

CHAPTER 3. FINANCIAL PERFORMANCE

The Department is committed to supporting the President’s Management Agenda that includes the objective to “Improve Financial Accountability.”

The major elements of the Department efforts to improve financial management are shown in *Exhibit 3-1*. Appendix A provides detailed information regarding the Department’s Financial Management Improvement Scorecard.

Exhibit 3-1

| Financial Management Improvement Scorecard |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Financial management systems meet federal financial management system requirements and applicable federal accounting and transaction standards |
| 2. Accurate and timely financial information |
| 3. Integrated financial and performance management systems supporting day-to-day operations |
| 4. Unqualified (Clean) and timely audit opinion on annual financial statements; and no material internal control weaknesses or non-compliance with laws and regulations reported by the auditors. |
| 5. Administrative Control of Funds |
| 6. Bureau head able to provide unqualified assurance statement as to systems of management, accounting, and administrative controls. |

The specific, crosscutting initiatives to improve financial accountability and management are discussed in this section of the report and include improving financial management reporting, ensuring management accountability and control, improving asset management and financial operations, and providing data stewardship.

Improving Financial Management Reporting

The Department’s financial reporting goals are to achieve and maintain unqualified audit opinions for departmental and bureau financial statements, to strengthen financial controls, and to ensure that financial data produced for management decisionmaking is reliable, verifiable, and consistent with the annual audited financial statements.

As part of this objective the Department continues to focus on preparing and publishing complete, concise, understandable, and meaningful information about the financial and operating performance of the Department and the individual bureaus, offices, and programs that comprise the Department. The Chief Financial Officers’ Act (CFO Act), as amended by the Government Management Reform Act (GMRA), requires agencies to prepare and publish annual agencywide financial statements.

In FY 1996, the Department prepared its first Accountability Report under a pilot program established by the Office of Management and Budget under the Government Management Reform Act. The Department’s Accountability Report provides readers with consolidated

financial statement data and information on operating performance and management integrity that demonstrates Interior's stewardship over the assets, missions, and responsibilities entrusted to it. The report integrates the multiple financial management and performance measurement requirements of the CFO Act, the Government Performance and Results Act (GPRA), the GMRA, and the Federal Managers' Financial Integrity Act (FMFIA) into a comprehensive process.

The Department continues to prepare an Accountability Report on an annual basis, revising and expanding the content of the report as necessary to adapt to changing requirements and to meet the needs of interested parties. The Department's financial reporting strategy also includes the preparation of bureau annual reports and financial statements. The Department believes there are significant and long-term benefits of bureauwide statements, including verification of the financial and cost accounting data used by management; presentation of a clear and concise summary of bureau operations, accomplishments, and concerns; and identification and correction of operating weaknesses such as inventory management and collection of accounts receivable by working capital funds. For FY 2002, under the Reports Consolidation Act of 2000, the Department is required to combine the Accountability Report with the Annual Performance Report into a Performance and Accountability Report.

To improve financial reporting, the Department is focusing on the following:

- Improving the financial statement preparation process;
- Preparing financial statements and correcting financial statement audit findings;
- Improving the linkage of financial statement reporting to performance reporting; and
- Correcting Federal Financial Management Improvement Act (FFMIA) deficiencies.

Improving the Financial Statement Preparation Process

In the spring of 2002, the Department undertook an assessment of the financial statement preparation process. This process, entitled "Lessons Learned," involved the Assistant Secretary – Policy, Management and Budget (AS/PMB), Bureau Directors, Bureau Chief Financial Officers, the Office of Inspector General (OIG), and the Department's external auditors (KPMG). Based on the results of the review, a number of recommendations and action items for improvements were identified and are currently being implemented by the Department.

The "Lessons Learned" process identified a number of improvement initiatives, including: (1) clearer understanding of the requirements; (2) better processes; (3) human capital; (4) improved coordination; and (5) guidance.

Exhibit 3-2 shows the results of the Lessons Learned Process, the steps to address the finding, the target completion data, and the current status.

Exhibit 3-2

| LESSON | STEPS TO ADDRESS | TARGET COMPLETION DATE | STATUS |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Clearer Understanding of the Requirements | | | |
| Scope: The scope of audit needs to be clearly defined so that bureaus and offices are clear on expectations. | Finalize audit schedule and define expectations for each of the major steps in the schedule. | April 2002 | Completed on Target |
| | Include in financial statement guidance. | June 2002 | Completed on Target |
| Format: The formats for information requests need to be clear and consistent. | Define and agree upon standard formats for information requests. | May 2002 | Completed on Target |
| | Include approved formats in financial statement guidance. | June 2002 | Completed on Target |
| Roles: The respective roles for the Office of Financial Management, OIG, bureaus/offices, and the auditors (KPMG) need to be clearly defined. | Work with OIG, KPMG, PFM, and Bureau Finance Officers to identify and agree upon critical roles and responsibilities for the financial statement preparation process. | April 2002 | Completed on Target |
| | Include roles and responsibilities definitions in financial statement guidance. | June 2002 | Completed on Target |
| Schedule: The schedule for year-end closing activities needs to be defined clearly in the financial statement preparation guidance. | At April workshop on improving financial statement process, review interim and year-end financial statement schedule and timing of closing. | April 2002 | Completed on Target Conference held in Colorado on April 22-25, 2002. Approximately 90 finance personnel attended. |
| | Incorporate recommendations on revised schedule into financial statement guidance. | June 2002 | Completed on Target |
| Better Processes | | | |
| Feedback from Auditors: Bureaus and offices need to be provided timely implementation recommendations on internal controls and compliance with laws and regulations. | Assemble bureau plans for internal control findings and non-compliance with laws and regulations. | March 2002 | Completed on Target |
| | Determine departmentwide issues to be addressed over next six months with detailed implementation plan. | March 2002 | Completed on Target |
| | Monitor departmentwide implementation. | September 2002 | Ongoing |

Exhibit 3-2 Continued

| LESSON | STEPS TO ADDRESS | TARGET COMPLETION DATE | STATUS |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <i>Bureau-Specific Findings from the Audit:</i> Bureaus are to identify strategies to address findings of audit. | Bureaus to provide AS/PMB with priorities, implementation strategies, and timelines. | Initial Plans March 2002 Progress being monitored and modifications being made based on 2002 audit findings | Initial Plans received in March 2002 Progress being monitored through audit tracking and management control process |
| | Prepare grid of common findings from audit. | May 2002 | Completed on Target |
| | Monitor bureau progress in addressing audit findings. | September 2002 | Ongoing |
| <i>Legal Issues:</i> The process for reporting legal matters needs to be improved. | PFM and SOL define requirements. | April 2002 | Completed June 2002 |
| | PFM and SOL devise system. | June 2002 | Completed June 2002 |
| | Establish procedures for implementation. | July 2002 | Completed on Target |
| <i>Review Procedures:</i> Need clear procedures for multi-level review of documents <ul style="list-style-type: none"> • Review by auditors • Internal review | Work with OIG, auditors, and bureaus/offices to propose review procedures. | April 2002 | Completed on Target. Notice of Finding and Recommendation (NFR) process to be used to highlight and track resolution of issues |
| | At April workshop on improving financial statement process, evaluate proposed review procedures. | April 2002 | Completed at Colorado Springs Workshop |
| | Incorporate recommendations on review procedures into financial statement guidance. | June 2002 | Completed on Target |

Exhibit 3-2 Continued

| LESSON | STEPS TO ADDRESS | TARGET COMPLETION DATE | STATUS |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Resolution of Differences: Need improved method for resolving differences quickly when they arise between auditors, Department, and bureaus</p> | <p>Work with OIG, auditors, and bureaus/offices to propose process for resolving differences. Consider Alternative Dispute Resolution (ADR) process as a means to resolve differences.</p> | <p>April 2002</p> | <p>Completed on Target Agreement reached that would use NFR process to highlight and resolve issues</p> |
| | <p>At April workshop on improving financial statement process, evaluate proposed procedures.</p> | <p>April 2002</p> | <p>Completed on Target Discussed at audit entrance conferences rather than at April workshop.</p> |
| | <p>Incorporate recommendations on procedures into financial statement guidance.</p> | <p>June 2002</p> | <p>Completed on Target Roles and responsibilities included in Financial Statement Guidance and issue discussed in bureau entrance conferences.</p> |
| <p>Human Capital Issues</p> | | | |
| <p>Staffing Needs: Bureau and Department finance offices need additional staffing resources to complete future financial audits in a timely manner with minimal impacts to staff and other ongoing processes.</p> | <p>See Chapter 6 “Human Capital”</p> | | |
| <ul style="list-style-type: none"> Need to recruit and retain qualified entry-level staff. | <p>See Chapter 6 “Human Capital”</p> | | |
| <ul style="list-style-type: none"> Need incentives to recruit and retain mid/senior level staff (<i>some bureau finance offices have the highest turnover rates within their bureaus</i>). | <p>See Chapter 6 “Human Capital”</p> | | |
| <ul style="list-style-type: none"> Succession planning is needed to ensure that leadership and other critical skills are available when retirements or separations occur. <i>Some bureaus expect Finance Officers or other key staff to retire within next year.</i> | <p>See Chapter 6 “Human Capital”</p> | | |
| <ul style="list-style-type: none"> Training - Financial Staff: Additional training is needed for Bureau/Office and Departmental Financial Management staff on the financial statement preparation and audit process. | <p>See Chapter 6 “Human Capital”</p> | | |
| <p>Training - Program Managers: Additional training is needed for bureau program managers on the financial statement preparation and audit process.</p> | <p>See Chapter 6 “Human Capital”</p> | | |

Exhibit 3-2 Continued

| LESSON | STEPS TO ADDRESS | TARGET COMPLETION DATE | STATUS |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Training for Auditors: Auditors need training to better understand the Department's programs and processes. An improved process is needed for sharing information with KPMG audit staff. <i>FY 2001 was first year of KPMG Departmental audit, which created a steep learning curve.</i></p> | See Chapter 6 "Human Capital" | | |
| Improved Coordination | | | |
| <ul style="list-style-type: none"> Budget and Finance: Budget and Finance Offices need to develop better understanding and coordination of common issues. | Hold Budget/Finance Seminar to address issues that are common to both the budget and finance communities. | June 2002 | Completed on Target Three-day conference held in Lancaster, PA on June 11-13,2002. Approximately 150 budget and finance personnel attended. |
| | Identify specific issues from the audit where a lack of coordination and understanding created problems. How to make this an ongoing effort beyond the Budget and Finance conference. | July 2002 | Completed on Target List of action items from the Conference developed dates for completion. |
| | As part of review of organizational structures, work with human resources staff to ensure that organizational structures help facilitate coordination between Budget and Finance Offices rather than create impediments. | September 2002 | Underway |
| <ul style="list-style-type: none"> Performance Reporting: The coordination between the bureaus/offices financial staff and the requirements for performance reporting needs to be improved. | Establish criteria for bureau measurement on success in Improving Financial Management based on the Presidential Criteria for use in the Scorecard Process. | April 2002 | Completed on Target |

Exhibit 3-2 Continued

| LESSON | STEPS TO ADDRESS | TARGET COMPLETION DATE | STATUS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <i>Intra-bureau Transaction Tracking:</i> The process for tracking intra-bureau transactions needs improvement. | Complete Elimination Working Group efforts to develop recommendations to improve intra-bureau transaction processes. | May 2002 Target Date Revised to September 2002 | Effort underway. Draft plan prepared with target dates through 2003. |
| <ul style="list-style-type: none"> <i>Finance/CIO Linkage:</i> The finance offices need a better linkage with the CIO on computer security issues. <i>Computer security issues were a common finding in the financial statement audit.</i> | Clarify roles and responsibilities on security functions between the National Business Center and bureaus | May 2002 | Completed on Target |
| <ul style="list-style-type: none"> <i>“Lessons Learned” Materials:</i> To benefit from the experiences of others, Bureaus/Offices should receive the “lessons learned” materials. | Distribute “lessons learned” with cover note from the CFO to Assistant Secretaries, Bureau Heads, and the Management Initiative Team (MIT). | March 2002 | Copies were distributed to Assistant Secretaries and Bureau Directors at the March 14 Management Excellence Council meeting and to MIT members at the March 18 MIT meeting. |
| <i>Other</i> | | | |
| <i>Financial Statement Preparation and Audit Guidance:</i> Guidance needs to be provided to the bureaus/offices in a more timely manner. | <ul style="list-style-type: none"> Prepare FY 2002 calendar of events to help planning efforts. Issue Financial Statement Guidance. Update as necessary for FY 2002. | May 2002 June 2002 September 2002 | Completed on Target Completed on Target Ongoing |

Preparing Financial Statements and Correcting Financial Statement Audit Findings

The benefits of financial statement audits and, in particular, obtaining unqualified opinions are twofold: (1) providing quality data to external parties; and (2) ensuring that the books and records used by management can withstand the rigors of the audit process. Unqualified opinions provide independent assurance to external users that the information provided is reliable. Moreover, the discipline required to produce annual financial statements and audits demand that appropriate management attention and oversight is directed to the maintenance of high quality agency financial management and compliance with applicable laws and regulations.

The audit process includes: (1) an opinion on the financial statements; (2) the results of the consideration of internal controls, and (3) the results of tests of compliance with laws and regulations.

Financial statement audit results are summarized in *Exhibit 3-3*.

Exhibit 3-3

| | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|------------------------------------|----------------|-------------------|----------------|----------------------------|------------------|----------------|----------------|
| Departmental Consolidated | Qualified | Qualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Fish and Wildlife Service | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Qualified | Unqualified |
| U.S. Geological Survey | Qualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Disclaimer |
| Bureau of Indian Affairs | Qualified | Qualified | Qualified | Qualified | Unqualified | Unqualified | Unqualified |
| Bureau of Land Management | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Minerals Mgmt Service | Unqualified | Unqualified | Unqualified | No Statements Prepared | Unqualified * | Unqualified * | Unqualified |
| Bureau of Mines | Unqualified | Bureau Eliminated | N/A | N/A | N/A | N/A | N/A |
| National Biological Service | Unqualified | Merged with USGS | N/A | N/A | N/A | N/A | N/A |
| National Park Service | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Bureau of Reclamation | Unqualified | Unqualified | Unqualified | Unqualified | No report issued | Unqualified | Unqualified |
| Office of Surface Mining | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Departmental Offices | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Office of Insular Affairs | Unqualified | Unqualified | Unqualified | Combined with Dept Offices | N/A | N/A | N/A |

* Custodial revenues only.

Financial Statements

The objective is to maintain an unqualified audit opinion on the financial statements for the Department and achieve unqualified audit opinions on all bureaus of the Department.

FY 2002 Accomplishments

- *Preparation of the Department's sixth Accountability Report under an OMB-sponsored pilot program:* The FY 2001 Accountability Report included audited consolidated financial statements for the Department, which for the fifth year in a row, received an unqualified audit opinion. This report included enhanced segment and program information that linked financial and GPRA performance information.
- *Preparation and audit of FY 2001 financial statements for the Department's nine bureaus and operating components:* Of the nine audited Interior bureaus/offices issuing financial statements, eight received unqualified audit opinions, indicating that the financial information presented was fairly stated in all material respects.
- *Participation in the Association of Government Accountants (AGA) Certificate of Excellence Program:* The Department's FY 2000 and 2001 Accountability Reports earned a Certificate of Excellence from the Association of Government Accountants. In addition, the comments received from this review continue to be used to improve Interior's Accountability Reports.
- *Enhancement of the Consolidated Financial Statement application to permit bureau access to the Hyperion Enterprise application:* This system enhancement allows each bureau finance office to participate directly in the data collection process via the Citrix server capability. This capability is being used to prepare the FY 2002 financial statements for the Department (see Chapter 4 for additional information).

FY 2003 Planned Actions

Complete the preparation and audit of FY 2002 consolidated financial statements and bureau financial statements by the statutory deadline of January 31, 2003.

- Continue the preparation of quarterly financial statements, including the Statement of Budgetary Resources, for bureaus and operating components.
- Establish and implement a central database to merge the financial data contained in the Hyperion applications with non-financial attributes in support of departmentwide FACTS II reporting to the Department of Treasury.
- Streamline the financial data collection process to permit more timely preparation of the annual audited financial statements as well as the preparation of periodic unaudited financial reports for management. This will include continued enhancement of the Consolidated Financial Statement application to further streamline the process. This streamlining will improve the efficiency of the FY 2003 FACTS II submission from the bureaus to the Department of the Treasury and improve the efficiency of the single departmentwide FACTS I submission.

Internal Control Findings From Audited Financial Statements

The objective for the Department is to achieve an auditor's Report on Internal Controls for the consolidated financial statement that has no material weaknesses identified. Individual bureaus also have goals to achieve an auditor's Report on Internal Controls with no material weaknesses. The material weaknesses reported in the Department's 2001 Report on Internal Controls are included in *Exhibit 3-4*.

Exhibit 3-4

| 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 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 reconciled adequately supported, timely and independently reviewed throughout the year. | 9/30/03 | 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. | 9/30/03 | New |

Exhibit 3-4 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 of proprietary and budgetary accounts, and routinely monitor compliance with Anti-Deficiency Act. | 9/30/03 | 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 differences 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. | 9/30/03 | New |
| USGS | Inadequate Controls Over Revenue Cycle | Consolidate the functionality of several administrative systems, perform internal control reviews of the two revenue systems, and clarify procedures related to the revenue cycle. | 9/30/03 | 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 safeguards 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 |

FY 2002 Accomplishments

During FY 2002, the Department continued to correct material weaknesses identified by the financial statement auditors in their Report on Internal Controls. Significant accomplishments include the following:

- Corrective actions are in process on 24 of the 37 (65 percent) material weaknesses identified in FY 2001.
- Achieved significant progress in the resolution of the Information Technology material weakness for the Department.

FY 2003 Planned Actions

- Complete corrective actions for all material weaknesses identified in FY 2002.
- Complete corrective actions for the Department's Information Technology material weakness.

Issues of Non-Compliance with Laws and Regulations

The objective for the Department is to achieve a Report on Compliance with Laws and Regulations prepared by the financial statements auditors associated with the consolidated financial statements published in the Accountability Report with no non-compliance issues identified. Individual bureaus also have goals to achieve a Report on Compliance with Laws and Regulations with no identified non-compliance issues. The 17 non-compliance issues reported in the Department's FY 2001 Report on Compliance with Laws and Regulations are presented in *Exhibit 3-5*.

Exhibit 3-5

**U.S. Department of the Interior
FY 2001 Audited Financial Statements
Non-Compliance Issues**

| Bureau | Non-Compliance Issue | Corrective Action | Target Date |
|---------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| BOR | Debt Collection Improvement Act of 1996 | Establish procedures to consider the need for an allowance on loan receivables in each supporting period | September 30, 2002 |
| BOR | Federal Financial Management Improvement Act of 1996 (FFMIA) | Improve EDP security and general control environment to comply with the requirements of OMB Circular FFMIA Automated Information Systems | July 1, 2002 |
| FWS | Federal Financial Management Improvement Act of 1996 (FFMIA) | Improve EDP security and general control environment to comply with the requirements of OMB Circular FFMIA Automated Information Systems | September 30, 2002 |
| FWS | Federal Accounting Standards | Strengthen procedures and internal controls to ensure financial statements and related disclosures are prepared in accordance with federal accounting standards. | September 30, 2002 |
| MMS | Prompt Payment Act | Ensure that penalties are consistently included in late payments | June 30, 2002 |
| MMS | Federal Financial Management Improvement Act of 1996 (FFMIA) | Improve EDP security and general control environment to comply with OMB Circular A-130, Security of Federal Automated Information Systems | August 31, 2002 |
| MMS | U.S. General Ledger at the Transaction Level | Ensure that the new royalty system will account for royalty activity used at the transaction level in the SGL | TBD |
| NPS | Federal Financial Management Improvement Act of 1996 (FFMIA) | Improve EDP security and general control environment to comply with OMB Circular A-130, Security of Federal Automated Information Systems | September 30, 2002 |
| DEPT | Section 113 of Public Law 104-208 - Advances for Interior Franchise Fund (IFF) | Require customers to pay in advance for goods or services or request Congress to change authorizing legislation governing this requirement | September 30, 2002 |
| DEPT | Federal Financial Management Improvement Act of 1996 (FFMIA) | Strengthen financial management system procedures and internal controls to ensure that financial statements and related disclosures are prepared in accordance with federal accounting standards | September 30, 2002 |
| DEPT | Debt Collection Improvement Act of 1996 | Establish a process to ensure eligible receivables are consistently referred to Treasury in a timely manner | September 30, 2002 |
| DEPT | Prompt Payment Act | Establish a process to ensure late payments consistently include interest penalties | September 30, 2002 |
| BIA | Debt Collection Improvement Act of 1996 | Ensure that there is a timely transfer of all eligible accounts receivable delinquent for more than 180 days to Treasury for collection or offset | September 30, 2002 |
| BIA | Federal Financial Management Improvement Act of 1996 (FFMIA) | Direct resources toward efforts to improve the automated information systems environment; additional funding be obtained and directed toward this effort; and investigate alternatives for recording accounts receivable transactions which will enable the bureau to process transactions more efficiently and maintain compliance with FFMIA | September 30, 2002 |
| USGS | Debt Collection Improvement Act of 1996 | Establish a process to ensure eligible receivables are consistently referred to Treasury in a timely manner | September 30, 2002 |
| USGS | Prompt Payment Act | Establish a process to ensure late payments consistently include interest penalties | September 30, 2002 |
| USGS | Federal Financial Management Improvement Act of 1996 (FFMIA) | Direct resources toward efforts to improve the automated information systems environment; additional funding be obtained and directed toward this effort; and investigate alternatives for recording accounts receivable transactions. | September 30, 2003 |

FY 2002 Accomplishments

- Completed corrective actions on 15 of the 17 (88 percent) non-compliance issues identified in FY 2001.

FY 2003 Planned Actions

- Complete corrective actions for all non-compliance issues identified in FY 2002.

Linking Financial Reporting to Performance Reporting

The Department of the Interior continues to make progress in implementing the Government Performance and Results Act (GPRA). GPRA has become a driving force toward establishing a results orientation within the federal government. The Congress, the Administration, and the taxpayers want greater accountability in the management and operation of federal programs and GPRA is a key step toward achieving this goal.

GPRA requires agencies to develop strategic plans that elaborate the mission, outcomes, and results that agency programs are dedicated to achieving. Further, the Act requires that agencies set annual performance goals that will reflect progress toward outcomes, measure performance against goals, and report annually on accomplishments.

Interior has gone through two complete cycles of strategic planning, including annual planning covering FY 1999-2003, and annual performance reporting for FY 1999-2002. During FY 2002, the Department began to prepare a revised Strategic Plan covering FY 2003 to FY 2008. As each stage in the GPRA cycle is completed, the Department is learning and improving, continuing to build the performance measurement infrastructure, developing more results-oriented goals, and monitoring progress toward meeting performance targets. During FY 2002, the following improvements were made:

- Continued refinement and testing of self-assessment tools for verification and validation of performance data across the Department;
- Development of a new integrated and outcome-oriented strategic plan that replaces the collection of process-oriented bureau plans, further refining the Department's mission.

The Department continued to be an active member of the National Academy of Public Administration's (NAPA) GPRA Consortium, working cooperatively with other agencies on common performance management issues.

Interior has coordinated the GPRA planning activities through its Performance Management Council, which consists of the senior planning officials from the bureaus, as well as representatives from the Department's planning, budget, finance, human resources, and information management offices. This team approach has enabled Interior to build a broad-based departmental infrastructure to implement performance management.

FY 2002 Accomplishments

- *FY 2001 Annual Performance Report (APR):* FY 2001 was the third year the Department operated under a GPRA annual performance plan, the results of which were presented in Interior's Annual Performance Report and was submitted to Congress in April 2002. Interior again combined the FY 2001 APR with the FY 2003 Annual Performance Plan (APP) so that readers would be able to see in one document results for the past year along with proposed performance for the coming year. The results for FY 2001 show that 62 percent of 317 performance measures were accomplished departmentwide, and that substantial progress was made toward meeting the remaining goals. For goals that were not achieved, the APR explained why the goals were not met and outlined strategies to meet future targets.
- *Activity Based Costing/Management (ABC/M):* During FY 2002, the Department began transitioning towards a full ABC/M model to integrate performance and budgeting. The Bureau of Land Management, the Office of Surface Mining, and the Minerals Management Service will have fully functional ABC/M systems in place by October 1, 2002.
- *Senior Executive Service (SES) Performance Standards:* Interior's planning and human resource offices collaborated on how best to include performance results as part of each SES manager's performance appraisal. During FY 2002, SES performance evaluation and recognition will be based primarily on senior executive's accomplishments in performance elements that support their organization's relevant GPRA goals.
- *FY 2003 Annual Performance Plan:* The FY 2003 Annual Performance Plan was published in FY 2002 in tandem with the FY 2002 Annual Performance Report.

FY 2003 Planned Actions

- *FY 2002 Annual Performance and Accountability Report:* Under the Reports Consolidation Act of 2000, the Department is required to combine the Annual Performance Report and the Accountability Report into a Performance and Accountability Report. The combined report is due to Congress on February 15, 2003.
- *Data Verification and Validation:* Data verification and validation assessment tools have been further refined and a final implementation plan was drafted in September 2002.
- *GPRA Performance Tracking System:* The Department has implemented a Microsoft Access-based system to capture GPRA performance information to meet the GPRA reporting requirements on a departmentwide basis. The Department's Microsoft Access database is being used to collect quarterly performance measurement information and will be the basis for quarterly evaluations of progress in achieving GPRA goals. The system also supports data collection requirements for the Annual Accountability Report. This system will be upgraded in FY 2003.

Improving Budget and Performance Integration

One of the key objectives of the GPRA is to help Congress, OMB, agency executives, and managers to develop a clear understanding of what is being achieved in relation to what is being spent. Linking planned performance with budget requests and financial reports is an

essential step in building a culture of performance management. Such an alignment brings performance expectations into budgetary deliberations, prompting organizations to reassess performance goals and strategies and more clearly understand the cost of performance.

To accomplish the integration of budget and performance, the Department is taking the following steps:

1. An initial step in integrating performance structures is the strategy of consolidating, and/or aggregating (or disaggregating) the budget program activities into component parts and applying performance goals and indicators to those parts.
2. The second step to forging a closer link between plans and budgets can be seen in efforts to show the performance consequences of requested levels of incremental funding for annual performance goals accompanying the President's budget request. The annual performance plan goal targets are set based on the funding expected to be available to achieve the goals and are consistent with the amounts shown in the bureau's budget request to OMB and the Congress and modified to reflect final congressional action on the budget request. As goals are being set, decision makers can determine whether the goals are appropriate and whether the expected level of performance is sufficient to justify the incremental change in federal expenditure and effort.
3. A final step in appraising performance results is to understand the cost of performance. The Department is implementing an Activity Based Costing Management (ABC/M) model to achieve this objective.

ABC/M is a management tool that attempts to ensure that every cent spent by an organization, including direct and overhead costs, is allocated to products or services in order to identify the cost to the organization of delivering those products or services. An ABC/M system gives visibility to how effectively resources are being used and how all activities contribute to the cost of a product. Information produced is used to compare costs, identify best practices, and improve business processes.

This approach helps assess the efficiency of performance, in dollar terms. ABC/M requires detailed accounting for all expenditures and permits aggregating the information at different levels to suit various decisionmaking purposes. An ABC/M system integrates not only performance (both outputs and outcomes), budget, cost, and financial reporting, but also complies fully with applicable accounting standards and GPRA. The ABC/M system provides valuable data for improved decisionmaking by bureau managers and facilitates work process improvement at all levels of the organization because it is linked to work activities.

Constructing the standard set of work activities is the first critical step in the efforts to construct an ABC/M system. The Department held a workshop in July 2002 to define pilot work processes and activities across seven cross-bureau areas (law enforcement, invasive species, recreation, maintenance, indirect costs, wildland fire, and litigation) to begin implementing a departmentwide ABC/M system. Further, ABC/M information can be aggregated at GPRA activity levels to help associate appropriations requests to targeted performance, or at lower levels to evaluate unit costs for a specific output (e.g., grant administration).

The BLM's initiatives in developing its Cost Management System and Management Information System (MIS) will serve as a prototype for other Interior bureaus attempting to achieve the same results. Two additional bureaus, MMS and OSM, will have ABC/M systems in place by October 1, 2002, with the rest of the bureaus and offices having systems in place and operational by October 1, 2003.

Correction of Federal Financial Management Improvement Act Deficiencies

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 governmentwide Standard General Ledger; comply with all applicable federal accounting standards; 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 representation 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 to 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."

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 system-related information 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 that 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.

Ensuring Management Accountability and Control

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 in the Department's care; (3) ensures high quality, responsible leadership; (4) ensures the sound delivery of services to customers; and, (5) maximizes desired program outcomes. Accordingly, the Department has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- Programs and operations achieve their intended results efficiently and effectively;
- Resources are used in accordance with the Department's 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.

Further, the Department firmly believes that the timely implementation of Office of Inspector General (OIG), General Accounting Office (GAO), and Single Audit recommendations are essential to improving the efficiency and effectiveness of programs and operations, and achieving integrity and accountability goals. As a result, the Department has instituted a comprehensive audit follow-up program to ensure 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.

Management Controls

The Department's goal is twofold: (1) to ensure that a sound system of management controls exists in all programs, organizations, and functions and meets the objectives and requirements of the Federal Managers' Financial Integrity Act and OMB Circular A-123; and, (2) to implement an effective and systematic approach to assessing management controls that integrates other management improvement initiatives within the Department.

Exhibit 3-6 provides a summary of the 17 material weaknesses carried over from FY 2001.

Exhibit 3-6

| Pending FMFIA Material Weaknesses | | |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Bureau | Material Weakness | Target Correction Date |
| Mission Critical Material Weaknesses | | |
| OST | <u>Inadequate Management of Trust Funds</u> : The management of Indian Trust Funds needs to be improved. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. | 2004 |
| OST and BIA | <u>Inadequate Records Management</u> : The records management system has made it difficult to properly administer the records management function. | 2004 |
| BOR | <u>Irrigation of Ineligible Lands</u> : 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. | 2002 |
| DEPT | <u>Lack of Accountability and Control Over Artwork and Artifacts</u> : Develop and implement Department policies and guidance to establish appropriate accountability and control over artwork and artifacts. | 2002 |
| NPS | <u>Inadequate Structural Fire Program</u> : 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. | 2004 |
| DEPT | <u>Inadequate Computer Security</u> : 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. | 2004 |
| DEPT | <u>Inadequate Wireless Telecommunications</u> : 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. | 2004 |
| DEPT | <u>Inadequate Departmentwide Maintenance Management Capability</u> : Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities. | 2004 |
| Other Material Weaknesses | | |
| BIA | <u>Irrigation Operations and Maintenance</u> : 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. | 2003 |
| BIA | <u>Deficiencies in Real Property Management</u> : 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. | 2002 |
| BIA | <u>Inadequate Acquisition Management Program</u> : BIA's Acquisition Management organization, policies, procedures, and guidelines are inadequate. | 2002 |
| BLM | <u>Management and Oversight of the Land Exchange Program</u> : Policy guidance and procedures and personnel training do not ensure that appropriate appraisals are being developed and used in land exchange determinations. | 2002 |
| BLM (New) | <u>Wild Horse and Burro Program</u> : Ensure appropriate guidance is provided to field staff to implement the Animal Management Level strategy on all Herd Management Areas by 2005. | 2002 |
| BIA | <u>Inadequate Debt Collection</u> : Bureau regulations, procedures, and guidelines are inadequate and obsolete to properly administer current debt collection functions. | 2002 |
| MMS | <u>Inadequate Internal Controls Over Accounting Operations</u> : 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). | 2002 |
| FWS | <u>Inadequate Management Controls and Audit Follow-up in the Federal Aid Program</u> : 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. | 2003 |
| BOR | <u>Inadequate Land Inventory and Financial Reconciliations</u> : The Bureau does not have a complete and accurate inventory system to support \$1.7 billion in land and land rights. | 2005 |

FY 2002 Accomplishments

- *Provided Reasonable Assurance Objectives Were Met:* Based on the results of mid-year and subsequent progress reviews, the Department expects to again provide reasonable assurance to the President and the Congress that, with the exception of the Office of the Special Trustee, the systems of management, accounting, and administrative controls, taken as a whole, achieve the objectives of the Federal Managers' Financial Integrity Act and OMB Circular A-123, and that accounting and financial systems generally conform with governmentwide standards.
- *Corrected Material Weaknesses:* By the end of FY 2002, the Department expects to complete corrective action on 8 of 17 pending material weaknesses carried over from FY 2001. Ten material weaknesses were originally targeted for correction in FY 2002. Completion of the corrective actions for one material weakness which slipped was due to the Internet and BIA systems shutdown ordered by the Court, and the corrective actions for the other material weakness which slipped was due to a suspension of activity while the new Trust Funds Management Strategic Plan was developed and approved.

An overall completion rate of 80 percent will be achieved for FY 2002, which will exceed the Department's GPRA goal of 75 percent. Over the years, the Department has identified and reported 170 material weaknesses and 65 accounting system non-conformances. By the end of FY 2002, the Department expects to have corrected 161 of the total reported material weaknesses (95 percent) and 64 of the 65 accounting system non-conformances (98 percent). One potential new material weakness has been identified in an FY 2002 NPS management control review. As a result, the Department expects to carry forward 10 pending material weaknesses into FY 2003, of which six are expected to be identified as mission critical weaknesses.

- *Issued the FY 2001 Annual Accountability Report:* The Department issued the FY 2001 Annual Accountability Report by the statutory due date of February 28, 2002. This marked the second consecutive year the report was issued by the statutory due date. The Department attained a total of nine unqualified audit opinions on bureau and consolidated financial statements, and one disclaimer (USGS) thus failing to meet the goal of ten unqualified audit opinions. In June 2002, the Department was advised that it would again be awarded the Certificate of Excellence in Accountability Reporting (CEAR Award) for its FY 2001 Accountability Report, marking the second consecutive year the Department was selected as a recipient for this distinguished award.
- *Department Management Control and Audit Follow-up Scorecard:* In concert with the newly enacted quarterly progress reporting system, the Office of Financial Management developed an internal management reporting scorecard to monitor bureau and office progress in meeting five major elements of the Management Control and Audit Follow-up programs. The scorecard format was designed to be consistent with the format used by OMB to track progress in Financial Management Improvement Initiatives under the President's Management Agenda. The program elements being monitored include: the status of management control review plans; the timely completion of FMFIA material weaknesses corrective actions; the timely completion of audited financial statement material weaknesses and non-compliance issues; and the timely implementation of OIG and GAO audit recommendations.

- *Departmental Management Control and Audit Follow-up Handbook*: The Office of Financial Management developed and issued a comprehensive Management Control and Audit Follow-up Handbook. The handbook is a complete reference tool and guide for all department personnel and should promote better understanding and application of duties and responsibilities in these programs.

FY 2003 Planned Actions

- Continue the management control quarterly status reporting program with bureaus and offices to better support the accountability goals of the Administration and the oversight performed by the Department's Management Control and Audit Follow-up Council.
- Complete corrective actions on the two pending material weaknesses carried over from FY 2002 with planned completion dates in FY 2003.
- Assist bureaus in implementing and becoming more proficient in the use of the Web-based version of the management control automated assessment tool.
- Accelerate the completion of audited financial statement material weaknesses and non-compliance issues corrective actions.
- Work with the OIG and the Department's Chief Information Officer to develop a more effective and efficient approach for assessing whether adequate computer security is being provided on computer systems, including financial management systems and financial data.
- Continue recent performance in the achievement of the Association of Government Accountant's Certificate of Excellence in Accountability Reporting (CEAR) Award.

Audit Follow-up

The Department's goals are to ensure that audit recommendations designed to improve the efficiency and cost-effectiveness of programs and operations are implemented in an expeditious manner, and that disallowed costs and other funds owed to the Department which are identified in audits are collected and/or offset within reasonable or statutory time frames.

FY 2002 Accomplishments

- *Ensured the Quality of Non-Federal Audits*: During FY 2002, the OIG planned and expected to complete desk reviews of more than 200 single audit reports that were submitted by the Department of Commerce's Federal Audit Clearinghouse. The reviews were performed to ensure that the reports met the requirements of the Single Audit Act of 1984 and Office of Management and Budget Circular A-133.

The OIG also performed quality control reviews, including limited testing of support documentation, on 12 non-federal audits. The scope of these audits covered fiscal years 1999 and 2000 with federal funds totaling approximately \$280 million. In conducting these reviews, the OIG applied guidance established by the President's Council on Integrity and Efficiency to: (1) ensure the audits were conducted in accordance with

applicable standards and met the Single Audit Act's requirements; (2) identify deficiencies or weaknesses in the accounting practices of report preparers and, if so identified, to perform follow-up audit work; and (3) identify issues that might require management attention. The OIG also applied Bureau of Indian Affairs and U.S. Fish and Wildlife Service compliance supplements as guidance in evaluating workpapers. Overall, the OIG concluded that the audits reviewed complied with the Single Audit requirements.

- *Implemented the New Audit Tracking System:* The Department's Audit Follow-up Program staff completed the implementation of the new audit tracking system, a system developed internally using Microsoft Access software. The new system (MCAF-TS) facilitates more timely and effective monitoring of bureau and office audit recommendation implementation progress, and the calculation of and support for program performance statistics. The system has improved ad hoc report capabilities that enable the Department to consolidate tracking of audit recommendations (both programmatic and financial management) from the OIG, GAO, and Single Audit reports.
- *Improved the Closure Rate of Internal Audits:* Internal audits are audits conducted by the OIG of the programs, organizations, financial, and administrative operations of the Department. During FY 2002, over 78 of these audits were being tracked and monitored. The Department expects to close 40 percent (31 audits) of audits and over 48 percent of all audit recommendations by the end of the fiscal year.
- *Improved the Implementation Rate of GAO Audit Recommendations:* General Accounting Office audits are a major component of the Department's annual audit follow-up program workload. During FY 2002, 23 final audit reports are expected to be issued. These audits will contain 38 recommendations of which 58 percent (22) are expected to be implemented by the end of the fiscal year.

FY 2003 Planned Actions

- Continue the quarterly status reporting program with bureaus and offices to better support the accountability goals of the Administration, and the oversight performed by the Department's Management Control and Audit Follow-up Council.
- Complete 12 quality control reviews of non-federal audits each fiscal year, subject to resource availability.
- Continue to improve the rate of implementing audit recommendations, collecting disallowed costs, and closing audits.
- Initiate appropriate actions to facilitate mutual agreements on audit recommendations and corrective actions between OIG and GAO auditors and bureau and office management before final audit reports are issued. This action should substantially reduce the number of audit recommendations referred to the Department for final resolution and promote timely implementation of audit recommendations.

Improving Asset Management and Financial Operations

At the end of FY 2002, the Department held assets valued at approximately \$50 billion on the balance sheet, including more than \$16 billion in physical assets, more than \$25 billion in fund balance with Treasury of which over \$18 billion are restricted financial assets related to Land and Water Conservation Fund, Reclamation Fund, Historic Preservation Fund, and the Aquatic Resources Trust Fund. Other assets include accounts receivable, loans, and inventory and operating materials. In addition, the Department manages stewardship assets including over 500 million acres of America's land mass and serves as steward for the natural and cultural resources associated with these lands; has stewardship responsibility for over 3,400 National Parks, Fish and Wildlife Refuges, National Scenic and Historic Trails, and National Monuments; maintains museum collections containing more than 132 million museum objects including 71 million artifacts and specimens and 61 million documents; and other assets such as library collections.

It is critical for the Department to manage these assets to the benefit of the public by properly carrying out its stewardship responsibilities for the assets, and to benefit the mission of the Department. The benefits of improved asset management are more productive use of assets in carrying-out mission functions, better management of administrative costs though more efficient use of resources and more accurate cost projections.

The assets include:

- Financial assets consist of cash and other monetary assets and receivables held by the federal government. Examples of financial assets include direct loans, guaranteed loans acquired after default, cash balances, and accounts receivable.
- Physical assets consist of real and personal property owned by the federal government. Examples of real property include buildings and land; examples of personal property include computer systems, motor vehicles, and office supplies.

Further, for the effective operations of the Department, it is critical that financial management processes are operated in an effective and efficient manner. This section addresses the management of financial assets, the management of physical assets, and improvements in financial operations.

Management of Financial Assets

Effective management of receivables, costs, and collections is a critical component of the Department's overall ability to account for financial resources and to efficiently use those resources to fulfill Interior's mission and perform its programs in an effective manner. The Department's overall goals include billing and collecting amounts due the federal government in accordance with applicable laws and regulations, and to track and report costs for management purposes. Interior continues to make progress in achieving these goals.

Accounts Receivable

The Department continues to make significant progress in collection and receivable management activities. Over 70 percent of the Department's receivables originate from the enforcement of laws and regulations and audit findings. The remaining 30 percent originates from

loans (direct and guaranteed) and the sale of goods and services. Consequently, traditional receivable management procedures and safeguards, such as credit worthiness checks, are often not applicable.

The Department has been working closely with the U.S. Treasury to refer its delinquent receivables over 180 days past due to the Financial Management Service for cross-servicing and/or offset in accordance with the Debt Collection Improvement Act of 1996. All bureaus and offices are currently in the process of referring eligible delinquent receivables to the U.S. Treasury for collection. A monthly reporting system has been established by the Department to monitor performance.

FY 2002 Accomplishments

- As of June 30, 2002, the Department had referred 83 percent of the 180-day delinquent debt to the U.S. Treasury for cross-servicing in accordance with the Debt Collection Act of 1996.
- Continued the special initiative to confirm and refer appropriate Bureau of Indian Affairs (BIA) delinquent debts to the U.S. Treasury for cross-servicing.

FY 2003 Planned Actions

- Continue a special effort with BIA to refer all eligible delinquent receivables over 180 days past due to the U.S. Treasury.
- Refer 93 percent of all eligible delinquent receivables over 180 days past due to the U.S. Treasury for collection via cross-servicing and/or offset.

Cost Accounting and Cost Management

The Department performs a significant number of tasks on a reimbursable basis including interagency agreements, agreements with state and local jurisdictions, Franchise Fund, Working Capital Fund, and user charge activities. A departmentwide Activity Based Costing Management (ABC/M) Work Group was established to begin implementation ABC throughout Interior by the beginning of FY 2004. In addition to accounting for costs, improved cost management is important to the Department. Listed below are some examples of the Department's efforts to minimize costs, particularly administrative costs:

- *Control Unemployment Compensation Costs:* For a number of years, Interior has used a contractor to: (a) verify employment; (b) process protests and appeals; (c) verify state data; and (d) produce management reports.
- *Prepayment Voucher Audit of Government Bills of Lading:* The Department is continuing to use and expand the services of a contractor to perform prepayment voucher audits of Government Bills of Lading. Since the start of the of the prepayment audit program in FY 1995, the Department has generated estimated savings of \$2.8 million.

- *Reduce Late Payment Penalties:* For the past two years, the Department has engaged in an intensive effort to reduce its late payments and late payment penalties under the Prompt Payment Act.
- *Use Credit Card Technology:* The Department initiated a multiple year contract in November 1999 with the Bank of America for a single card program to finance small purchases, travel, and fleet activities. This effort has greatly streamlined the processes related to procurement, travel, and fleet management and empowered field managers. Since the Bank is paid daily and extensive risk mitigation controls are in place, the Department receives substantial rebates from the contractor to use to invest in further program improvement efforts.
- *Cross-Servicing Opportunities:* In an effort to take advantage of “economies of scale”, the Department cross-services its bureaus and other federal entities via reimbursable service agreements and the Interior Franchise Fund. Some examples of these activities include: Payroll Services, Cooperative Administrative Support Units, and Financial Systems.

FY 2002 Accomplishments

- Integrated performance information with cost data at the responsibility segment level in the Department's FY 2001 Annual Accountability Report and bureau FY 2001 Annual Financial Statements.
- Estimated program savings (net of contractor costs) for FY 2002 for controlling unemployment compensation costs will be approximately \$1.9 million.
- Program benefit-to-cost ratio of the prepayment Government Bill of Lading voucher audit program yielded a ratio of \$161 for \$1 in FY 2002.
- Established and implemented departmentwide cost accounting policies and procedures for annual reporting to the Federal Energy Regulatory Commission under the Federal Power Act.

FY 2003 Planned Actions

- Improve efforts to implement ABC/M throughout the Department, and provide cost information to support program managers' reporting needs and to link performance with budgeting.
- Continue the departmental effort to control unemployment compensation costs through the use of a contractor.
- Continue the departmental effort to control Government Bills of Lading costs through the use of a contractor.
- Improve pricing structures to achieve full cost recovery, where appropriate.

User Fee and Cost Recovery Activities

The Department administers a substantial user charge program. Annually, the Department collects fees of almost \$600 million from approximately 100 cost recovery activities and approximately \$9 billion from other user fee activities including royalties, rents, and bonuses related to minerals, timber, and other uses of federal lands. Since FY 1993, cost recovery has increased by almost \$200 million. Based on biennial review data, the Department maintains and updates a database of approximately 150 user charge activities. The database includes descriptions of the activities, estimated annual collections, pricing structure, legal authority, contact personnel, and other pertinent information.

In FY 2001, the Department conducted its annual review of cost recovery activities in accordance with the CFO Act. The National Park Service, the Fish and Wildlife Service, and the Bureau of Land Management were authorized under the Omnibus Consolidated Rescissions and Appropriations Act of 1996 to develop new and expanded fee collection sites as part of a three-year recreation fee demonstration program. The purpose of the demonstration program is to explore the feasibility of collecting additional user fees to offset the costs of administering recreational opportunities on federal public lands. The new fees will be used primarily to address repair and maintenance backlogs in participating parks and sites. Due to the promising results thus far, the fee demonstration program has been extended.

FY 2002 Accomplishments

- Performed a review of all cost recovery activities, updated the departmentwide user fee database, and completed a summary report of cost recovery activities based on FY 2001 results.

FY 2003 Planned Actions

- Conduct the biennial review of all user charge activities required by the CFO Act. The Department will continue collaborative efforts (both inter- and intra-departmental) regarding implementation of SFFAS No.4, "Managerial Cost Accounting".

Unclaimed Assets Recovery

During the summer of 1999, using a ten-week intern, an effort was initiated to recover unclaimed assets of the Department. Unclaimed assets are assets that have been transferred to states by the U.S. Postal Service, U.S. Courts, or other entities and have not been identified by their owners. Some of these assets belong to the federal government. Since the summer of 1999, the Department has worked to recover unclaimed assets related to Interior programs.

FY 2002 Accomplishments

- Contacted states where it was determined that departmental assets were being held as unclaimed. Over \$50,000 was recovered by this effort.

FY 2003 Planned Actions

- Continue the annual follow-up with the states to identify any unclaimed assets due the Department. Where identified, continue to file claims with the states to recover the unclaimed assets of the Department.

Managing Physical Assets

During FY 2002, the Department continued financial systems enhancements, which included successfully completing systems improvement efforts begun in previous years and expanding the use of outside services to support transaction processing.

FY 2002 Accomplishments

- *Improving Property Systems:* Interior continues to encourage the property management community (personal, real, and museum) to demonstrate the economies that can be realized through the proper control of government property based upon sound business practices. Through the DOI Property Management Partnership and bureau-specific activities, linkages among bureaus and between administrative activities and mission programs have been cultivated. The Property Management Partnership provides a structure through which bureau officials develop common strategies and agreements to improve systems, operations, services, and information on property in order to achieve efficiencies and cost effectiveness.

Current systems are using outdated technology, are not integrated, and do not have the necessary security capabilities to facilitate open access through the Internet. Interior is working toward continuous improvement by establishing an integrated property system, as a module of the Financial Management Systems Migration Project, for use by all bureaus. The Partnership continues to address needed enhancements with the objective to migrate as quickly as possible to a system that incorporates new technologies that will eliminate duplicate data entry and allow for easy and timely access to data. An integrated property system will allow users in the field and senior managers to manage their assets better, reduce unneeded inventories, and to improve accountability.

The Department entered into an agreement with the Oregon State Agency for Surplus Property (ORSASP) to use their efficient online asset auction service. The Agreement provides for Interior bureaus/offices to access the ORSASP's Electronic Commerce and Marketing resources (online auctions/sealed bids) for the public sale of vehicles, equipment, and personal property items. For FY 2002, the Department realized over \$2,000,000 in sales proceeds through this program.

Annually, DOI donates large quantities of equipment to schools and non-profit activities. In FY 2002, DOI donated nearly \$34 million of equipment to schools and non-profits, \$24 million of which represented usable computers or computer peripherals. The disposal of obsolete computers and other electronics is a growing environmental issue nationwide. Most electronics contain materials that are hazardous to health and safety. To address this issue, the Department established a Memorandum of Understanding (MOU) with the Federal Prisons Industries (UNICOR) to recycle obsolete computers and electronics. All materials disposed of through this MOU are either recycled or disposed of in an environmentally sensitive manner. In April 2002, the Department co-hosted

with the Department of Justice an employee electronics drop-off day in Rock Creek Park. Employees brought their old or obsolete personally owned electronics to a site within the Park. All items were then transported by UNICOR for disposal. As a result of this employee drop-off event, over four tons of electronics were disposed of in an environmentally sensitive manner. DOI intends to make this an annual event and to expand the drop-off to all federal employees.

In May 2002, the Department hosted the Asset Management Conference 2002 in San Diego, California. The conference was attended by nearly 300 property management personnel and covered a variety of issues related to personal, real, and museum property, and to fleet and quarter's management. The conference was very successful in providing a forum for sharing information, training, explaining new programs, and addressing new concerns or issues.

FY 2003 Planned Actions

- *Improving Property Systems:* Continue to address needed enhancements for a standardized property system by providing strong support for the Financial Management Systems Migration Project, in collaboration with the Property Management Partnership (PMP). The objective is to migrate as quickly as possible to a system that incorporates new technology that will eliminate duplicate data entry and allow for easy and timely access to data. These enhancements include the following:
 1. The PMP will expand efforts to standardize and streamline personal and real property systems by contacting each bureau/office to determine the extent of common requirements that are needed to interface with the Department's planned financial management systems migration project initiative. As requirements for an integrated property system are defined, funding will be necessary to support system development.
 2. The PMP has implemented, and continues to modify and improve, the Screen Available and Exchange-Sale (SAVES) system, which is a standardized, departmentwide Web-based system to share and report information on personal property available for reuse within Interior. The Bureau of Land Management serves as the lead bureau on SAVES, with the assistance of the National Business Center.
 3. The Oregon State Agency for Surplus Property (ORSASP) has developed an efficient and practical online asset disposal service and the Department has a need to dispose of property in a cost effective manner. Rather than develop a system of its own, the Department has entered into an agreement with ORSASP to use this auction service. The Agreement provides for Interior bureaus/offices to access the ORSASP's Electronic Commerce and Marketing resources (online auctions/sealed bids) for the public sale of vehicles, equipment, and personal property items.
 4. Interior established an agreement with the Department of Defense (DOD) to address the environmental concern over the disposal of unserviceable electronic assets, including computers and peripherals. Through this agreement, the National Business Center, using a DOD contractor, began a new service within Interior to recycle and de-manufacture unserviceable computer equipment in a safe and environmentally compliant way. Included in this service is the proper disposal of the many hazardous materials contained in the equipment. A Memorandum of Understanding between the Department and the

Federal Prison Industries was developed to establish a nationwide recycling and de-manufacturing program for Interior's unserviceable electronic assets. Because many of DOI's facilities are located in rural areas, a task force will be established to address the logistical coordination necessary to meet the requirements of the MOU.

5. As part of the FY 2002 Departmentwide performance assessment, the bureaus and offices will address two areas of specific interest. The first is the Report of Survey process used to determine employee financial liability for the loss, or damage to, Government property. The information provided by the bureaus and offices will aid in evaluating the effectiveness of the current survey process. The second area for assessment is the sale of Government personal property through the Internet. This assessment will identify the methods a bureau or office is using to sell surplus or exchange/sale property on-line. In addition, bureaus and offices were asked to provide information on obstacles to selling personal property on-line and to identify best practices related to these types of sales. The FY 2003 Departmentwide performance assessment will target the specific actions taken by the bureaus and offices to address the internal control weaknesses identified by KPMG, an independent certified public accounting firm that conducted an audit of the Department's financial statements. The weaknesses include consistent and timely recording of acquisitions and disposals; reconciliation with the general ledger; inventory process; and recording depreciation.

Improving Financial Operations

Rapid technological changes and process re-engineering have contributed greatly to the continuous modernization of payment processing and business methods/practices. Such efforts, while beneficial on their own, have been particularly useful during the downsizing of the federal workforce. Moreover, it is the Department's goal to provide competitive and cost-effective services to its customers. The Department has established multiple initiatives that seek to eliminate outmoded approaches, maintain only essential elements and services, and use state-of-the-art technology to yield maximum benefits to the American taxpayer.

The essential elements of the program to modernize business methods and payment processes are:

- Streamlining financial and administrative processes;
- Using technology to improve the efficiency of payment processes;
- Re-writing departmental policy and guidance to empower employees and eliminate unnecessary process steps;
- Identifying high payoff areas for streamlining processes and upgrading technology;
- Providing assistance to bureaus in developing requirements;
- Measuring performance; and
- Working with central agencies to develop long-term strategies for process and systems modernization.

Improving Cash Receipts Processing

Due to the Department's substantial revenue-producing activities, efforts have focused on improving collections and the processing/depositing of cash receipts more rapidly. A key emphasis of the Department's cash management program has been to accelerate cash receipts by requiring payments via wire or electronic transfer. In addition to using electronic transfers, the Department has worked cooperatively with the U.S. Treasury to establish several lockbox systems and plastic card collection networks to collect timber fees, abandoned mine land fees, water sales, park entrance fees, construction cost repayments, and state and local government reimbursements.

FY 2002 Accomplishments

- Continued efforts to convert to electronic collection methods.

FY 2003 Planned Actions

- Work with Treasury's Financial Management Service to implement check conversion processing where applicable
- Continue to use the Plastic Card Collection Network (PCCN) and Automated Clearinghouse for collecting funds due the Department.
- Continue the use of Pay.Gov and expand its use for royalty payments for the Mineral Management Service's Royalty Management Program.

Improving Payment Processes

In performing its basic missions, the Department annually processes over two million (non-payroll related) payments, which account for expenditures in excess of \$6 billion each year to organizations that provide products and services to the Department. Collectively, these payments cover a broad range of payment categories (i.e., payments to vendors, payments to other federal agencies, reimbursements, grants, contracts, purchase orders, etc.), and involve an equally broad and growing array of available alternative payment mechanisms, which include U.S. Treasury checks, third party drafts, electronic funds transfers, and charge cards. The Department is seeking to improve its internal controls over payments and minimize any improper payments.

In recent years, advances in technology have aided payment processes. The Department has been an active participant in the governmentwide Electronic Commerce pilot program and has developed capabilities that will allow the Department to fully capitalize on this promising technology.

The Department has embraced the use of plastic card technology as an enabling agent to improve service to customers while improving the overall efficiency of the payments process. The growth in the dollar volume of payments made through the charge card program has increased substantially in recent years, to an annualized level of approximately \$610 million in 2002. The growth trend in the use of charge cards is expected to continue during the next five years. In addition to the decrease in finance and field office workload associated with the reduction in the number of payments that must be made, the increased use of

charge cards has virtually eliminated the need to issue travel advances to employees; reduced the number and amount of late payment penalties associated with the Prompt Payment Act; substantially improved the Department's EFT performance in complying with the Debt Collection Improvement Act of 1996; reduced the number of non-card procurement actions; and has provided additional benefits through volume-based charge card refunds which accrue to the Department.

The Department continued to expand and improve its implementation of the SmartPay charge card program in FY 2002 by improving and maintaining the electronic interface to its financial systems to support daily invoicing, daily payments, and improved management reporting. As the largest fully integrated charge card program in the federal government or the private sector, the Department advised other federal agencies about improvement initiatives in the program. These initiatives included diversion accounts, split disbursement, and central billing of most categories of travel cost (including the successful pilot testing of centrally-billed lodging costs).

FY 2002 Accomplishments

- Continued to improve the SmartPay Program to achieve daily payment of charge card invoices and improved the electronic interface to bureau core accounting systems.
- Continued to make progress in compliance with electronic funds transfer (EFT) requirements of the Debt Collection Improvement Act of 1996 (DCIA).
- Continued a departmental electronic funds transfer-tracking system to measure progress towards increasing the number of payments made electronically. As of June 30, 2002, 84.5 percent of vendor payments and 98.7 percent of salary payments were made via EFT.
- Continued to identify the reasons for improper payments and minimize their occurrence. A Departmental Functional Review was conducted in FY 2002 to identify potential internal control weaknesses contributing to improper payments by the various payment types.

FY 2003 Planned Actions

- Pursue additional opportunities for streamlining and re-engineering administrative functions. Potential areas include:
 - Increase use of electronic purchasing; and
 - Additional streamlining of the travel process through direct (central) payments.
- Continue to eliminate imprest funds to the maximum extent possible and limit the use of Third Party Drafts and convenience checks.
- Continue to convert paper check issues to electronic payments as required by the Debt Collection Improvement Act of 1996.

- Continue to participate in governmentwide efforts to standardize federal assistance payment systems. Interior bureaus have selected and are converting to one of two governmentwide grant payment systems: Treasury's Automated Standard Application for Payments System or the Department of Health and Human Services' Payment Management System.
- Institute a performance measurement process to identify the number and amount of improper payments.
- USGS will pilot test new check cash process with Treasury.

Preventing Erroneous Payments

The President's Management Agenda identifies erroneous benefit and assistance payments as a governmentwide issue. OMB Circular A-11 defines "Erroneous payments" as payments made under the programs listed in Exhibit 57B that should not have been made or were made for an incorrect amount. Examples of erroneous payments include payments to ineligible persons or the wrong organization, payments in the wrong amount, payments for ineligible services, duplicate or other overpayments, and payments for services never received. Erroneous payments may be due to procedural or administrative errors made by the payor (e.g., providing incorrect account numbers in payment instructions) or errors or fraud by payees or claimants (e.g., underreporting of income by beneficiary). Covered payments included overpayments and underpayments made by the federal government, direct contractors, and by states or to other grant recipients administering federal program. (Source OMB Circular A-11 Section 57).

Although the Department of the Interior is not one of the agencies identified in Exhibit 57B of Circular A-11, the Department makes significant financial assistance payments under a variety of programs and makes significant payments to vendors for goods and services. Based on the Department's initial assessment, there does not appear to be any major problems with erroneous payments. However, occasional duplicate payments or payments in the wrong amount are made. In such cases, the collection of identified overpayments and timely correction of underpayments is pursued.

FY 2002 Accomplishments

- Completed an initial Departmental Functional Review (DFR) of payment processes to target areas for further review and analysis. The DFR preliminary results identified the grants and payroll payment processes as areas for further review and analysis. A follow-up review was underway at fiscal year end.

FY 2003 Planned Actions

To better assess performance in the area of erroneous payments, the Department has established a goal of having no erroneous payments. Specifically, the Department will monitor the following:

- *Financial Assistance Programs:* The annual target for payments made to external parties associated with Interior's Financial Assistance programs will be to maintain adequate controls over federal assistance payment processes to ensure any erroneous payments are

kept below .05 percent of the program area as measured by audit disallowances and 60 percent of the disallowances are returned to the government.

- *Non-Financial Assistance Payments:* The target related to non-financial assistance payments will be to increase the number of pre-audit and/or post-audit programs to include segments of salary (payroll) payments and vendor payments to permit improved monitoring of these activities, minimize erroneous payments, and recover overpayments where cost-beneficial.

Continuing to Improve Prompt Payment Performance

Acknowledging the need to improve the Department's prompt payment performance, Interior created a departmentwide team to determine the causes of late payments. After analyzing the payment process, four areas were identified as critical to achieving significant improvement. The areas identified were reviewed and discussed on a departmentwide basis with the sharing of best practices. The areas identified were as follows:

- Evaluating and tracking quality control systems;
- Updating guidelines and providing additional staff training;
- Identifying large dollar volume vendors; recurring payments; and/or utilizing fast pay; and
- Improving payment processing (including front-end procurement processing, increased communication between procurement and finance staffs, and remote data entry in field offices).

FY 2002 Accomplishments

- As of June 30, 2002, the Department achieved an overall 98 percent rate of invoice payments that do not require late penalties under the Prompt Payment Act.

FY 2003 Planned Actions

- Reduce the number of payments requiring interest penalties.
- Increase the use of electronic payment mechanisms by continuing to increase the use of purchase cards.
- Continue to collect monthly prompt payment reports and to closely monitor payment performance until each bureau of the Department is consistently able to pay at least 97 percent of all payments on time without incurring late penalties required by the Prompt Payment Act. Eight of the Department's nine bureaus have been able to achieve a greater than 97 percent on-time payment history in FY 2002. If results become unfavorable, the Department will initiate corrective actions.

Reducing Delinquent Charge Card Accounts

Acknowledging the need to improve the Department's performance in the area of 60 days and over delinquent charge card accounts, Interior has created a departmentwide goal to reduce the delinquencies to one percent by FY 2005. After analyzing the options, four areas were identified as critical to achieving significant improvement. The areas identified were as follows:

- Monthly Reporting of Delinquencies (including Charge-Off accounts) to management;
- Providing additional approving official and employee (traveler) training;
- Identifying former employees to the charge card contractor and excluding former employees from the Department's performance goal.; and
- Implementing salary offset for recovery of delinquent charge card accounts based on a request from the contractor.

FY 2002 Accomplishments:

- Continued salary offset for recovery of delinquent charge card accounts.
- Continued work with the contractor to improve management reporting.

FY 2003 Planned Actions

- Continue to review delinquency reports from the bank to monitor bureau performance. If results are unsatisfactory, the Department will take corrective actions.
- Continue to reduce the amount of 60 days and older delinquent charge card accounts to 2 percent of the total outstanding balance by bureau (excluding former employees).

Maximizing Opportunities for Utilizing Electronic Commerce

Interior has continued to aggressively pursue the mandate to streamline procurement through the use of Electronic Commerce (EC) by implementing EC capabilities in all major buying offices and many small field offices in the Department. This is part of the successful implementation of the IDEAS project (see Chapter 4) for automation of procurement functions and the developing capabilities of the EC21 project, focusing on electronic payments. The IDEAS project is fully implemented in all of DOI's major buying offices and is being further enhanced in coordination with bureau and client agency users.

Electronic commerce capabilities available through IDEAS include solicitations, awards, notifications, invoices, receiving reports, data reporting, and payments. Purchase card transactions are a major part of the Department's move to electronic commerce. Transactions in this mode have increased from 96,000 in FY 1993 to over 1.3 million in FY 2001, an increase of more than thirteen-fold. Dollars awarded through purchase cards in the same time frame increased from \$17 million to \$473 million, an increase of more than twenty-seven-fold.

In FY 1999, 87.1 percent of all small purchase actions under \$25,000 and 51.2 percent of the dollar value of all such actions were made with the purchase card. In FY 2001, these percentages increased to 96.6 percent and 66.2 percent respectively. The Department established a long-term goal of 90 percent of all purchases under \$2,500 made with a purchase card. By reaching 96.6 percent of all purchase transactions of \$25,000 or less done by purchase card and electronic purchase orders, Interior has surpassed its original goal of such actions by EC.

FY 2002 Accomplishments

- Increased electronic management and oversight of the SmartPay Program (commonly called the DOI Integrated Charge Card Program) through a partnership between the Interior travel, acquisition, and property programs with Bank of America.
- Implemented five additional on-line management control reports. This brings to ten the number of new management control reports that DOI and the bank have collaborated on in the past two years. The bank was so impressed with the value of these reports in managing the card programs, that it has offered them at no charge to all other federal SmartPay customer agencies.
- Will earn approximately \$6.9 million in rebates, an increase of about \$800,000 over FY 2001.

Planned FY 2003 Actions

- Continue an integrated charge card solution for the purchase, travel, and fleet business lines under GSA's SmartPay program.
- Continue outsourcing the responsibility for charge card transaction processing to the Bank of America.
- Provide Web-based access for transaction information to Interior's purchase, travel, and fleet cardholders.
- Continue consolidating the account setup and maintenance functions for the travel, purchase, and fleet business lines.
- Maintain a "daily pay" capability.
- Strive to increase usage of Web-based electronic commerce by all remaining major purchasing offices.
- Maintain the IDEAS-EC link to the designated governmentwide point of entry, FedBizOpps, for all required solicitations and synopses.
- Assess the additional capabilities of the new charge card contract and determine which features to implement, including smart card features.

- Continue to provide web-based training to Approving Officials (AO) and develop Agency/Organization Program Coordinator (A/OPC) Web-based training.

Shared-Service Organizations

The Department provides commonly required administrative products and services to Interior and non-Interior clients through shared-service operations. The National Business Center (NBC) and the Minerals Management Service (MMS) provide critical shared services to various Interior bureaus. In addition, the Interior Franchise Fund (IFF) provides selected services to non-Interior customers. The IFF uses both the NBC and MMS as service providers.

National Business Center

The National Business Center (NBC) is the result of merging three administrative service centers in three different bureaus into one service provider located within the Department. The NBC provides services related to such automated systems as the Federal Personnel Payroll System (FPPS); Federal Financial System (FFS); Fixed Assets and Inventory Subsystems; Interior Department Electronic Acquisition System (IDEAS); Federal Procurement Data System (FPDS); electronic commerce, electronic time and attendance system (QuikTime); mainframe timesharing; and Internet publishing. The NBC also provides accounting services, including operational reviews, requirement analysis, Treasury reporting, training, and quality assurance; transportation and travel services; property management services; mail management services; printing and graphics services; information resources management systems and services; document management services; telecommunications; quarters management; facilities management services, including space planning, leasing and alteration services and building maintenance; acquisition services; training and development services through four learning centers managed by the DOI University; and specialized employee services such as security clearances, medical services, drug testing and Office of Workers' Compensation Programs (OWCP) case management. The NBC operates on a full cost-recovery business basis.

FY 2002 Accomplishments

- Continued the improvement of the Department's credit card system. Specifically, the NBC improved the quality and reliability of Bankcard data provided to the bureaus.
- Upgraded all *Momentum* clients to the full Web-enabled version of the system.
- Completed the DICAST/FFS implementations at the Nuclear Regulatory Commission (NRC), the National Transportation Safety Board (NTSB), the National Labor Relations Board (NLRB), and the Consumer Product Safety Commission (CPSC).
- Implemented the Travel Manager (TM) and IDEAS for the EEOC.
- Continued the implementation of EC21. The enhancements increased the system capabilities by adding additional data for the electronic receipt of various shipping and telephone company invoices.

- Implemented the FFS Fixed Assets Subsystem for the EEOC and NLRB.
- Implemented the Web-enabled version of Travel Manager (TM) for our clients.
- Continued the Federal Human Resources Information System (FHRIS) project during FY 2002, adding functionality to better respond to the ever increasing needs of the Human Resources community.

FY 2003 Planned Actions

- Implement Phase III of the *Momentum* financial management system for the Architect of the Capitol.
- Modify the FFS to support new “labor distribution” and vendor processing requirements.
- Develop and implement significant system changes for the FFS Fixed Assets Subsystem. Changes will include an enhanced process adjustment capability, and address many of the system’s outstanding issues.
- Implement the FFS Fixed Asset Subsystem for the NTSB and the CPSC.
- Implement new external customers on the Hyperion system for financial statement purposes.
- Implement additional customers on the FPPS in support of the governmentwide payroll consolidation program.
- Implement Travel Manager (TM) for new external customers.
- Continue to improve the Electronic Commerce for the 21st Century (EC21) product line.

Interior Franchise Fund

In 1996, the Department was authorized by OMB to establish, pursuant to the Government Management Reform Act (GMRA) of 1994, one of six franchise fund pilot programs within the federal government. The objective of the franchise fund pilot program is to ultimately reduce the cost of government to the taxpayer through providing commonly required administrative products and services to other federal agencies on a competitive, fee-for-service basis. The Interior Franchise Fund (IFF) carries out this responsibility by relying upon a network of service provider organizations. The current service provider organizations (Office of the Secretary's National Business Center and the Minerals Management Service) strive to operate in an entrepreneurial manner, consistent with OMB's “Twelve Business Principles” and can rapidly cross-service other agencies via interagency agreements. With the service providers' support, the IFF offers a suite of competitively-priced administrative systems and related support services, administrative operations, and general administrative services that are responsive to customers' needs and budgetary constraints. With almost six full years of experience, the IFF has made impressive progress towards meeting the objectives of the franchise pilot program. The Department continues to work closely with OMB, the

governmentwide Chief Financial Officers' Council, and the Department's congressional committees to ensure the development of a high quality pilot program for franchise services.

The IFF provides support to customers in the following areas:

- Administrative Systems and Systems Support (Financial Management Systems Software and Support; Procurement Systems Software and Support; Property Management Systems Software and Support; and Time and Attendance System Software and Support);
- Administrative Operations (Procurement Operations; Accounting Operations; and Personnel Operations);
- Independent Test Verification and Validation;
- Electronic Commerce;
- Training; and
- Drug and Alcohol Testing.

FY 2002 Accomplishments

- Customer orders increased from 1,310 in FY 2001 to a projected 1,500 in FY 2002, an increase of approximately 14 percent. There were no recorded instances of dissatisfied customers leaving the IFF for another service provider.
- Revenues increased from \$235 million in FY 2001 to a projected \$360 million in FY 2002, an increase of approximately 53 percent.
- Retained earnings balance increased from \$334,000 in FY 2001 to a projected \$2.7 million in FY 2002. The substantial increase is due to the achievement of business volume significantly in excess of the break-even point for variable expenses at the service provider level and fixed and variable expenses at the fund level.

FY 2003 Planned Actions

- Improve the business planning process for each of the IFF business lines which includes marketing strategies, pricing analyses, performance measures, and retained earnings analyses.
- Continue to evaluate customer satisfaction and the quality of products and customer services by asking existing customers what and how the IFF can do better with lessons learned being incorporated into future tactical plans.
- Continue to explore new products, services, and activities aimed at leveraging cutting edge technologies and maximizing future opportunities.

- Continue the effort to provide one-stop shopping for most commonly required administrative services.

Minerals Management Service

The Minerals Management Services (MMS) operates as a service provider to the Interior Franchise Fund in three major categories. In the area of procurement support services, MMS provides a complete range of procurement services from inception to closeout (i.e., request for proposals through closeout of contracts). With regard to the human resources arena, MMS performs as a “full service” third party personnel office with management support services that include classification, recruitment, appraisal and awards management, employee/labor management relations, and employee development. MMS also maintains, configures, and operates an Information Technology Training Facility that may be used by other agencies on a fee-for-service basis.

Improving Financial Data Stewardship

Financial data stewardship is the process of managing information necessary to support program and financial managers, and ensuring that data captured and reported is accurate, accessible, timely, and usable for decisionmaking and activity monitoring. The objective of data stewardship policy is to synchronize data collection processes, reduce data redundancy, and increase data accessibility, availability, and flexibility in a systematic manner. Effective data stewardship requires that: (1) definitions clearly describe requirements and characteristics of data to be maintained in financial management systems; (2) data be created, recorded, and reported in compliance with definitions; (3) feedback is provided when data are inadequate to meet user needs for information; and (4) data assurance provides attestation to, or comments on, the integrity of the information within the system.

The Office of Financial Management (PFM) provides overall coordination of data stewardship functions for financial data in the Department. The data stewardship function involves two levels of activities: (1) participation in governmentwide financial data standard setting; and (2) Department of the Interior financial data setting in coordination with the bureau finance operations.

The Office of Financial Management has assigned one staff person to focus on data stewardship functions, participate in governmentwide financial data standard setting activities, and coordinate with the Standard Accounting Classification Advisory Team (SACAT) on setting standards for financial data for use throughout the Department. The PFM data steward monitors the departmentwide data definition process, monitors data creation and compliance processes, ensures data usage relies on information derived from data consistent with the intended definition, and that adjustments are made to data definitions when data are inadequate to meet user needs. This function also coordinates departmental financial data definitions with the two key governmentwide financial data standard setting groups, the Financial Management Service's Standard General Ledger (SGL) Board and the Office of Management and Budget (OMB).

To coordinate the establishment and implementation of financial data standards in the Department, the bureaus and the Office of Financial Management chartered the SACAT, under the leadership of the Finance Officers' Partnership, to establish and maintain a common approach among the bureaus for addressing SGL issues that relate to accounting

policy and procedures, reporting requirements, internal controls, and SGL maintenance. The PFM data steward is a member of the SACAT.

FY 2002 Accomplishments

- Participated in the Standard General Ledger Board and Issue Resolution Committee to ensure that the Department's position is fairly presented and defended.
- Participated in the Intragovernmental Eliminations Taskforce (IGET) to develop strategies and procedures to be applied by all Departments to identify and prepare proper intra-Department elimination accounting entries for the governmentwide consolidated financial statements.
- Reported all of the Department's Treasury Fund Symbols via FACTS II for fourth quarter financial data.
- Participated in the SACAT to ensure that the bureaus' data structure is consistent with the governmentwide data model.
- Reviewed SGL voting ballots with SACAT to determine if proposed changes would meet the Department's data needs and formed consensus on voting ballots.
- Prepared the FY 2001 departmental consolidated financial statements based on the revised SGL account structure.

FY 2003 Planned Actions

- Determine how to best use the reporting process to support performance reporting under the GPRA and the timely preparation of the Annual Performance and Accountability Report.
- Work closely with the Decision Support System/Executive Information System (DSS/EIS) Team to ensure that pertinent information is delivered to executives for decisionmaking purposes.
- Coordinate, on a departmentwide basis, critical financial data definitions necessary for reporting to OMB, the Department of the Treasury, and for departmentwide decisionmaking and management. This effort will be implemented by SACAT.
- Determine how the information technology and user communities can best coordinate efforts to standardize data requirements. This effort will work through the Data Resource Management Working Group.