

CHAPTER 1. OVERVIEW

Interior's 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.”

The American people have had a long-term investment in the resources managed by the Department of the Interior (DOI). From its establishment in 1849, the Department has managed many and varied programs including Indian affairs, administering land grants, improving historic western emigrant routes, maintaining boundaries, administering pension laws, issuing patents, conducting the census, and conducting research on the geological resources of the land. Following the conservation movement at the beginning of the 20th century, however, the Department focused its attention on the preservation, management, understanding, and use of natural and cultural resources.

Interior's Mission

The Department's mission is 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. Charged with this mission, the Department balances the protection of the Nation's investment in its natural and cultural resources with access and use of recreational, cultural, and natural resources to benefit the American people.

The Department strives to ensure that the funding the American people provide is used as efficiently and productively as possible. To that end, the Department continuously seeks to improve performance, provide customers with responsive service, and produce concrete, measurable results. Over the years, the Department has been a leader in various initiatives to improve the federal government by reducing our workforce in response to the Federal Workforce Restructuring Act of 1994 and taking steps to improve support to employees in the field who are in direct contact with the public. Other driving forces promoting improved efficiency and effectiveness include the Chief Financial Officers Act of 1990 (CFO Act), the Government Performance and Results Act of 1993 (GPRA), the Government Management Reform Act of 1994 (GMRA), the Federal Acquisition Streamlining Act of 1994, the Information Technology Management Reform Act of 1996 (ITMRA), the Debt Collection Improvement Act of 1996 (DCIA), and the Federal Financial Management Improvement Act of 1996 (FFMIA).

Implementing the President's Management Agenda

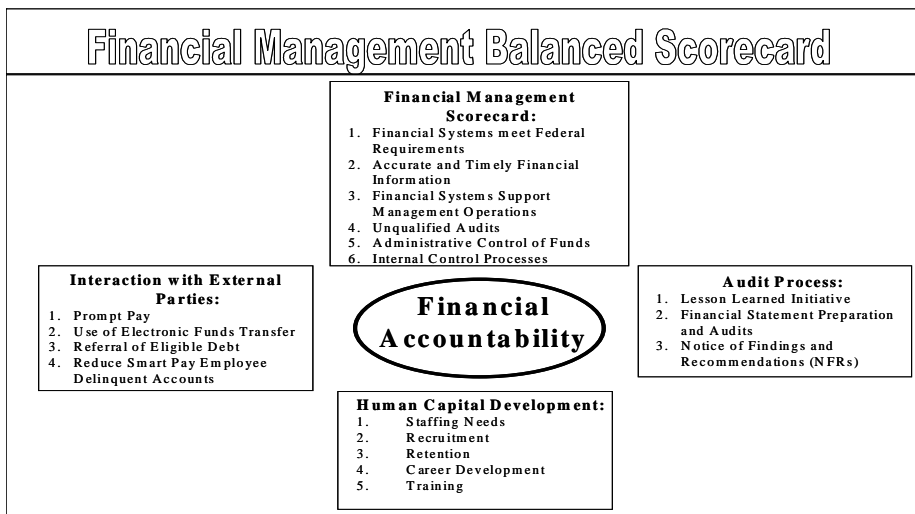
The "President's Management Agenda" established five governmentwide goals for improving federal management and delivering results that matter to the American people. These goals are: (1) strategic management of human capital; (2) competitive sourcing; (3) improved financial performance; (4) expanded electronic government; and (5) budget and performance integration. The Department is firmly committed to implementing the agenda through its "Plan for Citizen-Centered Governance - Adding Customer Value by Linking Accountability, Modernization and Integration." To that end, the Department has developed a management reform strategy 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.

Improving financial performance involves meeting the objective of improved accountability through the effective and efficient implementation of the President's Management Agenda. This objective will be balanced with the support for the infrastructure of human capital, systems, and processes necessary for the ongoing support to program and program managers to achieve Interior's mission. To accomplish this, the Department's financial management function has established a balanced scorecard to achieve its objectives (see *Exhibit 1-1*).

The interaction of the initiatives to achieve the President's Management Agenda (including improving financial management systems, along with the audit process, efforts to improve

Exhibit 1-1



tracking and improve interaction with external parties, and efforts to invest in human capital development) all work together to achieve financial accountability in the Department. In this plan, the Department has outlined its objectives, its accomplishments in achieving those objectives and its plans for the future. The plan includes the goals and strategies along with performance measures, efforts involved in improving financial management, activities to maintain and improve financial management systems, initiatives to improve grants management and initiatives associated with enhancing the Department's human capital investment.

Collaborative Working Relationships

Interior recognizes that to improve financial management and effectively re-engineer and streamline financial management activities and processes, it is imperative that collaborative working relationships be established between program and financial managers. To that end, the Secretary has set in motion several reforms that will help to ensure integrated planning, leadership, and assessment of the Department's programs:

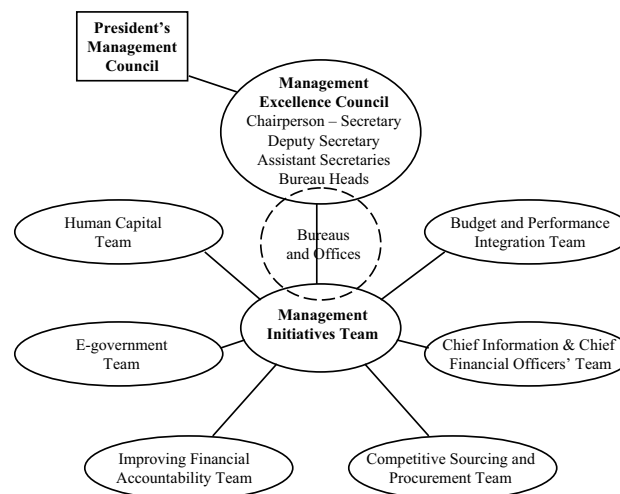
Effective Leadership and Management Oversight: The Department has established a Management Excellence Council, which is chaired by the Secretary and includes the Deputy Secretary, Assistant Secretaries, and bureau heads. The Council will provide leadership, direction, and accountability to implement the Administration's goals and provide overall direction and oversight of the Department's management reform activities. To support the Management Excellence Council, a set of senior-level teams have been established that are linked to the five governmentwide initiatives. These cross-departmental teams, which are chaired by the Assistant Secretary - Policy, Management and Budget, her Deputies, or the Chief Information Officer, will ensure that all departmental management reform efforts are collaborative and coordinated. *Exhibit 1-2* illustrates the Department's new management oversight structure.

Exhibit 1-2

Organizing for Management Excellence at the Department of the Interior

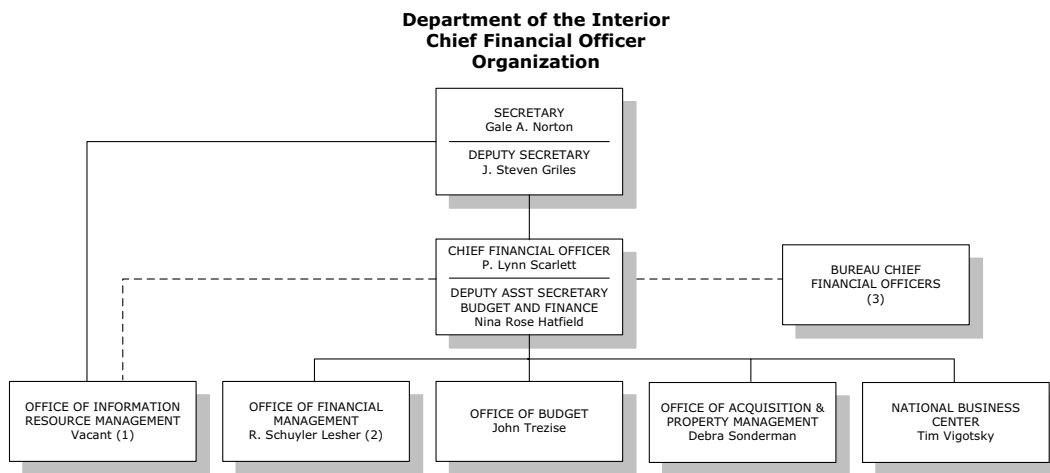
Initiatives the Management Excellence Council will pursue include the President's five management goals to accomplish the Department's goal to Manage for Excellence and Accountability:

1. Integrating budget and performance
2. Managing human capital
3. Utilizing competitive sourcing
4. Improving financial accountability
5. Expanding electronic government



In addition to the leadership and oversight function, the Department has a sound Chief Financial Officer (CFO) organization that is capable of successfully meeting the current and future challenges in federal financial management. The CFO organization (see *Exhibit 1-3*) is headed by the Assistant Secretary - Policy, Management and Budget who is also the Department's CFO. The Department CFO provides leadership in program planning, budget, and policy matters; oversees compliance with environmental statutes and standards; develops and maintains internal administrative policy, standards, objectives, and procedures for use throughout the Department; oversees the administrative appeals process; and undertakes special analytical and administrative support services for the Office of the Secretary. In addition, the Department's CFO leads the Interior CFO Council in addressing emerging financial management issues and fulfilling its financial management vision.

Exhibit 1-3



- (1) Chief Information Officer - Reports to the Secretary and receives administrative guidance from the Deputy Assistant Secretary for Budget and Finance
- (2) Deputy Chief Financial Officer and Director of Financial Management
- (3) Assistant/Associate Director - Finance and Administration

Administrative Partnerships: The Department has established a number of partnerships to improve coordination within its administrative communities and to develop solutions to specific issues. These include:

- **Finance Officers' Partnership (FOP):** The FOP was established to enable the Department to work better and cost less through the collaborative planning, development, and implementation of improved financial management policies and practices. The FOP has established subcommittees or working groups to focus on important financial management issues that confront the Department, including:
 - *Software Advisory Board (SAB)* provides analytical and technical support to the FOP in the areas of FFS software design, development, and implementation.
 - *Standard Accounting Classification Advisory Team (SACAT)* establishes and maintains a common approach among the bureaus for addressing accounting classification issues including Standard General Ledger (SGL) maintenance, accounting policy and procedures, internal controls, and reporting requirements.

- *Financial Statements Guidance Team (FSGT)* coordinates bureau and departmental preparation of financial statements.
 - *Operations Accounting Group (OAG)* coordinates efforts of bureau finance offices and the Department to improve the effectiveness and efficiency of financial management procedures and practices.
 - *Budget Execution Reporting Working Group (BERWG)* coordinates and improves budget execution processes and reporting practices.
 - *Cost Accounting Work Group (CAWG)* facilitates implementation of FASAB Standard No. 4, Managerial Cost Accounting.
 - *Accounting for Eliminations Team (AET)* addresses issues related to financial statement treatment of interbureau transactions.
- *Property Management Partnership (PMP)*: The PMP, comprised of personal, real, and museum property management officials from the bureaus and the Department, was formed in FY 1997 to increase productivity, promote multi-bureau initiatives, and avoid the costly development or modification of duplicative, independent, stand-alone property systems.
 - *Acquisition Managers' Partnership (AMP)*: The AMP, comprised of senior procurement managers from Interior's bureaus, was formed in FY 1998 to serve as a forum to work cooperatively and continuously to improve the management, efficiency, and effectiveness of procurement services in support of Interior's mission.
 - *Interior Federal Assistance Working Group (IFAWG)*: The IFAWG was established to provide a focal point for coordinated federal assistance activities of Interior bureaus and offices. The IFAWG provides an opportunity for representatives from bureaus and offices to provide input into the formulation and implementation of federal assistance policies.

Financial Management Vision and Goals

Interior's Financial Management Vision Statement

“Provide the public and Interior employees with high quality financial and performance information for effective policy, management, stewardship, and program decisions.”

The framework and strategic direction for financial management improvements in the federal government is established through the President's Management Agenda and the challenges to improved financial performance specified in the Office of Management and Budget and the CFO Council Federal Financial Management Report for 2002 (see summary on the next page).

The Department of the Interior has worked diligently over the years to provide high quality financial and performance data to managers and to report accurate information to external parties. The annual CFO financial statement audit process for the Department and bureaus has been and continues to be a challenging task. The Department has a fiduciary responsibility to accurately account for the funds entrusted to it and to guarantee that systems and processes are in place to ensure program and financial integrity. Over the past four years, Interior has received an unqualified or “clean” audit opinion on the consolidated financial statements published in the Department’s Annual Accountability Report. The Department has also been awarded the Association of Government Accountants Certificate of Excellence in Reporting (CEAR) for the past two years.

**OMB and CFO Council
Federal Financial Management Report 2002
Challenges to Improved Financial Performance**

- Improve financial systems
- Correct material weaknesses identified in financial statement audit opinions and annual assurance statements required by the Federal Managers’ Financial Integrity Act (FMFIA)
- Reduce erroneous payments
- Improve asset management
- Improve the reconciliation of intragovernmental transactions
- Revise program costing to “Budget for Results”

The achievement of clean audit opinions for the consolidated and bureau financial statements was due in large part to extremely labor-intensive efforts to reconcile various systems necessary to provide financial statement information and to overcome certain system control and security deficiencies. To improve this situation and to balance the many competing demands on bureau financial management and Office of Inspector General staff, the Department began contracting with private sector audit firms in FY 2001 to conduct financial statement audits. This practice is followed by nearly all major CFO Act Departments and agencies. The contracting out of financial statement audits has mitigated demands on financial management and audit staff; however, much remains to be done.

The Department, with its very large and diverse portfolio, has focused efforts over the past few years on correcting material weaknesses reported under the Financial Managers Financial Integrity Act (FMFIA). The Department has reduced the number of FMFIA material weaknesses from 170 to 17 and the number of material systems non-compliance issues from 64 to 1. Interior continues to focus on correcting material weaknesses and non-compliance issues reported by the Department’s financial statement auditors. The Department, however, continues to be challenged by the remaining FMFIA material weaknesses, including inadequate management of Indian Trust Funds and inadequate computer security. While these and other issues are being addressed with extensive resource commitments, the issues are complex and will require several years to resolve.

“As part of a continuing effort to improve management accountability, we are reinvigorating a departmental 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 timelines and actions that will resolve these weaknesses.”

*P. Lynn Scarlett
Assistant Secretary - Policy, Management
and Budget
(February 2002)*

Key departmental financial management systems that are critical to the sound management of Interior's diverse and geographically diffuse operations and programs are in urgent need of replacement. Many systems in Interior's eight major bureaus are not integrated, which makes it difficult to maintain the quality of financial information. The systems do not have the necessary security capabilities to facilitate more open access via the Internet. Vendors currently supporting these systems may not support the aging software in the future. Additional demands are being placed on these systems to comply with federal financial accounting standards and requirements to produce audited financial statements. The need to provide up-to-date financial information to managers for decisionmaking purposes and the need to prepare quarterly financial statements for the Office of Management and Budget and Interior management are further stretching the ability of existing financial management systems to respond to departmental needs. Additionally, major changes to financial management systems will be necessary to comply with new security, privacy, and electronic government requirements mandated by the Government Paperwork Elimination Act (GPEA).

In 1998, the Interior Chief Financial Officers (CFO) Council established the Financial Management Systems Migration Steering Committee to provide senior level leadership in the planning, acquisition, and implementation of replacements for existing Interior financial management systems. Both of the Department's core accounting systems, FFS and ABACIS, are at the end of their useful lives. FFS is a mainframe computer system based on outdated technology that was first implemented 13 years ago. The system, which is technologically obsolete and cumbersome, does not meet reporting requirements established by current federal accounting standards. The FFS vendor has developed and is currently marketing a new generation of core accounting system software and is discontinuing support and modifications to the old version of FFS. ABACIS is an in-house application that was developed by Interior and can no longer be supported. It is imperative that the Department replace both of these antiquated systems with a contemporary system that complies with an "open system architecture" environment within the next few years.

"Financial officers can be the nexus for collecting information, but financial officers are dependent on program managers throughout the bureaus for information such areas as property management, equipment, obligations, and undelivered orders that are managed by program managers not financial staff. Ultimately, financial accountability resides with bureau management, not the finance staff."

*P. Lynn Scarlett
Assistant Secretary - Policy, Management
and Budget
(February 2002)*

The Steering Committee has taken the lead in developing a systems migration strategy to ensure that any new replacement system (1) adheres to the Department's information systems architecture and (2) allows for full integration among the Department's financial management systems. The Steering Committee identified the following two principal objectives for the Financial Management System Migration Project:

- (1) Develop a strategy for replacing and integrating Interior financial management systems; and
- (2) Improve financial management business processes throughout the Department.

The Interior CFO Council has endorsed the Steering Committee recommendation for a new financial management system that adheres to Interior's information systems architecture and conforms with the Joint Financial Management Improvement Program's "Framework for Federal Financial Management Systems." This initiative is a very high priority item for the Department but is dependent on adequate funding for success.

Addressing the issues mentioned above and maintaining day-to-day financial management operations of the Department of the Interior continues to require significant resources and management attention. To accomplish these objectives, the Department must include not only financial management staff but also program, information technology, property management, acquisition, and other personnel in the Department. This Financial Management Status Report and 5 Year Plan outlines what the Department has accomplished and explains plans for the future in the areas of (1) financial performance, (2) financial management systems, (3) grants management, and (4) financial management human capital.