensuring that only authorized programs and authorized modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned-off", or that processing irregularities could be introduced. Interior has not fully established system software controls that limit and monitor access to the programs and sensitive files that control the computer hardware and secure applications supported by the system. Interior has not fully developed procedures for controlling changes over software that would prevent unauthorized programs or modifications to an existing program from being implemented. In addition, Interior has not fully developed procedures to ensure that tests of system software changes are performed and documented, system software changes are reviewed, approval is documented before implementation, and duties are properly segregated. Furthermore, duties are not properly segregated as certain application programmers responsible for making changes to application software also approve these changes and move them to production.

4. Service Continuity - Losing the capability to process, retrieve, and protect information maintained electronically could significantly impact Departmental Offices' ability to accomplish its mission. Thus, procedures should be in place to protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Interior has not prepared and tested contingency plans for all systems and operations. In addition, Interior does not consistently rotate backup tapes to off-site facilities.

Recommendation

We recommend that Interior develop and implement a formal action plan to improve the general and application controls over the financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the EDP control environment to ensure adequate security and protection of Interior's information systems.

Management Response

Management concurs with this finding and recognizes the importance of the need for general and application controls over financial management systems. Departmental security policies were issued in September 2001 and are being implemented. Specifically, Interior has accelerated the training and awareness program with emphasis on trust and financial systems; fast-tracked development of certain aspects of the IT Security Plan; and, developed performance measurement criteria for IT security compliance. Certain court actions have disrupted Interior's connectivity with the internet and have focused computer security actions toward protecting Indian trust information. Interior is making every effort to address computer security within legal and resource constraints placed on the Department.

B. Improve Timeliness of Transaction Entry and Reconciliation

Interior does not consistently record financial transactions or analyze its financial records in a timely manner. In addition, Interior does not consistently reconcile the general ledger accounts to subsidiary ledgers and other supporting documentation on a routine basis. We noted that Interior expended a significant amount of time and resources recording transactions, analyzing financial records, and reconciling accounts after the end of the fiscal year that increased the level of effort necessary to complete the fiscal year 2001 financial statements.

Recommendations

We recommend that Interior record financial transactions at the time the financial event occurs. We also recommend that Interior develop and implement formal month-end financial reporting procedures that include the following:

1. Reconcile all general ledger accounts to the subsidiary ledgers or other supporting documentation and resolve reconciling items.

2. Reconcile applicable general ledger accounts to the information provided to and received from the U.S. Department of the Treasury.

3. Reconcile, where applicable, proprietary to budgetary accounts.

4. Quickly resolve items in and remove such items from clearing, suspense, and other temporary general ledger accounts.

5. Review receivable and payable aging reports and resolve all older items.

Interior should ensure that there is appropriate staffing to complete and review these month-end procedures as well as perform the day-to-day financial processing in a timely manner. We also recommend that Interior provide periodic training to staff involved in recording and reconciling financial transactions. This will help Interior meet OMB's goal of issuing timely and accurate financial statements on a regular basis.

Management Response

Management concurs with this finding. Interior plans to take appropriate steps during 2002 to improve timely recording of transactions from the time financial events occur through the implementation of follow-up action on audit findings and implementation of "best practices" to improve processing.

C. Improve Controls over Undelivered Orders and Accruals

Interior has not fully implemented internal controls to ensure that obligations are liquidated and liabilities are accrued for goods and services received prior to the end of the reporting period. In addition, Interior does not de-obligate funds in a timely manner. Specifically, we identified numerous instances where the undelivered order balance and the accrued liability balance were either understated or overstated. As a result, Interior re-analyzed the undelivered order and accrued liability balances and adjusted the balances, appropriately.

Recommendations

We recommend that Interior develop and communicate internal controls to ensure that accruals are recorded and undelivered orders are adjusted for services and products received prior to the end of the reporting period. We also recommend that Interior implement internal controls to ensure that the accruals and undelivered orders that are recorded are properly supported. These procedures should be completed at least each quarter, as Interior will be required to prepare and submit to OMB quarterly financial statements starting in fiscal 2003.

Management Response

Management concurs with this finding. Steps were taken to begin to address this issue in 2001. However, Interior recognizes that substantial work remains to be done and will aggressively continue to improve controls over undelivered orders and accruals

D. Improve Controls over Property, Plant, and Equipment

Interior needs to improve controls over the recording of property, plant, and equipment as follows:

1. Acquisitions and Disposals - Interior does not consistently record property, plant, and equipment in a timely manner. Specifically, we determined that some Interior components expend a significant amount of time and resources identifying and recording property, plant, and equipment transactions after the end of the fiscal year. We also noted that the physical inventory and certification processes used by some Interior components do not consistently identify acquisitions and disposals that need to be recorded. Furthermore, we noted that

Interior does not consistently maintain source documents to support the acquisition and disposal of property, plant, and equipment.

2. Reconciliation of Subsidiary Ledgers to General Ledgers – Interior is not able to efficiently reconcile its subsidiary and general ledgers for property, plant, and equipment. This is because Interior does not maintain and reconcile its subsidiary ledgers throughout the fiscal year and has several different subledgers, including spreadsheets, that add to the complexity of the reconciliation process.

3. Inventory Process – Interior completes an annual inventory of certain property, plant, and equipment as of September 30. We noted that the inventory process is not effective. Specifically, after the inventories we identified some assets that were not recorded in the accounting records (i.e., completeness exceptions) and we were unable to physically locate other assets that are recorded in the accounting records (i.e., existence exceptions). We also noted that Interior does not consistently adjust the general or subsidiary ledgers based on the inventory results.

4. Transfers – Interior does not have controls to ensure property transferred within and to Interior is properly recorded. We noted that Interior's posting models are designed to change the cost and accumulated depreciation of assets transferred within a bureau. We also noted that equipment transferred from other federal agencies is recorded at the original acquisition value instead of the net book value or fair value at the time of the transfer.

5. Land and Land Rights – Interior does not have a complete and accurate inventory system for land and land rights. In fiscal year 2000, Bureau of Reclamation established a five-year action plan to develop a complete and accurate inventory of land and land rights. As of September 30, 2001, Bureau of Reclamation has completed approximately 10% of this inventory and expects to complete the remaining 90% within the five-year period.

6. Construction in Progress – Interior does not consistently record transactions in the construction in progress account. Specifically we determined that Interior capitalized disbursements in the construction in progress account that should have been expensed. We also determined that Interior recorded amounts in the investigations and development asset account that should have been capitalized as part of the construction in progress account. Furthermore, Interior does not consistently reconcile transfers from the construction in progress account to the appropriate property, plant, and equipment account.

7. Recording Depreciation – Interior has not established and implemented controls to ensure depreciation starts when assets are placed in service and to ensure useful lives are consistently applied for the purposes of recording depreciation. In addition, certain segments within Interior do not calculate and record depreciation until the end of the year or consistently record depreciation on all items. Furthermore, Interior does not properly consider the accounting implications of subsequent changes to the useful lives or dates assets are placed in service.

As a result of our observations, Interior expended a significant amount of time and resources analyzing, counting, reconciling, and adjusting property, plant, and equipment to ensure the amounts were fairly stated.

Recommendations

1. Acquisitions and Disposals – We recommend that Interior implement internal controls to ensure that property, plant, and equipment transactions are recorded in the subsidiary ledger and general ledger at the time the financial event occurs and at the proper amount. We also recommend that Interior maintain source documents related to property plant and equipment acquisitions and disposals.

2. Reconciliation of Subsidiary Ledgers to General Ledgers – We recommend that Interior consider consolidating several of its subsidiary property systems. We also recommend that Interior reconcile its subsidiary and general ledgers on a monthly basis, including resolving any reconciling items.

3. Inventory Process – We recommend that Interior improve its inventory process to verify existence and completeness of property, plant and equipment. We also recommend that Interior record adjustments to the subsidiary and general ledgers as a result of the inventory observations in a more timely manner.

4. Transfers – We recommend that Interior review accounting transactions to ensure that assets transferred within and to Interior are properly recorded. This should include revising the posting models to properly record assets transferred within a bureau.

5. Land and Land Rights – We recommend that Interior monitor the Bureau of Reclamation's five-year action plan to establish a complete and accurate inventory of land and land rights and to reconcile the inventory records (i.e., subsidiary ledger) to the general ledger.

6. Construction in Progress – We recommend that Interior establish and communicate policies defining the types of transactions that should be recorded in the construction in progress account versus expense and investigation and development accounts. We also recommend that Interior establish controls to ensure that transactions are recorded in the proper accounts. These controls should include reviewing the propriety of the balances included in the construction in progress and investigation and development accounts on a monthly basis.

7. Recording Depreciation – We recommend that Interior design, communicate, and implement internal controls to ensure that depreciation begins when assets are placed in service and useful lives are consistently applied. The process should include improving the communication between the Interior finance departments and the managers, purchasers, and users of the assets. We also recommend that Interior develop internal controls to identify and properly record subsequent changes to the useful lives of assets and the date assets are placed in service.

Management Response

Management concurs with this finding. Working with the property managers through the Property Management Partnership and with individual bureaus, Interior will move aggressively to address these findings and implement the recommendations.

E. Improve Reconciliation of Intra-departmental and Intra-governmental Transactions

Interior does not reconcile its intra-departmental or intra-governmental activity and balances on a periodic basis. Instead, after the end of the fiscal year, Interior began the process to reconcile intra-departmental and intra-government activity and balances. After incurring a significant amount of time and resources, Interior was able to reconcile intra-departmental balances and activity to within an insignificant amount. However, Interior could not complete the intragovernmental balance reconciliations, even at year end, because its trading partners did not provide information by Interior component or Treasury fund symbol. We also noted that Interior is unable to allocate the intra-departmental eliminations of costs to the programs on the consolidated statement of net cost of operations and to the budget functional classifications in the footnotes in accordance with OMB reporting requirements.

Recommendations

We recommend that Interior improve the process to identify and reconcile the intra-departmental and intra-governmental activity and balances. The reconciliation process should be completed quarterly and include procedures to resolve any differences identified in a timely manner. We also recommend that Interior revise its process for recording costs to enable Interior to allocate the intra-departmental eliminations to programs and budget functional classifications in accordance with OMB reporting requirements.

Management Response

Management concurs with the need to improve the process to identify and reconcile intra-departmental and intra-governmental activity and balances. In 2001, Interior made a major effort to improve tracking and reconciliation of activity among Interior bureaus and with fiduciary trading partners. Significant improvement was made in the accuracy of data with fiduciary trading partners, and some progress was made in the accuracy of data within Interior. Interior recognizes that additional steps, including quarterly reconciliation, are needed to streamline this process and to eliminate the major effort required at the end of the fiscal year to reconcile out of balance conditions. Interior will investigate alternatives for allocating intra-departmental eliminations of cost to programs on the consolidated statement of net cost of operations and the budget functional classifications recognizing the need to report full cost of programs.

F. Improve Indian Trust Fund Management Controls

The U.S. Congress has designated the Secretary of the Interior as a primary fiduciary with responsibility for monetary resources held in trust on behalf of American Indian Tribes, Individual Indians, and Other Special Trust Funds (hereafter collectively referred to as the Indian Trust Funds). The Secretary carries out this fiduciary responsibility through the Office of Trust Funds Management (OTFM) in coordination with the bureaus of Interior.

The Indian Trust Funds are not part of Interior. As a result, the assets, trust fund balances, collections and disbursements of the Indian Trust Funds are not recorded in Interior's financial statements. However, the Indian Trust Funds' transactions and balances are disclosed in a footnote to Interior's financial statements in accordance with federal accounting standards.

We noted that the procedures and internal controls are not adequate to ensure that the Indian Trust Fund activity and balances are recorded properly or timely. We noted the following weaknesses:

1. Cash Balances – Interior is unable to reconcile the Indian Trust Fund cash balances that are disclosed in the footnotes to Interior's financial statements with the cash balances reported by the U.S. Department of the Treasury. The Indian Trust Fund cash balances are $33 million greater than balances reported by the U.S. Department of the Treasury as of September 30, 2001. In addition, Interior needs to resolve approximately $12.6 million of balances in Treasury suspense and budget clearing accounts as of September 30, 2001.

2. Trust Fund Balances – Interior is unable to provide accounting records to properly support the Indian Trust Fund balances. For example, the total of the Individual Indian Monies trust fund balances in the subsidiary ledger exceed the total balance in the control account by $6.7 million as of September 30, 2001. In addition, the Individual Indian Monies subsidiary ledger contains negative trust fund balances totaling $44 million as of September 30, 2001. Furthermore, certain account holders do not agree with the trust fund balances and have filed claims against the U.S. Government and Interior.

3. Special Deposit Accounts – In accordance with section 25 of the Code of Federal Regulations, Interior records receipts into a special deposit account within the Individual Indian Monies subsidiary ledger when the recipient trust fund account is unknown at time of receipt. When Interior identifies the proper trust fund account, Interior transfers the amount from the special deposit account to the proper trust fund account. OTFM needs to investigate and resolve approximately $67 million of special deposit accounts included in the Individual Indian Monies subsidiary ledger as of September 30, 2001. A significant number of special deposit accounts have remained inactive for the past several years and new accounts continue to be established.

4. Trust Fund Information Systems – Interior has not established adequate security and general controls over the Trust Fund information systems. Specifically, Interior needs to develop and implement a security policy and program, improve segregation of duties, strengthen controls to prevent unauthorized access, establish formal application software development and change controls, and improve and test the disaster recovery plan.

5. Entering and Maintaining Trust Fund Information – The regional and agency offices of the Bureau of Indian Affairs (BIA) perform a critical role in the initial input and subsequent changes to the Indian Trust Funds information disclosed by Interior. We noted the following weaknesses related to the internal controls performed by regional and agency offices:

   a. Segregation of Duties – The responsibilities for trust fund processing are not properly segregated to prevent or detect errors. Specifically, in some locations an individual employee has the ability to initiate lease agreements; generate annual billings for property leases; collect payment for leases; send instructions to OTFM to create Individual Indian Money (IIM) accounts; and send instructions to OTFM via a change order directing OTFM to change the named monetary property recipients and IIM accounts to which future collections should be posted.

b. Related Party Transactions – There are not adequate procedures and internal controls over the processing of transactions for related parties. Employees who have the authority to initiate, bill, collect, open IIM accounts, and change account holder distribution instructions also have the same authority for accounts of related parties.

c. Probate Backlog – The probate orders for land title are not entered into the trust management systems timely. One location has a probate backlog that is over a year old. This results in the potential for inaccurate distributions of lease income to the Indian Trust Fund account holders.

d. Appraisal Compacts – One of the key elements in performing realty trust transactions is the requirement of obtaining appraisals for realty transactions. The regional and agency offices have a fiduciary duty to land title owners and monetary property recipients (e.g., life estate holders) to establish the fair value of property transactions, including establishing the fair value of property leases, before entering into lease agreements or sales transactions on behalf of the owners. Current laws allow the appraisal function to be compacted to tribes, who are often the named parties involved in realty transactions. As a result, transactions are consummated based on prices established or influenced by the eventual beneficial owners of the property. Controls are not in place to ensure that the fair value of property transactions are established by parties independent of the transaction.

e. Untimely Deposits – We determined that agency offices did not consistently forward trust receipts to OTFM in a timely manner. Some of these delays occurred at agency offices where OTFM and BIA personnel reside and other delays occurred at agency offices occupied by BIA personnel only.

These weaknesses may result in a potential liability to the United States Government and Interior, who are currently the subject of litigation.

Recommendation

We recommend that Interior develop and implement procedures and internal controls to ensure that the Indian Trust Fund activity and balances are recorded properly and timely.

Management Response

Management concurs with this finding. A variety of actions are underway within the Office of the Special Trustee to address management control deficiencies in coordination with direction from senior policy officials of Interior and the December 1999, court decision.

We noted the following reportable conditions that are not considered to be material weaknesses:

G. Improve Financial Accounting Processes at the U.S. Geological Survey

We issued a disclaimer of opinion on the component financial statements of the U.S. Geological Survey as Interior was unable to fully support fund balance with Treasury, inventory, advances and prepayments, property plant and equipment, other assets and expended appropriations. In addition, U.S. Geological Survey expended a significant amount of time and resources reconciling and supporting balances as a result of our audit procedures.

Recommendations

We recommend that Interior improve the accounting processes and internal controls at the U.S. Geological Survey. We also recommend that Interior should ensure that there is appropriate staffing to complete the day-to-day accounting processing in a timely manner.

Management Response

Management concurs with this finding. The U.S. Geological Survey will take corrective actions to resolve the issues identified in the 2001 audit so that the 2002 financial statement audit can be completed timely and successfully.

H. Improve Controls over the Revenue Process

Interior needs to improve controls over the revenue process as follows:

1. Reimbursable Agreements – Interior has not fully established controls over reimbursable agreements. Specifically we identified the following:

   a. Interior improperly charged expenses to reimbursable agreements and incorrectly reversed reimbursable expenses when bills were issued. Although Interior reviews the expenses charged to reimbursable agreements, we determined that the review process is not always effective to prevent inappropriate expenses from being charged to certain reimbursable agreements.

   b. Interior does not consistently record reimbursable agreements or issue bills in a timely manner. We noted that Interior issued certain bills more than twelve months late and we identified certain bills that were prepared manually but were not recorded into the accounting system until payments were received.

   c. Interior maintains several subledger systems that do not enable Interior to efficiently or effectively record and reconcile activity from the subledger to the general ledger. In addition, we noted that Interior was unable to provide documentation for certain transactions due to difficulty in retrieving supporting documents.

   As a result of our comments, Interior performed a detailed analysis of reimbursable activity and adjusted the balances appropriately.

2. Aged Accounts Receivable - Interior does not consistently investigate and resolve older accounts receivable balances. In addition, Interior does not consistently establish an allowance for older accounts receivable and older non-Federal Credit Reform Act loans receivable. When informed of the need to review older receivables, Interior analyzed the older receivables and recorded the appropriate adjustments to the receivable and the allowance accounts.

3. Advances – Interior receives advance payments for services to be provided in the future. We determined that Interior did not establish the appropriate posting model to properly record deferred revenue at the time of the advance and recognize revenue when the services are provided. We also noted that Interior was unable to support certain amounts recorded as advances. As a result of our comments, Interior analyzed and adjusted the advances to properly report the amount of revenue earned versus the amount of revenue that is deferred.

4. Segregation of Duties – Interior has not fully segregated duties of the billing and collection process at the Bureau of Land Management. We determined that one individual may access the mailroom, deposit cash and checks, and record transactions. Proper segregation of duties is necessary to help prevent and detect errors.

Recommendations

1. Reimbursable Agreements – We recommend that Interior fully develop and implement controls over reimbursable agreements. We recommend that Interior:

   a. Improve the process for reviewing and tracking expenses charged to reimbursable agreements and train the individuals who record and review the reimbursable agreement transactions.

   b. Implement procedures to ensure that all reimbursable activity is recorded in the accounting system at the time the financial event occurs and that all bills are issued on a timely basis.

   c. Upgrade systems to reduce manual intervention and utilize automated system interfaces and maintain supporting documentation.

2. Aged Receivables – We recommend that Interior review receivable aging reports and refer public receivables older than 180 days to the U.S. Department of the Treasury on a monthly basis. We also recommend that Interior establish a formal policy for calculating the allowance for doubtful accounts. This policy should define the key factors that management considers in assessing the collectibility of receivables and describe how the allowance is calculated and recorded. Interior should also ensure that a supervisor reviews and approves the allowance calculation.

3. Advances – We recommend that Interior revise the revenue posting models to ensure amounts received in advance of performing the services are recorded as deferred revenue until the services are provided. We also recommend that Interior periodically review amounts recorded as advances to ensure amounts are properly supported and recorded.

4. Segregation of Duties – We recommend that Interior fully segregate the duties of the billing and collection process at the Bureau of Land Management. If complete segregation is not feasible, Interior should establish mitigating controls including routine supervisory reviews and independent inspections of transactions.

<u>**Management Response**</u>

Management concurs with this finding. Interior plans to take appropriate steps during 2002 to improve controls over revenue processes.

I. Improve Controls for Recording and Disclosing Claims and Assessments

Ideally, Interior financial management departments would request and receive from the solicitor's office a quarterly summary of the status of major claims and assessments against Interior. In addition, the solicitor's office would communicate to the Interior financial management departments, more timely than quarterly, the changes in the status of major cases affecting Interior.

Interior has not fully developed or communicated internal controls to ensure that these types of communications take place. As a result, the Interior financial management departments generally do not receive or review any formal reports on the status of claims and assessments until after the end of the year. In addition, the finance departments do not communicate with the solicitor's office on a regular basis to ensure changes to significant claims and assessments are recorded timely. Furthermore, the Interior does not have internal controls to ensure that legal claims and assessments related to multiple bureaus are accrued and disclosed in the appropriate bureau financial statements. As a result, Interior expended a significant amount of time in December 2001 and January 2002 ensuring that claims and assessments were properly accrued and disclosed in the financial statements.

<u>**Recommendations**</u>

We recommend that Interior fully develop and implement internal controls to ensure that the Interior financial management departments request from the solicitor's office a quarterly analysis of all legal claims and assessments and record an accrual or prepare a disclosure for inclusion in the interim and year end financial statements. In addition, the solicitor's office should provide updates, more timely than quarterly, on the status of major cases to the Interior financial management departments.

We also recommend that Interior establish internal controls to ensure that legal claims and assessments related to multiple bureaus are accrued and disclosed in the appropriate bureau financial statements. These communications will facilitate the timely and correct preparation of Interior's interim and year-end financial statements.

Management Response

Management concurs with this finding. Interior will work with the Office of the Solicitor to streamline the tracking of legal claims and assessments and recording accrual or disclosure information for inclusion in year-end financial statements. Steps will be taken, if practical, to provide updated information for interim financial statements recognizing the large number of legal claims and assessments that Interior is involved in, the changing nature of these claims and assessments, and the limited resources available in the Office of the Solicitor.

J. Improve Controls over the Aquatic Resources Trust Fund

Interior included the Aquatic Resources Trust Fund in its financial statements for the first time in fiscal year 2001. The Aquatic Resources Trust Fund includes two accounts: (1) Sport Fish Restoration Account and (2) Boat Safety Account. Interior is the primary recipient of funds from the Sport Fish Restoration Account. Interior has not fully implemented controls over recording the activity and balances related to the Aquatic Resources Trust Fund. Interior did not properly record the activity related to the Aquatic Resources Trust Fund and was unable to initially provide supporting documentation for approximately $400 million of receivables related to the Sport Fish Restoration Account. We also noted that Interior has three different divisions within the Fish and Wildlife Service (i.e., Division of Finance, Division of Budget, and Division of Federal Aid) and each division recommended that Interior report a different budget authority amount related to the Sport Fish Restoration Account. After additional research, Interior reconciled the differences and adjusted the budget authority appropriately.

Recommendation

We recommend that Interior develop and implement internal controls to ensure that the appropriation information is available to properly record the balances and activity related to the Aquatic Resources Trust Fund. The internal control process should include:

1. Responsibilities and lines of communication within Fish and Wildlife Service's Division of Finance, Division of Budget, and Division of Federal Aid.

2. Memorandum of understanding between Interior, U.S. Department of the Treasury, and the other program agencies involved in accounting and reporting of the Aquatic Resources Trust Fund. This memorandum should describe each party's responsibility related to the trust fund.

Management Response

Management concurs with this finding. This is the first year that Interior was required to report the Aquatic Resources Trust Fund. Certain of the management activities of the Fund involve other agencies including the U.S. Department of the Treasury, U.S. Department of the Transportation and the Army Corps of Engineers. Interior recognizes that management improvements are needed and will work with the Office of Management and Budget, the U.S. Department of the Treasury and the other agencies to improve the overall management and timely reporting of activity related to the Aquatic Resources Trust Fund.

K. Improve Recording of Budgetary Transactions

Interior needs to improve the internal controls over recording budgetary transactions as follows:

1. Budget Authority and Undelivered Orders – We noted that one Interior component was unable to reconcile undelivered orders included on the statement of budgetary resources to the general ledger by approximately $29 million. Thus, resulting in a potential overstatement of Interior's recorded undelivered orders.

2. Recoveries of Prior Year Obligations – We noted that certain components of Interior improperly recorded budget adjustments as recoveries of prior year obligations. We also noted that the statement of budgetary resources and SF-133 *Report on Budget Execution and Budgetary Resources*, incorrectly included recoveries of prior year obligations as part of obligations incurred. As a result of our comments, Interior analyzed the annual and multi-year appropriations and determined the appropriate adjustments to properly report recoveries.

Recommendations

1. Budget Authority and Undelivered Orders – We recommend that Interior improve the process for recording and reporting budgetary transactions. We also recommend that a supervisor review and approve the recording and reporting of budgetary information.

2. Recoveries of Prior Year Obligations – We recommend that Interior establish procedures to identify and properly record recoveries of prior year obligations. We also recommend that Interior ensure supervisory reviews are completed of the SF-133 and statement of budgetary resources.

Management Response

Management concurs with this finding and will take steps to implement these recommendations.

L. Improve Controls Over Interior Franchise Fund Financial Reporting

Interior needs to improve the financial reporting processes of the Interior Franchise Fund (IFF). Specifically we noted:

1. Interior does not consistently record IFF transactions or reconcile IFF activity and balances with its trading partners in a timely manner. In addition, Interior needs to re-design the process for recording service provider activity to automate the process and enable IFF to efficiently reconcile activity and balances from IFF's records to the service providers' records.

2. Interior has not fully implemented controls and procedures to ensure that IFF records obligations when they are incurred or liabilities when they are incurred. In addition, Interior does not consistently review and resolve older accounts receivable and payable balances. Furthermore, Interior has not fully documented its procedures for recording and monitoring financial transactions and preparing financial statements.

3. IFF is a "virtual organization" that utilizes personnel from both of its service providers. Although several personnel are fully dedicated to working on IFF activity, there are several personnel who only spend part of their time working on IFF activity. As a result of utilizing personnel from different service organizations, IFF does not have clear lines of responsibility or reporting. This causes delays in processing of IFF transactions because IFF activity does not appear to receive the same priority as the other activity processed by the service providers.

Recommendations

We recommend that Interior improve the accounting processes and internal controls at IFF. We also recommend that Interior should ensure that there is appropriate staffing to complete the day-to-day accounting processing in a timely manner.

Management Response

Management concurs with this finding and will take steps to implement these recommendations.

M. Improve Controls Over Credit Card Purchases

Interior has issued over 50,000 credit cards to employees as of September 30, 2001 and purchased over $600 million using credit cards during fiscal year 2001. We determined that Interior does not consistently have a supervisor review and approve credit card statements. We also noted that the Office of Inspector General issued a report in December 2001 that identifies several areas that Interior needs to improve related to the credit card program, such as, reviewing and adjusting credit card limits, reconciling credit card statements to invoices and receipts, maintaining records related to credit cards, and terminating credit cards when employees leave.

Recommendations

We recommend that Interior improve the controls over credit card purchases. We recommend that Interior designate and require supervisors to review and approve monthly credit card statements. Supervisors should be trained and in a position to determine if transactions were appropriate and reasonable. We also recommend that Interior review and adjust credit card limits on a periodic basis, improve the process for reconciling credit card statements to invoices and receipts, improve the record keeping process, and ensure credit cards are deactivated when employees leave.

Management Response

Management concurs with these recommendations and has already begun a process to improve supervisory review and oversight of credit card transactions. One issue identified by the Office of the Inspector General has been resolved and implemented.

N. Improve Accounting for Inventory

Interior needs to improve the internal controls over inventory as follows:

1. Helium Inventory - Interior maintains perpetual records for its Helium inventory and verifies the perpetual records using periodic engineering studies. For the past eight years, Interior has identified differences between the perpetual records and periodic engineering studies. However, Interior has not adjusted the perpetual records based on the results of the studies because Interior does not believe that the studies are accurate enough to support adjusting the perpetual records.

2. Map and Hydrological Equipment Inventory – Interior has not fully established procedures to properly record the cost of map and hydrological equipment inventory. We noted that Interior expenses certain costs at the time of disbursement instead of including these costs as part of inventory. We also noted that Interior adjusts inventory to its net realizable value based on limited inventory analysis procedures.

Recommendations

1. Helium Inventory - We recommend that Interior thoroughly investigate the differences between the perpetual records and the engineering studies to determine the nature of the differences. Based on the results of the investigation, Interior should either adjust the perpetual records or revise the process for conducting the engineering studies. We also recommend that Interior consider utilizing an independent third party engineering specialist to perform future studies.

2. Map and Hydrological Equipment Inventory – We recommend that Interior review and adjust its costing model to ensure all appropriate costs are included in inventory. We also recommend that Interior improve its process for determining the net realizable value of inventory.

Management Response

Management concurs with this finding. The bureaus responsible for Helium inventory and the map and hydrological equipment inventory will review approaches for maintaining inventory valuations and appropriately adjusting inventory costs.

O. Improve Deferred Maintenance Reporting

Interior has not fully established controls to identify and report deferred maintenance. We noted that Interior has not completed condition assessments for certain assets and therefore has not properly disclosed all deferred maintenance amounts. In addition, Interior does not report deferred maintenance by major asset category and has not defined acceptable operating conditions for each major class of assets.

Recommendation

We recommend that Interior develop and implement internal controls to ensure the following:

1. Condition assessments are completed following a standard process and on a regular basis.

2. Deferred maintenance is calculated for each asset following a standard process.

3. Condition and deferred maintenance is summarized and reported by major asset category.

Management Response

Management concurs with this finding. Interior has identified "Inadequate Department-wide Maintenance Management Capability" as a mission critical weakness. The corrective action plan includes implementing a comprehensive maintenance management system with an appropriate linkages to the accounting systems; conducting comprehensive condition assessments; implementing a five-year deferred maintenance and capital improvement plan; and, utilizing a capital asset planning process.

A summary of the status of prior year reportable conditions is included as Exhibit I.

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of the FFMIA of 1996, disclosed instances of noncompliance with the following laws and regulations that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02 and are described below.

P. Debt Collection Improvement Act of 1996

In accordance with the Debt Collection Improvement Act of 1996, Interior is required to refer eligible receivables that are delinquent to the U.S. Department of the Treasury for collection or offset. Eligible receivables include those that are not the subject of litigation, related to foreclosure proceedings, or from organizations in bankruptcy. We determined that Interior did not consistently refer receivables that are over 180 days delinquent to the U.S. Department of the Treasury. Specifically we noted that Interior did not refer Bureau of Indian Affairs, Bureau of Reclamation, and U.S. Geological Survey receivables of approximately $722 thousand, $16,381 thousand, and $740 thousand, respectively

Recommendation

We recommend that the Interior establish a process, in fiscal year 2002, to ensure eligible receivables are referred to the U.S. Department of the Treasury in a timely manner.

Management Response

Management concurs with this finding and will work to improve the current process of transferring eligible debt to the U.S. Department of the Treasury.

Q. Prompt Payment Act

In accordance with the Prompt Payment Act, Interior is required to pay bills on time and pay interest penalties when payments are late. We determined that Interior did not consistently pay interest penalties when payments were late. We identified 6 exceptions out of 198 items tested related to the Minerals Management Service and 1 exception out of 199 items tested related to the U.S. Geological Survey, where the prompt payment interest was due, but not paid.

Recommendation

We recommend that Interior establish a process, in fiscal year 2002, to ensure late payments include interest penalties.

Management Response

Management concurs with this finding and will work with the indicated bureaus that have experienced difficulty in complying with the Prompt Payment Act.

R. Section 113 of Public Law 104-208 - Advances for Interior Franchise Fund

In accordance with section 113 of Public Law 104-208, Interior is required to obtain advances from Franchise Fund customers before costs are incurred to provide goods or services to the customer. We determined that Interior does not consistently obtain advances from customers as Interior reported Franchise Fund accounts receivable of $15.8 million as of September 30, 2001.

Recommendation

We recommend that Interior, in fiscal year 2002, require Franchise Fund customers to pay in advance, in accordance with the laws or consider requesting the U.S. Congress to change the laws governing this requirement.

Management Response

Interior developed appropriation language supporting the Interior Franchise Fund under the Government Management Reform Act establishing the franchise fund pilot program following the Office of Management and Budget guidelines. The intent of the pilot program was to allow these pilot programs to provide quality service at reduced costs to Federal agencies through competition. Interior does not believe that the recommended appropriation language was intended to require advances for all services but was intended to allow the pilot program to receive advances so that the organizations could operate in a more business like manner. However, Interior can see how the existing language could be interpreted as described above. Interior will work with the Office of Management and Budget and Congress to adjust the appropriation to support the intent of the stated Government Management Reform Act objectives.

The results of our tests of compliance with other laws and regulations, exclusive of FFMIA, disclosed no other instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA section 803(a) requirements disclosed instances, described below, where Interiors' financial management systems did not substantially comply with the Federal financial management systems requirements, federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

S. Financial Management Systems Requirements

As required by FFMIA, Interior is to secure its financial management systems in accordance with OMB Circular A-130, Appendix 3, Section 3, *Automated Information System Security Programs.* As discussed in the section of our report entitled "Internal Control over Financial Reporting," Interior needs to improve its EDP security and general control environment. Interior has not finalized and communicated an entity-wide security plan; does not have adequate controls to prevent or detect unauthorized access to its financial systems; has not fully developed procedures for controlling changes over software that would prevent unauthorized programs or modifications to an existing program from being implemented; has not prepared and tested contingency plans for all systems and operations; and has not fully segregated responsibilities related to application and general controls. As a result, Interior does not comply with the system requirements of FFMIA.

Recommendation

We recommend that during fiscal year 2002, Interior's Chief Information Officer improve the security and general controls over its financial management systems to meet the requirements set forth in OMB Circular A-130, Appendix 3, Section 3, *Automated Information System Security Programs.*

Management Response

Management concurs with this finding. Actions are underway to address this issue. See also management's response for item A above.

T. Federal Accounting Standards

Interior is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the Internal Control over Financial Reporting section of this report, we identified material weaknesses that affected Interior's ability to prepare its financial statements and related disclosures in accordance with federal accounting standards. Specifically, we determined that Interior needs to improve the timeliness of transaction entry and reconciliation of the general ledger accounts to subledgers and other supporting documentation. We also noted that Interior needs to improve procedures and controls over undelivered orders, accruals, property plant and equipment, intra-departmental transactions, and intra-governmental transactions.

Recommendation

We recommend that during fiscal year 2002, Interior financial management fully develop and implement strengthened procedures and internal controls that ensure the financial statements and related disclosures are prepared in accordance with the federal accounting standards.

Management Response

Management concurs with this finding. See also management's response to items B, C, D, and E above.

U. United States Government Standard General Ledger

In accordance with OMB Circular A-127, *Financial Management Systems*, Interior is to record financial events consistent with the applicable account descriptions and attributes reflected in the United States Standard General Ledger (SGL) at the transaction level.

Interior records its royalty activity in a system entitled, Auditing and Financial System (AFS). We determined that AFS does not enable Interior to account for its royalty activity using the SGL at the transaction level. We also determined that Interior records certain receivables and property, plant, and equipment in the general ledger at a summary level instead of at the transaction level.

Recommendation

We understand that Interior is in the process of implementing a new accounting system to record and report royalty activity and expects to implement this system during fiscal year 2002. We recommend that Interior ensure the new royalty system will enable Interior to account for its royalty activity using the SGL at the transaction level. We also recommend that Interior revise its process for recording receivables and property, plant and equipment during fiscal year 2002 to ensure that this activity is recorded consistent with the SGL at the transaction level.

Management Response

Management concurs with this finding. A new system for tracking and collecting royalty payments was implemented in November 2001. Unfortunately, as a result of a Court Order related to Indian Trust Fund information security, Minerals Management Service has been unable to operate the system since early December. Interior is actively trying to obtain approval from the Court to begin to operate the system again and restore appropriate support for the royalty collection and monitoring process.

Responsibilities

Management's Responsibilities

The Government Management Reform Act (GMRA) of 1994 requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, Interior prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; required supplementary information; required supplementary stewardship information; other supplementary information and performance measures; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2001 financial statements of Interior based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As required by OMB Bulletin No. 01-02, we considered Interior's internal control over Required Supplementary Stewardship Information by obtaining an understanding of Interior's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion on such controls.

KPMG

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether Interior's fiscal year 2001 financial statements are free of material misstatement, we performed tests of Interior's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to Interior. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether Interior's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

This report is intended for the information and use of the U.S. Department of the Interior's management, the U.S. Department of the Interior's Office of the Inspector General, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 25, 2002

KPMG

U. S. Department of the Interior
Summary of the Status of Prior Year Reportable Conditions
September 30, 2001

Ref	Condition Area	Status
A	Account Analysis and Reconciliation.	This condition has not been corrected and is repeated in FY 2001.
B	Construction in Progress.	This condition has not been corrected and is repeated in FY 2001.
C	Unliquidated Obligations.	This condition has not been corrected and is repeated in FY 2001.
D	Land and Land Rights.	This condition has not been corrected and is repeated in FY 2001.
E	Accruals.	This condition has not been corrected and is repeated in FY 2001.
F	Trading Partners.	This condition has not been corrected and is repeated in FY 2001.
G	Property, Plant, and Equipment.	This condition has not been corrected and is repeated in FY 2001.
H	Financial Management and Accounting Processes at Mineral Management Service.	This condition has been corrected.
I	Security and General Controls over Financial Management Systems.	This condition has not been corrected and is repeated in FY 2001.
J	Trust Funds.	This condition has not been corrected and is repeated in FY 2001.
K	Budgetary Data Reporting.	This condition has been partially corrected and is repeated in FY 2001.
L	Deferred Maintenance Management and Reporting.	This condition has not been corrected and is repeated in FY 2001.
M	Grant Payments at Fish and Wildlife Service.	This condition has been corrected.

KPMG

U. S. Department of the Interior
Summary of the Status of Prior Year Reportable Conditions
September 30, 2001

Ref	Condition Area	Status
N	Interior Franchise Fund.	This condition has not been corrected and is repeated in FY 2001.
O	Debt Collection Act.	This instance of non-compliance has not been corrected and is repeated in FY 2001.
P	Office of Management and Budget Circular A-11.	This instance of non-compliance has been corrected.
Q	Prompt Payment Act.	This instance of non-compliance has not been corrected and is repeated in FY 2001.
R	FFMIA – Federal Accounting Standards.	This instance of non-compliance has been corrected. However, we have reported a different instance of non-compliance with this regulation in FY 2001.
S	FFMIA – Financial Management System Requirements.	This instance of non-compliance has not been corrected and is repeated in FY 2001.

Attachment 2

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditor's Report

To: Secretary
Department of the Interior

Subject: Independent Auditors' Report on the Department of the Interior's Financial Statements for Fiscal Year 2000

We have audited the Department of the Interior's (DOI) consolidated balance sheet as of September 30, 2000, statement of custodial activity for the year then ended and the related notes (herein after referred to as the financial statements). The objective of our audit was to express an opinion on the fair presentation of the financial statements. These financial statements are the responsibility of the DOI and our responsibility is to express an opinion, based on our audit, on these financial statements.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statements provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DOI as of September 30, 2000, and its custodial activity for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 to the financial statements, the financial statements have been restated as a result of a change in reporting entity, various changes in accounting and the correction of certain errors. In addition, other changes and reclassifications were made to conform the fiscal year 2000 presentation with the fiscal year 2001 presentation.

In our report dated February 27, 2001 we expressed the opinion that DOI's statement of net cost of operations for the year ended September 30, 2000 presented fairly, in all material respects, its net cost of operations in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 20, the DOI has restated its statement of net cost of operations for the year ended September 30, 2000 to conform with the presentation of net cost for the year ended September 30, 2001. We did not audit the restated statement of net cost of operations for the year ended September 30, 2000 and, accordingly, we do not express an opinion on this statement and related notes.

Roger La Rouche
Assistant Inspector General for Audits
February 27, 2001, except for Note 23
as to which the date is February 25, 2002

Management Challenges

1. Financial Management. The preparation of reliable financial statements as required by the Chief Financial Officers Act continues to be a major challenge for DOI and its Bureaus. Although the Office of Inspector General (OIG) issued unqualified opinions on Fiscal Year (FY) 2000 financial statements for the Department of the Interior (DOI) and seven of its nine Bureaus, OIG was unable to express an opinion on financial statements for the Minerals Management Service (MMS) and qualified our opinion on financial statements for the U.S. Fish and Wildlife Service (FWS). Weak internal controls for both these Bureaus resulted in MMS not being able to issue auditable financial statements because of inaccurate, incomplete, and untimely data and FWS overstating its balance for undelivered orders by about $23.4 million. In addition, the certified public accounting firm auditing the financial statements for Indian Trust Funds held by the Office of Special Trustee for American Indians qualified its opinion because of an irreconcilable difference of about $35 million between recorded cash balances and the balances reported by the U.S. Treasury.

The FY 2000 financial statement audits also identified weak internal controls in several areas and noncompliance with certain laws and regulations. All nine Bureaus had internal control weaknesses related to account analysis and reconciliation and intra-Departmental transactions. Seven Bureaus had internal control weaknesses in accounting for obligations. Bureau delays in consistently performing account analyses and reconciliations resulted in over 1,000 time-consuming and complex adjustments at year-end to produce accurate financial information. Similarly, inconsistent tracking of intra-Departmental transactions resulted in DOI being out of balance by over $2 billion at year-end. Although DOI eventually reconciled the intra-Departmental transactions to within $71 million, a significant amount of time and resources was expended. The weak internal controls over obligations resulted in considerable work to correct balances for undelivered orders that were inaccurate because of invalid or inadequately supported obligations. OIG also noted that some Bureaus had not yet fully complied with appropriate laws and regulations; specifically, the Debt Collection Improvement Act of 1996, the Prompt Pay Act, and the Federal Financial Management Improvement Act.

DOI's FY 2001 financial statement audits, conducted by independent public accounting firm under our oversight, are addressing the same familiar, long-standing issues. For example, internal control weaknesses remain uncorrected in the areas of information systems, Indian Trust funds, accounting for property, eliminations, accruals, undelivered orders, deferred maintenance, and construction in progress.

2. Information Technology. DOI has not resolved its long-standing problems in the areas of computer security and overall system effectiveness. Congressman Steve Horn's subcommittee entitled Government Efficiency, Financial Management and Intergovernmental Relations annual assessments of agency information system security, for example, have consistently ranked DOI near the bottom of the list, and DOI's failure to maintain systems to properly account for Indian trust assets is well known.

DOI reported computer security as a material weakness in both FY 2000 and 2001. Our first annual review of DOI's information technology security systems under the Government Information Security Reform Act found inadequate or non-existent security plans and risk assessments and employees who were poorly trained in their security responsibilities. The OIG report on DOI's Annual Departmental Report on Accountability for FY 2001 again identified material weaknesses in DOI's financial management systems. Although DOI's Chief Information Officer issued an information technology security plan on September 20, 2001, establishing minimum standards for secure operations, the plan did not specify the steps needed to meet these standards and is not expected to be fully implemented until FY 2006. Additionally, in FY 2001 audits of DOI's National Business Center's personnel and payroll processing policies and procedures and the Bureau of Land Management's (BLM) collection module of its Collections and Billing System, OIG found that improvements were still needed in developing policies and procedures for, and implementing appropriate internal controls over, DOI information technology systems.

3. Health and Safety. Ensuring the health and safety of employees and the increasing number of visitors to public lands and facilities under DOI jurisdiction remains a clear priority and a challenge. In fiscal year 2000, the National Park Service (NPS) reported more than 286 million visits, BLM reported approximately 54 million visits, FWS reported approximately 36 million visits, and the Bureau of Reclamation (BOR) reported approximately 80 million visits. Both BLM and NPS have reported material weaknesses in employee and public safety. BLM is providing safety training to its safety managers and officers, and NPS is implementing a Congressionally-directed Structural Fire Program plan as a result of a May 2000 General Accounting Office (GAO) report that NPS fire protection was inadequate. Also, in May 2000, OIG reported on long-standing, uncorrected health and safety problems with concessions at BOR's Canyon Ferry Reservoir and Lake Berryessa, that have degraded land and water resources at these sites. BOR began taking steps to correct these deficiencies in FY 2001.

Recent reviews by several independent management consultants and OIG have identified shortcomings in DOI law enforcement programs that could affect the safety of both DOI law enforcement officers and the people they are tasked with protecting. DOI law enforcement programs, for example, are significantly understaffed, making it difficult for officers to fully meet their law enforcement and resource protection responsibilities. This condition is particularly acute at the Bureau of Indian Affairs (BIA), where an alarming shortage of Correctional Officers not only puts existing officers and nearby communities in danger, but also represents considerable potential liability to both DOI and BIA in terms of reputation and monetary culpability. Similarly, NPS, BLM and FWS law enforcement officers have inadequate backup at many locations, thereby placing both the officers and the public at risk. The Department has already begun to address these concerns.

Another significant issue is DOI's continuing liability for cleaning up sites contaminated by hazardous materials, closing abandoned mine sites, plugging oil and gas wells, repairing leaking underground storage tanks and pipelines, and controlling illegal dumping. In its Accountability Report for FY 2000, DOI estimated that its total liability for environmental cleanup may range from $457 million to $830 million.

4. Maintenance of Facilities. DOI's maintenance program is in crisis. Costs to complete deferred maintenance on DOI's large and aging inventory of schools, office buildings, bridges, dams, irrigation systems, roads, and historic buildings and structures are currently estimated to range from $7.2 billion to $11.3 billion. These numbers can only be estimated since numerous reviews conducted by our office, GAO, and the Bureaus have shown that DOI has not been able to develop a reliable estimate of the extent of the backlog.

DOI's failure to implement an adequate, standardized automated maintenance management system has severely inhibited its ability to effectively fulfill its maintenance responsibilities. Although DOI reported its "Inadequate Department-wide Maintenance Management Capability" as a mission-critical material weakness, it has not yet taken sufficient action to address the considerable extent of this deficiency. In our December 2001 report on maintenance processes within NPS, BIA, BLM and FWS, we highlighted both the positive changes already being implemented and the critical actions needed to enable DOI to quickly reduce the backlog and develop a comprehensive, proactive, and reliable facilities maintenance management program. The report's recommended actions were designed to provide the management oversight and proactive measures needed to complement the on-going efforts of individual Bureaus and reinvigorate DOI efforts begun in recent years.

5. Responsibility to Indians and Insular Areas.

Responsibility to Indians. BIA continues to experience administrative and management problems that constrain its ability to effectively fulfill its trust responsibilities and promote self-determination on behalf of Tribal governments, American Indians and Alaska Natives. Reviews conducted by our office, GAO, BIA, and management consultants have identified serious deficiencies in many areas, including trust responsibility, Indian self-determination and self-governance, facilities and road maintenance, safety management, law enforcement, housing, social services, and education.

Another area of concern is BIA's administration of its 171 schools and 14 dormitories, which serve about 50,000 Indian students in 23 states. The OIG audits in FY 2001 identified problems in construction and operational planning. At one school, the failure to follow construction-planning documents resulted in additional construction costs of $666,000. Four other schools could not ensure that operating funds were properly expended because of the failure to comply with requirements for preparing and executing local financial plans. Problems in overall administration are exacerbated by the poor physical condition of school facilities. In spite of significant funding increases for school replacement, modernization, maintenance, and repair, it will take several years to address the existing backlog of needed work.

Responsibility to Insular Areas. Our audits continue to reveal the existence of long-standing financial and program management deficiencies in U.S. Insular Areas, some of which are in financial crisis. Specifically, insular area governments experience difficulties in accurately accounting for expenditures, collecting taxes and other revenues, controlling the level of expenditures, and delivering program services. Contributing to the long-standing problems is the fact that, although each of the Insular Areas has an internal audit organization, these organizations, with few exceptions, lack the staff, resources, or independence necessary to provide effective and objective audit coverage of local government operations.

Under the Insular Areas Act of 1982, we have audit authority over both Federal and non-Federal funds in Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. Pursuant to the Compact of Free Association Act of 1985, OIG has audit authority over Federal funds in the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands. However, neither OIG nor DOI has authority to enforce resolution and implementation of our audit recommendations to Insular Area government officials. As a result, OIG recommendations, as well as recommendations in single audit reports issued by independent accounting firms, are rendered meaningless.

Despite this situation, OIG continues efforts to improve financial and program management in the Insular Areas. In FY 2001, OIG assisted the Government of the Virgin Islands in complying with past requirements of the Single Audit Act and negotiated arrangements to provide technical assistance and training to the local public auditors of the Pacific Insular Areas in auditing local funds. OIG also performed detailed reviews of the Virgin Islands Lottery, Department of Education, Port Authority, and Bureau of Internal Revenue and the Economic Development Authority in Guam.

6. Resource Protection/Restoration. The protection and restoration of natural and cultural resources is a primary DOI responsibility and represents an ongoing management challenge. DOI administers about 439 million acres of Federal land throughout the United States and the Insular Areas and has numerous responsibilities for protecting and restoring the Nation's natural and cultural resources. For example, the Office of Surface Mining Reclamation and Enforcement (OSM) ensures that coal mining operations are conducted in an environmentally sound manner and lands damaged by past coal mining practices are restored; BLM ensures the appropriate economic and recreational uses of public lands and protects the wild horse and burro population; FWS maintains healthy habitats for fish and wildlife resources, particularly endangered and threatened species; NPS protects natural and cultural resources in our parks; USGS protects and improves the quality and quantity of our Nation's water; and BOR manages, develops, and protects water and related resources on Reclamation project lands. DOI faces growing challenges in these areas as the demand for economic and recreational uses of our lands and water resources increases.

In FY 2001, OIG reviewed the potential damage to Indian Trust lands because of insufficient bonding for plugging of abandoned oil and gas wells and the use of substandard materials in reservation roads. OIG found that DOI could face a potential liability of as much as $584 million to plug the insufficiently bonded abandoned oil and gas wells of companies leasing Indian Trust lands and recommended that BIA and BLM, which share Indian Trust land leasing responsibility, initiate corrective actions. In regard to reservation roads, an investigation resulted in the conviction of a lab technician for falsifying lab records that allowed a BIA contractor to use substandard aggregate materials in constructing a 12-mile road. BIA estimates that restoration of the road to proper specifications will cost millions of dollars.

7. Revenue Collections. Although DOI collects over $8 billion in revenues each year, OIG and GAO reports have shown that bureaus could enhance revenues collected for royalty payments, recreational fees, and costs recovered for services provided. In 16 reports issued over the last four years, OIG identified more than $141 million in lost or potential additional revenues, including $71.7 million of undercollected royalties, $17.5 million lost because excess lands were not sold, and $6.6 million of unrecovered firefighting costs. Also, since 1998, OIG, MMS and the Department of Justice have recovered underpaid royalties of about $500 million through settlements with energy companies resulting from our investigations.

Because of the significant monetary amounts involved, OIG continues to devote substantial resources to revenue collection and are currently conducting three audits in this area: one on MMS royalty compliance, one on BOR billing and collection activities, and one on measurement activities of a gas processing plant operator for royalty payment determination purposes. The OIG FY 2002 work plan includes an additional eight reviews on revenue collection.

8. Government Performance and Results Act (GPRA) of 1993. DOI and its Bureaus face significant challenges in implementing GPRA requirements to establish performance goals and measures that effectively demonstrate mission accomplishment. In FY 2001, at the request of the Chairman of the U.S. House of Representatives Committee on Government Reform, OIG reviewed 10 DOI performance measures for FY 2000 and found that many needed to be clarified, expanded to include other Bureaus, or supplemented to explain their significance or to better describe reported accomplishments. During FY 2001, OIG continued or initiated reviews of specific performance measures at FWS and BLM, including the suitability of the measures used, methods of data collection, and procedures for data verification. Preliminary analyses indicate deficiencies in each of these areas, illustrating the considerable challenges that remain in meeting GPRA reporting requirements.

9. 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 an unending challenge requiring constant attention. In FY 2000, the volume of procurement activity exceeded $3 billion, of which over $2 billion was provided to states and Indian tribes in grants and other types of Federal aid assistance

DOI has reported on the material inadequacy of BIA's acquisition management organization, policies, procedures, and guidelines since FY 1991. DOI has also reported since 1999 that controls over management oversight and accountability in FWS's Federal Aid Program have been materially weak because of inadequate management controls and lack of a centralized audit follow-up program and guidance governing the administration of the Program. Implementation of corrective actions is not expected until FY 2002 and 2003.

Recently OIG completed an audit of procurement activities in DOI's integrated charge card program. We found that improper transactions went undetected because DOI had not established an effective process to review and validate purchases, sufficiently monitor and adjust credit limits, or deactivate ex-employee cards. The total effect of these deficiencies included not only the potential loss of monetary resources, but also the potential loss of confidence in the integrity of DOI operations.

OIG procurement audits currently in progress include evaluating the operation of MMS's Gov. Works procurement organization, evaluating DOI's Travel Card Program, and reviewing long-term water service contracts for BOR's Central Valley Project.

10. Emergency Management. The attacks on America on September 11, 2001, exposed the vulnerability of DOI employees, visitors, infrastructure, and national monuments to the extreme danger and damage caused by terrorist actions. As a result, OIG elevated the objective of ensuring the adequacy of DOI's contingency planning and preparedness for natural disasters and terrorist attacks to a critical management challenge. As part of responding to this new challenge, OIG recently completed a Comprehensive Assessment of DOI Law Enforcement, including a review of security and emergency preparedness within DOI, and provided several recommendations to the Secretary. Both OIG and DOI are committed to providing maximum protection to DOI resources under all possible circumstances, and OIG is now determining where it can best apply its resources to maximize its contribution to protecting DOI and its visitors.

Since September 11, DOI has also responded to the threat of terrorist activities by operating at a heightened level of security through reallocating currently budgeted funding and using $85.5 million of supplemental appropriations authorized by the President for disaster recovery and security needs. To implement its overall stratagem of providing heightened security for FY 2003 and beyond, DOI has established four priorities: (1) establishing security personnel in each Bureau, (2) protecting facilities that significantly affect national security or the economy, (3) identifying and upgrading the security for all appropriate facilities, and (4) strengthening law enforcement on DOI lands adjacent to the Nation's northern and southwestern borders. DOI has requested that its Bureaus prepare their budget needs for FY 2003 based on working towards achieving these established priorities.

Glossary of Acronyms

AML	Abandoned Mine Lands
ARTF	Aquatic Resources Trust Fund
ASG	American Samoa Government
BFC	Budget Functional Classification
BIA	Bureau of Indian Affairs
BLM	Bureau of Land Management
BOR	Bureau of Reclamation
CAP	Central Arizona Project
CBF	Combined Benefit Fund
C-I-P	Construction in Progress
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMM	Capabilities Maturity Model
CNMI	Commonwealth of the Northern Marianas
COTS	Commercial Off-the-Shelf Software
CSRS	Civil Service Retirement System
CUP	Central Utah Project
CUPCA	Central Utah Project Completion Act
DCIA	Debt Collection Improvement Act of 1996
DO	Departmental Offices
DOL	Department of Labor
EDS	Electronic Data Systems
EFT	Electronic Funds Transfer
EIRF	Environmental Improvement and Restoration Fund
EPA	Environmental Protection Agency
ESA	Endangered Species Act
FAIMS	Federal Assistance Information Management System
FASAB	Federal Accounting Standards Advisory Board
FBU	Funds Put to Better Use
FECA	Federal Employees Contribution Act
FEGLI	Federal Employee Group Life Insurance
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FHWA	Federal Highway Administration
FIRM	Foundation Information for Real Property Management
FMFIA	Federal Managers' Financial Integrity Act
FMIS	Federal Management Information System
FOGRMA	Federal Oil and Gas Royalty Management Act
FTE	Full-Time Equivalent
FWS	Fish and Wildlife Service
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HIF	Hydrologic Instrumentation Facility
HLIP	High Level Implementation Plan
HMA	Herd Management Area
HTF	Highway Trust Fund

IACB	Indian Arts and Crafts Board
IBLA	Interior Board of Land Appeals
IFF	Interior Franchise Fund
IIA	Interior Information Architecture
IIM	Individual Indian Monies
IM	Instructional Manual
IMC	Interior Management Council
LCS	List of Classified Structures
M&I	Municipal and Industrial
MCAF	Management Control and Audit Followup
MCAF-TS	Management Control and Audit Followup - Tracking System
MD&A	Management Discussion and Analysis
MMS	Minerals Management Service
MRM	Minerals Revenue Management
NAGPRA	Native American Graves Protection and Repatriation Act
NBC	National Business Center
NEPA	National Environmental Policy Act
NRDAR	National Resources Damage Assessment and Restoration Fund
NPS	National Park Service
NWIS	National Water Information System
NWRS	National Wildlife Refuge System
O&M	Operation and Maintenance
OAS	Office of Aircraft Services
OCS	Outer Continental Shelf
OCSLA	Outer Continental Shelf Lands Act
OHA	Office of Hearings and Appeals
OHTA	Office of Historical Trust Accounting
OIA	Office of Insular Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSM	Office of Surface Mining
OST	Office of the Special Trustee for American Indians
OTFM	Office of Trust Funds Management
PFM	Office of Financial Management
PILT	Payments in Lieu of Taxes
PP&E	Property, Plant and Equipment
RCRA	Resource Conservation and Recovery Act
RFD	Rural Fire District
RIK	Royalty-in-Kind
RMP	Resource Management Plan
RSSI	Required Supplementary Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
SMRA	Special Recreation Management Areas
TAAMS	Trust Asset and Accounting Management System
TFAS	Trust Funds Accounting System
USBM	U.S. Bureau of Mines
USGS	U.S. Geological Survey
VSC	Visitor Survey Card
VSP	Visitor Survey Project

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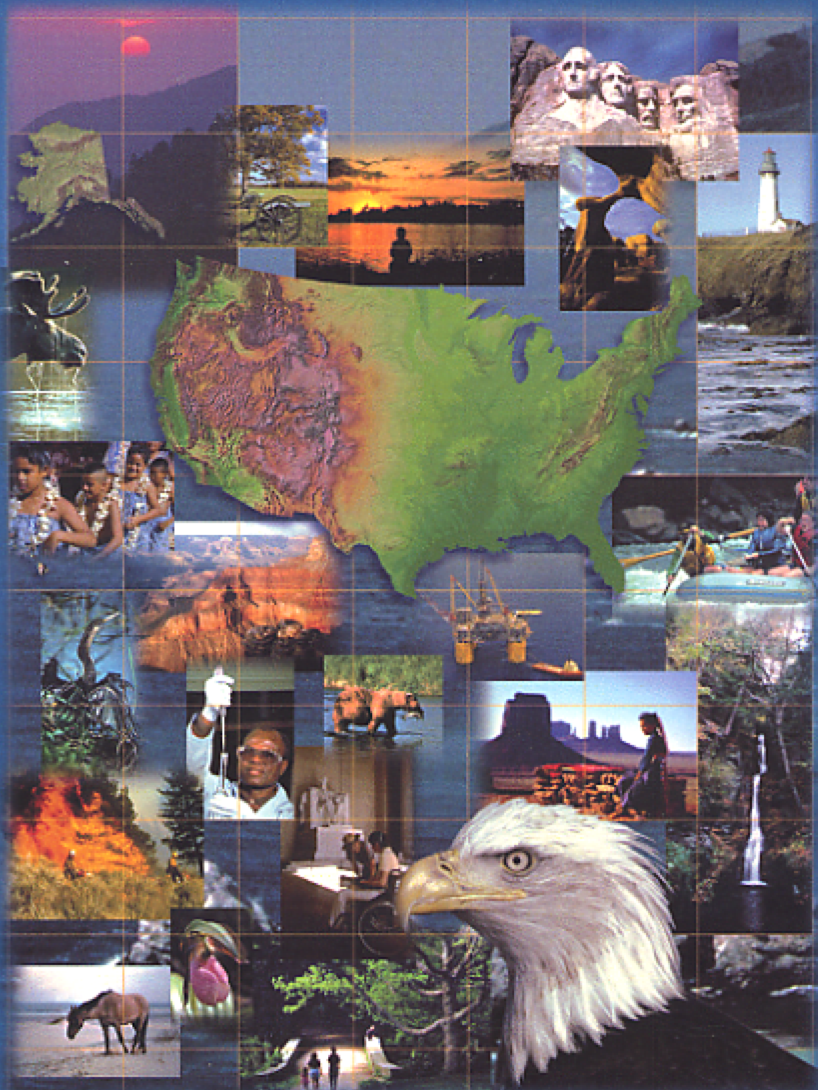
Wildfire Management at the Department of the Interior

The Department of the Interior is home to four of the five federal government land management agencies: the Bureau of Land Management, the National Park Service, the Bureau of Indian Affairs, and the Fish and Wildlife Service; the Department of Agriculture's U.S. Forest Service is the fifth land management agency. The 2000 fire season led to the development of the National Fire Plan, a joint Interior and Forest Service strategy to improve the effectiveness of the wildland fire program to better protect communities and the environment from future wildfire devastation.

The Department made significant progress in implementing the plan's recommendations in 2001, including an aggressive hiring program to staff essential firefighting positions; the purchase of necessary equipment; the contracting of aircraft; and the repair of fire facilities. The year 2001 also included an unprecedented level of interagency cooperation with the Forest Service as well as outreach and partnership activities with states and local government agencies, Indian tribes, other federal partners, and non-governmental organizations in the development of the 10-year Comprehensive Strategy. The Department and the Forest Service continue to work together to develop a common set of long-term goals and performance outputs with which to measure the performance of the wildland fire program.



U.S. DEPARTMENT OF THE INTERIOR

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Bureau of Land Management

Minerals Management Service

Office of Surface Mining
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U.S. Fish and Wildlife Service

National Park Service

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