

Financial Management Status Report and Strategic Plan *FY 2003 - FY 2007*



September 2002





United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, D.C. 20240

Honorable Mitchell Daniels
Director, Office of Management and Budget
Old Executive Office Building, Room 349
Washington, D.C. 20503

SEP 10 2002

Dear Mr. Daniels:

I am pleased to submit the Department of the Interior's Fiscal Year 2003 Financial Management Status Report and Strategic Plan as required by OMB Circular A-11. This plan summarizes the significant accomplishments achieved in fiscal year 2002. It also describes the Department's approach to continued financial management improvement in fiscal year 2003 and supports the financial management improvement initiatives associated with the President's Management Agenda.

Over the past few years, the Department has significantly improved accountability and financial management. While we are pleased with our recent progress, we are very cognizant of the need to further enhance and improve our operations and program performance. The following three themes will continue to guide our improvement efforts over the next several years:

Customer Value: As our financial management services are directed to Interior bureaus, other federal agencies, state or local governments, or the general public, we will seek new ways to improve the service we render to the American people as we fulfill our mission.

Accountability: We will continue to examine how well we are managing our resources-both financial and human-in order to determine if we are effectively achieving our goals, providing quality services, producing useful information that is easily accessible by the public, and adhering to the highest standards of conduct.

Cooperation: The Department has many mission components, goals, functions and activities, as well as a number of management challenges that transcend organizational boundaries. The Department is supported by the many highly skilled, talented, and dedicated employees that comprise our workforce. Together, we will explore opportunities internally and externally to better coordinate, consult, cooperate, and communicate as we solve common challenges and fulfill the Department's mission.

I look forward to working with you and the members of your staff on the financial plans presented in this report.

Sincerely,

P. Lynn Scarlett
Assistant Secretary- Management and Budget and
Chief Financial Officer

table of contents

Chapter 1 - Overview.....	1
Chapter 2 - Goals and Strategies	9
<i>Strategic Goal 1 - Integrity</i>	<i>9</i>
<i>Strategic Goal 2 - Efficiency.....</i>	<i>11</i>
<i>Strategic Goal 3 - Reporting</i>	<i>14</i>
Chapter 3 - Financial Performance	16
<i>Improving Financial Management Reporting</i>	<i>16</i>
<i>Ensuring Management Accountability and Control</i>	<i>34</i>
<i>Improving Asset Management and Financial Operations</i>	<i>39</i>
<i>Improving Financial Data Stewardship</i>	<i>55</i>
Chapter 4 - Financial Management Systems.....	57
Chapter 5 - Grants Management	75
Chapter 6 - Human Capital.....	80
Appendix A	91

CHAPTER 1. OVERVIEW

Interior's Mission

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

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

Interior's Mission

The Department's mission is to protect and provide access to our Nation's natural and cultural heritage and honor our trust responsibilities to tribes and our commitments to island communities. Charged with this mission, the Department balances the protection of the Nation's investment in its natural and cultural resources with access and use of recreational, cultural, and natural resources to benefit the American people.

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

Implementing the President's Management Agenda

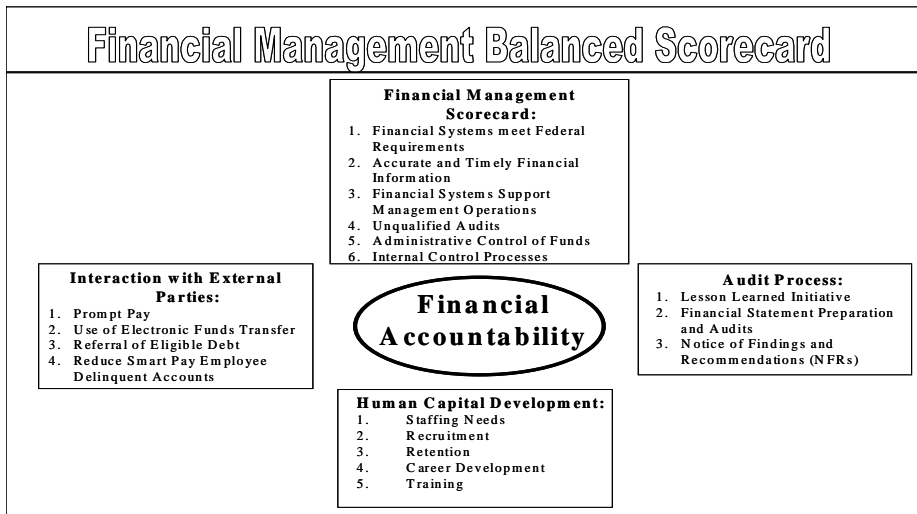
The "President's Management Agenda" established five governmentwide goals for improving federal management and delivering results that matter to the American people. These goals are: (1) strategic management of human capital; (2) competitive sourcing; (3) improved financial performance; (4) expanded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

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

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

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

Exhibit 1-1



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

Collaborative Working Relationships

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

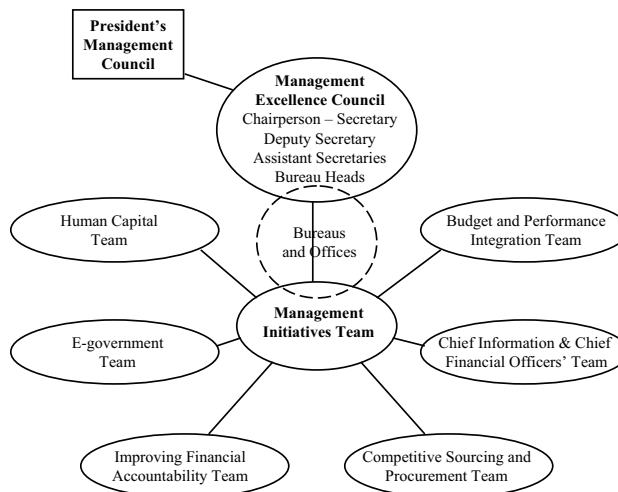
Effective Leadership and Management Oversight: The Department has established a Management Excellence Council, which is chaired by the Secretary and includes the Deputy Secretary, Assistant Secretaries, and bureau heads. The Council will provide leadership, direction, and accountability to implement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

Exhibit 1-2

Organizing for Management Excellence at the Department of the Interior

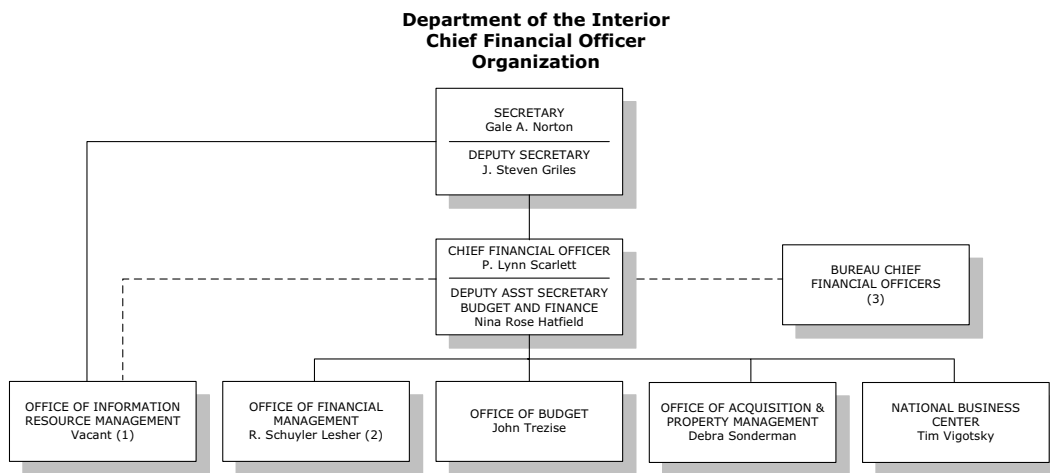
Initiatives the Management Excellence Council will pursue include the President's five management goals to accomplish the Department's goal to Manage for Excellence and Accountability:

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



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

Exhibit 1-3



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

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

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

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

Financial Management Vision and Goals

Interior's Financial Management Vision Statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAPTER 2. GOALS AND STRATEGIES

Financial and Performance Management

The Department has established three primary strategic goals for the financial management program. These goals are: (1) ensure integrity in management functions; (2) provide efficient financial management operations; and (3) improve financial and performance reporting.

Each of these strategic goals is supported by performance measure(s).

Strategic Goal 1 - Integrity: Strengthen the integrity of financial operations to ensure accuracy of financial data and management control over activities.

Performance Measure - Audit Opinions

Interior places a high priority on preparing reliable financial information. Accordingly, the Department publishes annual financial statements for the Department and each of the bureaus. Independent financial audits attest to the validity and reasonableness of the information disclosed in the financial statements and the accompanying notes and supplemental information to assure the Office of Management and Budget, Congress, and the public of the integrity of the Department's external reporting.

Each year, the financial statement auditors issue: (1) an opinion on the financial statements; (2) a report on internal controls; and (3) a report on compliance with laws and regulations including the Federal Financial Management Improvement Act. Auditors classify financial statement opinions in one of three categories: disclaimer, qualified, or unqualified (clean).

Performance Goal: The Department's goal is to achieve and maintain: (1) unqualified audit opinions on the financial statements included in the Department's Annual Accountability Report as well as all financial statements prepared by Interior bureaus; (2) no material weaknesses in the report on internal controls; and (3) no disclosed instances of noncompliance in the report on compliance with laws and regulations.

Performance Objectives: By the end of the current fiscal year and every year thereafter, obtain unqualified (clean) audit opinions on 100 percent of annual financial statements including all eight bureaus, the Departmental Offices, and the Department's consolidated statements. By the end of FY 2005, have no reportable conditions on the Internal Control and Compliance with Laws and Regulations opinions for all eight bureaus, the Departmental Offices, and the Department.

In FY 2001, the Department and nine bureaus and offices received unqualified audit opinions. The financial statements for the U.S. Geological Survey received a disclaimer. The FY 2002 audited financial statement results are expected to be issued in February 2003 for all bureaus and offices.

Audit Opinions

	FY 01 Actual	FY 02 Plan	FY 02 Actual	FY 03 Plan	FY 04 Plan	FY 05 Plan
Unqualified opinions on financial statements	9 of 10	10 of 10	N/A	10 of 10	10 of 10	10 of 10
No exceptions in report on internal controls (departmentwide)	1	6	N/A	4	2	0
No exceptions in compliance with laws and regulations (departmentwide)	1	3	N/A	2	1	0

Performance Measure - Timely Correction of Federal Manager's Financial Integrity Act (FMFIA) Material Weaknesses and Implementation of Office of Inspector General (OIG) and U.S. General Accounting Office (GAO) Audit Recommendations

A number of FMFIA program material weaknesses have been identified in annual management control self-assessments of bureau and office programs, organizations, and functions. Corrective Action Plans (CAPs) are developed and implemented by the bureaus and offices, and the Department monitors corrective action progress on a quarterly basis to ensure that the CAPs are completed by the original targeted completion date. In addition, audit recommendations reported by the OIG and GAO, and those reported by professional audit firms in single audits, are also monitored on a quarterly basis to ensure that implementation occurs in a timely manner.

Performance Goal: The Department's goal is to complete at least 75 percent of the CAPs for FMFIA material weaknesses disclosed in bureau and office management control self-assessments by the original planned targeted completion date. In addition, the Department also strives to implement at least 75 percent of the audit recommendations reported in the OIG audit program, operational and financial statement audits, single audits, and GAO audits within one year of the date of referral to the Department for tracking of implementation.

Performance Objectives: By the end of FY 2007, the Department intends to complete 100 percent of all material weaknesses CAPs by their original target date (compared to 80 percent actual expected to be achieved by the end of FY 2002). Additionally, the Department plans to implement 95 percent of all OIG and GAO audit recommendations within one year of referral (compared to 79 percent actual expected to be achieved by the end of FY 2002.)

The Department's FY 2002 objective with respect to audit recommendations was to implement within one year of referral for tracking of implementation 75 percent of the audit recommendations reported in OIG and GAO program and operational audits. Based on actual progress to date, and that expected by the end of FY 2002, this objective will be accomplished. A 77 percent composite implementation rate was achieved through the end of the fiscal third quarter, and a 79 percent composite implementation rate is projected to be achieved by the end of the fiscal year.

The Department's FY 2002 objective with respect to FMFIA material weaknesses was to complete CAPs for 75 percent of the pending material weaknesses carried over from FY

2001 with original targeted completion dates in FY 2002. Based on actual progress through the end of the third fiscal quarter, and that expected by the end of FY 2002, this objective should also be expected to be accomplished. An overall CAP completion rate of 80 percent is expected to be achieved. Eight of the ten (80 percent) CAPs targeted for completion in FY 2002 have been or are expected to be completed by the end of FY 2002. The timely completion of the CAPs for the other two FMFIA material weakness targeted for completion in FY 2002 were adversely impacted by the Internet and Bureau of Indian Affairs systems shutdown ordered by the Court and the revision of the Indian Trust Fund strategy and related High Level Implementation Plan.

Completion of Material Weakness CAPs and Implementation of Audit Recommendations

	FY 01 Actual	FY 02 Plan	FY 02 Actual (estimated)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Implementation of audit recommendations	63%	75%	79%	80%	85%	90%
Completion of material weakness CAPs	50%	75%	80%	80%	90%	100%

Strategic Goal 2 - Efficiency: Optimize financial management operations to increase customer satisfaction and decrease costs to the Department.

Performance Measure - Prompt Pay

The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the federal government is required to pay interest. Performance is measured by the number of payments without interest penalties to the total number of payments subject to the Act. Over the past several years, the number of payments subject to the Act has shown a steady decline. This decrease is primarily attributable to Interior's increased use of the governmentwide purchase charge card.

Performance Goal: The Department's goal is to pay 97 percent of its invoices without late payment interest penalties.

Performance Objective: By the end of the current fiscal year and every year thereafter, each bureau will maintain a percentage of 97 percent or better for payments not requiring interest penalties.

As of June 30, 2002, Interior's percentage of payments not requiring interest penalties was 97.5 percent, exceeding the annual target. The Department expects this payment rate to continue as a result of using new technologies and best practices.

Prompt Pay

	FY 01 Actual	FY 02 Plan	FY 02 Actual (6/30/02)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Percent of payments not requiring interest penalties	97.9%	97%	97.5%	97%	97%	97%

Performance Measure - Use of Electronic Funds Transfer (EFT)

The Debt Collection Improvement Act of 1996 (DCIA) requires that all payments be made by EFT unless covered by waiver.

Performance Goal: The Department's goal is to use EFT, including charge cards, to the maximum extent possible except for those payments covered by waiver.

Performance Objective: By the end of the current fiscal year, the Department will process 98 percent of salary payments, 80 percent of vendor payments, 92 percent of miscellaneous payments by EFT, and 93 percent of purchases of \$25,000 or less via a charge card.

To achieve the stated objectives, the Department has increased the use of the governmentwide purchase charge card, minimized the use of imprest funds and third party drafts, and required new vendors and employees to enroll for EFT payments. Also, the Department is investigating the use of the Central Contractor Registry to facilitate vendor enrollment for EFT.

Electronic Funds Transfer

	FY 01 Actual	FY 02 Plan	FY 01 Actual (6/30/02)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Salary	98.6%	98.0%	98.7%	98.0%	98.0%	98.0%
Vendor	80.6%	80.0%	84.5%	80.0%	80.0%	80.0%
Miscellaneous	92.8%	92.0%	93.5%	92.0%	92.0%	92.0%
Charge Card (\$25,000 or less)	95.5%	93.0%	95.0%	93.0%	94.0%	95.0%

Performance Measure - Referral of Eligible Debt

The Debt Collection Improvement Act of 1996 (DCIA) requires agencies to refer eligible 180-day delinquent debt to Treasury for cross-servicing and, if necessary, offset action.

Performance Goal: Refer all eligible 180-day delinquent debt to Treasury.

Performance Objective: By the end of the current fiscal year, the objective is to achieve a 90 percent referral rate. The Bureau of Indian Affairs is nearing completion of an intensive effort to improve its debt performance. This effort, when completed, will greatly improve the percentage of referral of eligible debt to Treasury's Financial Management Service. However, Interior will not achieve the target due primarily to the Internet shutdown mandated by court order. Departmental resources were diverted to address shutdown issues.

Referral of Eligible Debt

	FY 01 Actual	FY 02 Plan	FY 02 Actual (6/30/02)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Percent of eligible debt referred to Treasury *	97%	90%	83%	93%	94%	95%

* Eligible debt excludes amounts in litigation and amounts currently being considered by the agency for compromise.

Performance Measure - Reduce SmartPay Program Employee Delinquent Accounts

The Department seeks to reduce the number of charge cards that are delinquent for 60 days or more to one percent, exclusive of former employees, by FY 2005.

Performance Goal: The Department's goal is to reduce the amount of 60 days and older delinquent charge card accounts to below the commercial level of the total outstanding balance, exclusive of former employees.

Performance Objective: As of June 30, 2002, Interior's percentage of delinquent charge card accounts decreased from 4.6 percent to 4.4 percent. The Department has revised its targets to reflect the current environment and anticipates that improvement will continue. By the end of the FY 2005, the Department expects to achieve a level of one percent of the total outstanding balance, and continue at that level for each year thereafter.

SmartPay Delinquent Accounts

	FY 01 Actual	FY 02 Plan	FY 02 Actual (6/30/02)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Percent of SmartPay Program Employee Delinquent Accounts (60 days or older)	4.6%	1.0%	4.4%	2.0%	1.5%	1.0%

Performance Measure - Reduce Erroneous Payments

OMB Circular A-11 defines "erroneous payments" as payments that should not have been made or were made for an incorrect amount. Although the Department is not one of the agencies identified in Section 57 of OMB Circular A-11, Interior makes financial assistance payments under a variety of programs and to vendors for goods and services. To better assess the Department's performance in the area of erroneous payments, Interior has established a goal for payments made to external parties associated with Interior's financial assistance programs and to establish pre-audit and post-audit programs related to employee or vendor payments to better monitor these activities.

Performance Goal: The Department's goal is to have no erroneous payments.

Performance Objective: The annual target is to maintain adequate controls over federal assistance payment processes to ensure that any erroneous payments are below .05 percent of the program as measured by audit disallowances and that 60 percent of the disallowances are returned to the government. Based on available information, the Department expects to achieve its goal. To further enhance the program, the Department will expand pre-audit and post-audit programs by establishing additional programs to cover employee and vendor payments.

Erroneous Payments

	FY 01 Actual	FY 02 Plan	FY 02 Actual (estimate)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Federal Assistance – Percent of Audit Disallowances	.02%	.07%	.03%	.06%	.06%	.06%
Federal Assistance – Percent of Disallowances Returned to Government	13%	35%	65%	45%	45%	45%
Number of Pre-Audit Programs	1	1	1	2	2	2
Number of Post-Audit Programs	0	0	1	1	2	2

Strategic Goal 3 – Reporting: Improve financial and performance reporting to better support management decisions at all levels and to ensure compliance with the Government Management Reform Act and the Government Performance and Results Act (GPRA).

Performance Measure - Combining financial statement information with performance data

Combining annual financial and performance reports provides a more accurate overview of financial operations and program results. Performance information is necessary to comply with GPRA requirements and is critical to supporting management decisions. Combining cost data with performance data further enhances the reporting of information to managers.

Performance Goal: The Department's objective is to increase the reporting of performance information in Interior's Accountability Report and in bureau-level reports, improve the reporting of cost information in the Accountability Report, and increase cost information related to GPRA goals.

Performance Objective: Beginning in FY 2001, the Department reported 100 percent of the high-level annual performance measures in the Accountability Report and reported costs for 100 percent of GPRA program activities. In FY 2002, the Department will consolidate the Annual Performance Report with the Annual Accountability Report and report costs for 100 percent of the GPRA program activities.

Combining Financial Statements with Performance Data

	FY 01 Actual	FY 02 Plan	FY 02 Actual (estimate)	FY 03 Plan	FY 04 Plan	FY 05 Plan
Ratio of selected, high-level annual performance measures reported in the Accountability Report	100%	100%	100%	100%	100%	100%
Percent of GPRA Program Activity performance measures in the Accountability Report	N/A	100%	100%	100%	100%	100%

Performance Measure - Interim financial statements and performance reports

The Department intends to prepare interim financial statements for all bureaus and the Department and improve the availability of financial and budget information to Interior management.

Performance Goal: The Department's goal is to produce two interim financial statements and one interim report on performance data during the year.

Performance Objective: By the end of the current fiscal year and each year thereafter, produce interim financial statements, including the Statement of Budgetary Resources, for each bureau and the Department using the Consolidated Financial Statement application.

Interim Financial Statements with Performance Data

	FY 01 Actual	FY 02 Plan	FY 02 Actual	FY 03 Plan	FY 04 Plan	FY 05 Plan
Number of interim financial statements	1	1	1	3	3	3
Number of interim reports on performance data	0	1	0	1	1	1

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 Mangers: 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.

CHAPTER 4. IMPROVING FINANCIAL MANAGEMENT SYSTEMS

GOAL: *Achieve and maintain a single, integrated financial management system that complies with federal government policy.*

The Department shares the view of the governmentwide CFO Council that a key to improved financial and program management is improved financial management systems. Improving financial management systems will provide for and strengthen decisionmaking capabilities and enable Interior program and financial managers to more effectively achieve the Department's missions. The Department recognizes the importance of its financial management systems as a part of its capital assets portfolio and uses sound information technology investment management principles to plan and monitor these systems. Interior's goal is to achieve and maintain the objective stated in OMB Circular A-127 for each agency to establish a single, integrated financial management system. In pursuing this goal, the Department will follow the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

History

The Department continues to move toward the objective stated in OMB Circular A-127 for each agency to establish a single, integrated financial management system. Since the mid-1980s, Interior has improved its financial systems and eliminated duplicative and redundant systems. By 1984, the number of personnel/payroll systems used by Interior had been reduced from five to one. All bureaus within the Department were converted from the PAY/PERS personnel/payroll system to the Federal Personnel/Payroll System (FPPS) by the end of 1998. The FPPS is a new, agency-developed system maintained by the National Business Center. The FPPS is a fully integrated, on-line system that services 22 agencies, including the Social Security Administration, in addition to the Department.

By FY 1992, the number of existing bureau core financial systems had been reduced from ten to two, with off-the-shelf software, Federal Financial System (FFS), being used in six bureaus which account for over 95 percent of Interior's annual accounting transaction volume. One additional bureau, the Office of the Secretary, converted to FFS during FY 2000. The remaining two smaller bureaus use ABACIS, an in-house developed core accounting system.

Overall, Interior's financial management systems represent a combination of governmentwide systems, departmental systems, and bureau managed systems. Increasingly, Interior is becoming reliant on technology as the enabling agent for meeting management's need for more timely and comprehensive financial management information to streamline underlying financial and administrative processes and improve the efficiency of transaction processing. Moreover, Interior is fully aware of the importance of information technology as a financial investment and of the necessity to manage this investment wisely.

Financial Management Systems Improvement Strategy

The Department's goal is to continue to improve financial transaction processing and to enhance the financial management systems support through an effective partnership of program, information system, and financial managers.

The Department relies on a unified set of financial management systems planned for and managed together and operated in an integrated fashion to collectively support program and financial managers. These systems are managed at various levels within the Department. Some of these systems are managed on a departmental level, others are maintained at a bureau or local level, and some are governmentwide systems that the Department relies on. Collectively, they represent the Department's financial management systems architecture. The current financial system architecture is shown in *Exhibit 4-1*, arrayed by the different types of management approaches being used. *Exhibit 4-2* lists the Department's financial management systems and applications.

Exhibit 4-1

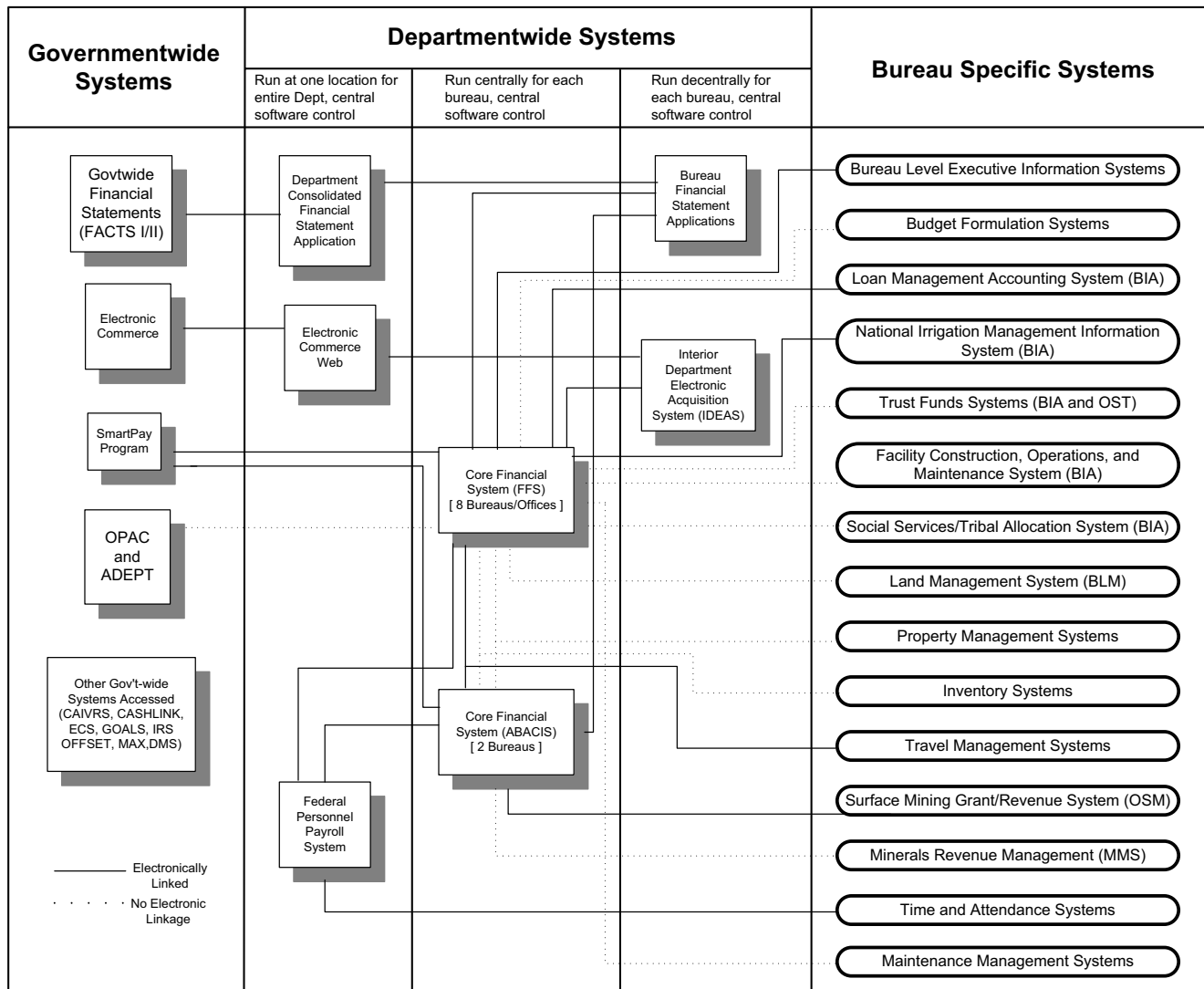


Exhibit 4-2

**Department of the Interior
Financial Management Systems Supporting Exhibit 4-1
System/Applications**

DEPARTMENTWIDE SYSTEMS

Core Financial System (FFS)

- Federal Financial System (8 Bureaus/Offices)

Payroll Personnel System

- Federal Personnel/Payroll System (FPPS)

Core Financial System

- Advanced Budget/Accounting Control and Information System (2 Bureaus)
- Accounting and Aircraft System (OAS)

Interior Department Electronic Acquisition System

BUREAU SPECIFIC SYSTEMS

Bureau Level Executive Information Systems

- Management Information System (BLM)
- Administrative Financial System II (NPS)
- Federal Aid Information Management System (FWS)
- Financial Reporting and Reconciliation System (NPS)
- Budget and Science Information System (GS)
- TSC Management Information System (BOR)

Property Management Systems

- FFS Fixed Assets Subsystem (BIA, BLM, GS, NPS)
- Moveable Property System (BOR)
- Property Management System (MMS)
- Property Management Web (New System Being Developed by MMS)
- Personal Property Management Information System (FWS)
- Real Property Inventory (FWS)
- Federal Real Property Management (GS)
- Property Accountability Ledger System (OSM)

Budget Formulation Systems

- Budget Allocation System (FWS)
- Program and Budget System (BOR)
- Budget Formulation System (NPS)

Inventory Systems

- FEDSTRIP System (BOR)
- DORRAN (GS)
- Peachtree 2000 Inventory System (GS)

Loan Management Accounting System (BIA)**National Irrigation Management Information System (BIA)****Travel Management Systems**

- Travel Manager Plus

Trust Funds (BIA, OST)

- Trust Funds Accounting System
- Integrated Resources Management System

Minerals Revenue Management (MMS)**Facility Construction, Operation, and Maintenance System (BIA)****Surface Mining Grant/Revenue System (OSM)**

- Grant Information Financial Tracking System
- Fee Billing and Collection System
- Audit Fee Billing and Collection System
- Civil Penalty Accounting Control System

Land Management System (BLM)

- Payment in Lieu of Taxes
- Collection and Billing System

Maintenance Management Systems (Various)

The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements: (1) migrating to and enhancing standard departmentwide systems; (2) improving or replacing financial and mixed systems to take advantage of new technological capabilities (e.g., Internet browser and smart card technology); (3) effectively interfacing or integrating financial management systems through electronic transfer of data and establishing standardized financial data classifications for movement of data to support finance and program managers; and (4) following sound investment principles in selecting and evaluating its financial management systems and recognizing those systems as part of the Department's portfolio of capital assets.

The Department's current financial management system improvement efforts involve four major thrusts:

- **Current Systems:** Maintain current financial management systems to support administrative and program managers, update these systems where necessary for regulatory compliance requirements, and manage these systems in a manner consistent with the Department's information systems investment management policies and procedures.
- **Financial Management Systems Migration Project:** Define, carefully plan, and implement a new generation of financial management systems to take advantage of new technology and processing opportunities.
- **Federal Human Resources Information System (FHRIS):** Define, carefully plan, and implement the system functionalities needed in the Human Resources community.
- **Critical Programmatic Management Systems:** Re-engineer and/or replace certain critical bureau-based programmatic/financial management systems supporting critical programs: Minerals Revenue Management; Indian Trust Funds Systems; and Facilities Management System.

The target architecture for the next five years will be determined by the results of the Financial Management Systems Migration Project. Therefore, an illustration of the target architecture is not included in this financial management plan.

FY 2002 Accomplishments

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 through the following:

- Maintaining the SmartPay Program (commonly called the DOI Integrated Charge Card Program) supporting the Interior travel, acquisition, and property programs through the Bank of America.
- Maintaining the Interior Departmentwide Procurement System (IDEAS) providing more than 350 locations with the software support for requisitioning, purchasing, contracting, and contract administration.

- Improving Property Systems through the Property Management Partnership to provide 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.
- Maintaining the Current Core Accounting Systems through annual updates of the vendor software of the existing core accounting system until a replacement core accounting system is identified, acquired, and implemented. A new release of the FFS core accounting system software was implemented in July 2001. This software uses 1980's technology and needs to be replaced.
- Improving the Consolidated Financial Statement System through continuing the updates of the Hyperion Enterprise software for collecting financial statement information to support the preparation of consolidated financial statements. The Department began using the Hyperion Enterprise software in 1997 for the Department's consolidated financial statements. Since FY 1999, each bureau finance office has also used Hyperion Enterprise to prepare bureau-level audited financial statements.
- Maintaining the GPRA Performance Tracking System necessary to support the Government Performance and Results Act (GPRA). This system is an Access based system used to capture GPRA performance information to meet the GPRA reporting requirements on a departmental basis.

FY 2003 Planned Activities

- Continue to maintain the above systems until new functional capability is available through the implementation of the Financial Management Systems Migration Project.

Financial Management Systems Migration Project (FMSMP)

In February 1998, the Interior Chief Financial Officers (CFO) Council established the Financial Management Systems Migration Steering Committee which is composed of bureau CFOs/Deputy CFOs and co-chaired by Interior's Deputy CFO and the Director of Interior's Office of Acquisition and Property Management. The purpose of establishing the Steering Committee was to provide for senior level leadership in the planning, acquisition, and implementation of replacements for existing Interior financial management systems. An integrated approach to systems replacement is greatly needed since a number of the Department's financial management systems must be replaced within the next few years. The development of the migration strategy will ensure that any new replacement systems adhere to the Department's information systems architecture and allows for full integration among the Department's financial management systems.

The Interior CFO Council endorsed the Steering Committee recommendation that the Department engage in a coordinated cross-functional financial management streamlining effort that encompasses the following business functions: budget formulation and execution; personnel and payroll management; acquisition, receipt, accounting, maintenance, and disposition of property and services; managerial cost accounting; and travel management.

Utilizing the direction of the Clinger-Cohen Act of 1996, this proposed financial systems improvement strategy will include re-engineering processes, where necessary, and building a business case for making investments in financial management systems replacement. The current effort has completed the initial three phases:

- *Phase I - Functional Analysis Phase*
- *Phase II - Business Process Review*
- *Phase III - Business Case Development*

Additionally, in late FY 2000, Interior issued a Request for Information (RFI) to industry. The RFI process was completed during FY 2001 by conducting vendor software demonstrations. The RFI process was successful in providing needed information in each area.

Interior's strategy is to establish and maintain an integrated financial management system for use by all bureaus that will: (a) allow users in the field and senior management to access common financial data when they need it to perform their functions effectively and efficiently; (b) enable processing necessary to record underlying transaction data and the infrastructure to provide easy access to the data will be handled in the background with limited or no human intervention; and (c) provide a secure integrated systems information environment that will support e-government initiatives, be paperless, require only a single user logon for access, allow one-time initial data entry, and provide easy access to common data. This will replace Interior's current financial management systems that are old and cannot support current and planned e-Government opportunities. The core accounting system (FFS) used by most bureaus is based on a mainframe system using outdated technology; two bureaus are using an internally developed system (ABACIS) that is difficult to support; the procurement system (IDEAS) is a client-server system that does not support multi-bureau contracting initiatives and is expensive to maintain; and current financial management systems are not integrated and do not have the necessary security capabilities to facilitate more open access through the Internet.

The scope of the effort will include the following critical functions of the Department: core financial, acquisition, personal property/fleet management, travel, budget, financial assistance, real property, and enterprise management information. The strategy for implementing the new systems will be to implement the system capabilities in phases by designing the systems to be implemented across the Department but implementing the new systems capabilities in two bureaus first (OSM and MMS) before implementing the systems capabilities in the other bureaus.

The strategy has been developed to support e-Government initiatives to improve government to customer, government to business, and government to government interaction by: (1) supporting secure electronic connections with outside parties purchasing services or obtaining information from the Department; (2) supporting electronic procurement and payment infrastructure for vendors doing business with the Department; and (3) supporting business process changes necessary to link electronically to state and other federal agencies for grants and intergovernmental activity. The strategy will provide value to senior level officials by improving decisionmaking through more accurate and more timely access and analysis of critical management information, improving integrity in data through better integration and control over information processes, and reducing risk of systems collapse due to old technology. Value will be added for line managers by providing better administrative support for employees to improve the quality of the work environment, increasing the ability

to hire and retain high quality staff, and improving the ability to take advantage of Internet capabilities. Value will also be added to administrative operating personnel by improving internal efficiency and effectiveness through streamlining processes, improving efficiency, and reducing reconciliation efforts between critical systems to allow for more analytical activities, supporting increased security over applications and data, and potentially reducing cost of systems maintenance and allow for less expensive enhancements to functionality in the future.

The Department's acquisition and implementation investment strategy is to set up the applications to support the functions within the scope of the project of departmentwide implementation and to implement the new systems capabilities in the first two bureaus (Minerals Management Service and the Office of Surface Mining) to ensure the approach works before implementing the rest of the Department. The initial investment has been included in the Department's FY 2004 budget request to the Office of Management and Budget. The total systems acquisition and implementation investment for all bureaus is planned over an eight year period.

FY 2002 Accomplishments

- With contractor assistance, developed: (1) requirements for each of the software modules included within the scope of the Financial Management Systems Migration Project (FMSMP); (2) an acquisition strategy, including detailed evaluation criteria; and (3) a software capabilities demonstration plan.
- Developed the FY 2004 Capital Asset Plan (Exhibit 300).

FY 2003 Planned Actions

- Develop a Request for Proposals (RFP) for the acquisition of financial management software and implementation services.
- Issue the RFP for the acquisition of financial management software and implementation services.
- Evaluate and test the financial management software proposed by the vendors responding to the RFP.
- Obtain FY 2004 funding to implement the migration strategy established to replace existing financial management systems within an integrated information technology architecture.

FY 2004 and Beyond Planned Actions

Depending on funding availability:

- Award contract for financial management software and implementation services.

- Implement the Financial Management Systems Migration strategy in phases as defined in the long-term strategic plan for the migration to an integrated financial management system for the Department.

Federal Human Resources Information System

In 1998, the Department enlisted Booz, Allen & Hamilton to do an analysis of the Federal Personnel/Payroll System (FPPS) and private sector vendors to assist in determining how best to provide additional system functionalities needed in the Human Resources (HR) community.

The recommendation of Booz, Allen & Hamilton was to continue the use of FPPS for payroll and payroll-related HR functions and to select a commercial-off-the-shelf product to provide the additional HR functionalities.

The Federal Human Resources Information System (FHRIS) Project resulting from the above referenced contract had three objectives:

- Determine what areas in the SAP HR product need modification to meet federal requirements and help SAP understand the requirements so they can be added to the SAP product.
- Configure and pilot test three areas of functionality (applicant tracking, skills bank, and training and event management) at bureau test sites.
- Develop a business case for a long-term, departmentwide implementation of a federalized SAP HR system.

The FHRIS prototype pilot project was a success and the Department contracted with Booz, Allen & Hamilton in FY 2001, and again in FY 2002, to assess the pilot project and develop/update a business case for departmentwide implementation of FHRIS.

FY 2002 Accomplishments

- Conducted a demonstration pilot of HR functionality in the National Business Center.
- Prepared for further pilot projects in several bureaus.
- Developed a Business Case for FHRIS, including funding requirements for future years.
- Investigate other possible solutions to ensure FHRIS is the proper approach for the Department.

FY 2003 Planned Actions

- Obtain departmental approval for the full project, based on the Business Case.
- Begin change management activities in all bureaus.

FY 2004 and Beyond Planned Actions

- Issue long-term contract to implement all the functional areas listed above in all bureaus.
- Develop interfaces between FHRIS and other Interior financial management systems.

Improve the Information Technology Infrastructure Supporting Financial Systems

The information technology (IT) infrastructure is critical to maintaining quality financial management systems that are secure. Two major efforts are underway to improve this infrastructure.

Interior Information Architecture Program

Historically, mission requirements have been isolated in focused organizations within Interior, serving their specific purposes. Although these needs often overlapped among Interior's bureaus, they were often acquired, managed and supported independently. The result is a variety of unconnected, repetitive, or inconsistent information systems on a variety of technical platforms. Rapid advancements in the maturity of information technology, such as networking, the World Wide Web, data warehousing, and application sharing have eliminated many of the barriers formerly impeding the sharing and integration of data, information, and resources. This sharing can ultimately provide the ability to enhance or recreate business processes. These enhancements, in turn, improve management of IT requirements, total cost of ownership, and service delivery. It is precisely these improvements that enable Interior to take an agency view of financial management related systems, as well as other departmental administrative systems. These same principles are being applied across all business systems within Interior.

Recognizing these factors and the absolute need for change, the Clinger-Cohen Act of 1996 requires each Agency Chief Information Officer to develop and implement an Enterprise Information Architecture. Interior's implementation is designated the Interior Enterprise Architecture (IEA) (formerly known as the Interior Information Architecture (IIA)). Statutory requirements supporting the development and implementation of an enterprise architecture include, but are not limited to, the Government Performance and Results Act (GPRA), Presidential Decision Directive 63, and the Government Paperwork Elimination Act. The goal of the IEA is to provide the process and the policies needed to evolve Interior's various information systems and technical infrastructures to a coordinated overall structure that is responsive, accessible, affordable, and easier to maintain.

Implementation of the Interior Enterprise Architecture is a well-coordinated effort making progress on several levels. The Clinger-Cohen Act calls for an enterprise architecture that is driven by business needs. To meet this goal, Interior is articulating the business drivers in an Enterprise Business Architecture (EBA), and developing or improving the component architectures that make up the Interior Enterprise Architecture. The Interior Architecture Project has joined with the Government Performance and Results Act effort to develop the EBA. This coalition incorporates bureau information technology and mission requirements into the GPRA process, thereby ensuring a consistent and crosscutting view of Interior's business. The development of the EBA is following a recognized industry best practice,

from the META Group, for developing enterprise architectures. The META Group has been secured to facilitate and assist in continued development of the IEA. Support for this development is secured through a GSA FEDSIM contract.

The component architectures are being developed by Interior's Chief Architect and staff, with support from the Interior Architecture Working Group. Component architectures include Information Security, Network, Data Management, Geospatial Technologies, Applications Development, Middleware, Collaboration & Directory Services, Web/E-Government, Distributed Systems Management, and Platform. Development of the component architectures will ensure Interior meets at least minimal compliance with related statutory and operational requirements.

FY 2002 Accomplishments

- Coordinated activities of the Interior Architecture Program, broadening involvement of bureaus and offices within Interior.
- Involved and informed Interior bureaus/offices in assessments of architectural maturity throughout Interior.
- Produced the final Technical Reference Model and Standards Profile (version 1.0).
- Worked with META Group Consulting to facilitate and assist in continued development of the IEA.
- Involved senior business managers in defining Interior's strategic direction and challenges.
- Matured the governance process for IEA, involving senior managers and executives from throughout Interior.
- Strengthened the partnership with GPRA to identify strategic influences and integrate them into the IEA.
- Strengthened the partnership with IT Capital Planning and Investment Control to make the IEA an integral component of managing IT investments.
- Identified opportunities for non-exclusive enterprise licensing agreements to leverage departmentwide purchasing power and reduce total cost of ownership.

FY 2003 Planned Actions

- Complete the high-level IEA and initiate mid-level IEA development.
- Identify opportunities through gap analysis to improve Interior technology infrastructure.
- Update the Technical Reference Model and Standards Profile (version 2.0).
- Continue to strengthen the partnership with GPRA to identify strategic influences and integrate them into the IEA.

- Continue to strengthen the partnership with IT Capital Planning and Investment Control to make the IEA an integral component of managing IT investments.
- Continue coordination of non-exclusive enterprise licensing agreements to leverage departmentwide purchasing power and reduce total cost of ownership.

FY 2004 and Beyond Planned Actions

- Initiate work on a detailed level IEA.
- Update and maintain the Technical Reference Model and Standards Profile.
- Identify and facilitate departmentwide acquisitions of commonly used information technologies.

Computer Security Improvement Project

The Department of the Interior (DOI) has implemented an agencywide Information Technology security program focused on ensuring that systems are protected and meet the requirements of public laws, Executive Branch directions, federal standards, and Interior policies. DOI will maintain an IT security program that assures adequate protection of all information assets and IT systems. The DOI IT Security Program provides bureaus and offices with the framework for the protection of information and IT systems from threats to confidentiality, integrity, availability, accountability, and authenticity. Agencywide computer security requirements for all information and information systems categorized as National Critical Infrastructure or National Security Information, and a portion of Interior Mission Critical Systems, will be programmatically implemented. This approach adopts federal doctrine that application of IT security measures should be (1) risk based, (2) implemented uniformly and consistently, (3) applied commensurate with the potential for loss, and (4) quantifiable. Programmatic implementation will embody defined, repeatable processes that incorporate the means for measuring results against predetermined criteria. Guidance put forth in Office of Management and Budget (OMB) A-130, Appendix III will be used to determine quantitatively how many systems of a particular category meet the minimum requirements for ensuring adequate security. A focus on meeting a uniform level of compliance across all of DOI is imperative and a goal of the IT Security Program. While it is important that all systems have adequate protection, achieving uniform levels of compliance is critically linked to agencywide management priorities, workforce capabilities, and available resources.

FY 2002 Accomplishments

- Established departmental approach for implementation of integrated IT security from executive management to working levels.
- Developed policies, procedures, and guidance reflecting the complete range of activities covered in NIST Special Publication 800-26 (Security Self-Assessment Guide for Information Technology Systems).

- Developed a complete hardening process for networks to assure appropriate security measures and adequate protection of electronic assets will be implemented.

FY 2003 Planned Actions

- Enhance the security of National Critical Infrastructure, National Security Information Systems, Indian Trust systems, and financial systems.
- Establish an OMB A-130, Appendix III Project Office to oversee compliance issues.
- Develop and put into practice a Certification and Accreditation process to provide assurance to management and users on the confidentiality, integrity, and availability of any information processed, stored, or transmitted by a General Support System or Major Application.
- Establish Computer Security Incident Reporting Capability to facilitate the coordination of vulnerability and incident reporting and cooperation among the DOI bureaus and program offices in sharing incident, vulnerability, threat, and countermeasure information.
- Conduct risk assessments for all Wide Area Networks.

FY 2004 and Beyond Planned Actions

- Establish a Public Key Infrastructure (PKI) for use within the Department.
- Continue the Certification and Accreditation process on Interior Mission Critical systems.
- Provide continued support for bureau IT Security Program Implementation and Management.

Replacing Critical Programmatic Management Systems

The Department has projects underway to replace or enhance certain critical programmatic management systems that process financial data. These projects include the following:

Minerals Revenue Management System

Minerals Revenue Management (MRM) is responsible for ensuring that all mineral revenues from federal and Indian lands are efficiently, effectively, and accurately collected, accounted for, verified, and disbursed to recipients in a timely manner. These revenues average more than \$6 billion annually, with more than \$10 billion collected in 2001 alone. The MRM was faced with a number of challenges that forced it to reexamine its core business processes. One of these challenges was the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 that significantly changed many of MRM's historical operating assumptions, as well as some fundamental federal oil and gas mineral revenue financial activities. Another compelling reason for a re-engineering effort was the need to improve MRM's performance by reducing its business cycle to match other comparable organizations in the public and private sectors. Key to MRM's re-engineering initiative was the modernization of its

information technology infrastructure, which involved the deployment of new technologies and replacement of applications software whose roots could be traced to the early 1980s.

The re-engineering initiative addressed all core MRM business processes—financial, accounting, compliance, and systems. The re-engineering effort objective was to produce new business processes and support systems that were highly integrated, process centered, focused on outcomes, and well positioned to meet current and future mission requirements.

FY 2002 Accomplishments

- Implemented the core financial software of the new financial system on November 1, 2001. The systems investment was \$38.5 million and came in on time and on budget.
- Upgraded, modified, and enhanced multiple supporting systems to accommodate requirements of the new financial system.
- Converted to the Internet Payment and Collection system to make intergovernmental transfers.
- Increased the total percentage of lines reported electronically to almost 90 percent.
- Continued an aggressive training schedule to inform industry representatives of the many changes incorporated into the new financial system and on basic royalty and production reporting.
- Implemented the first consolidated compliance targeting strategy utilizing the new end-to-end process that incorporates all phases of compliance verification from automated risk assessment to production review to audit.
- Began development of the automated infrastructure to support the gas royalty in kind (RIK) program.
- Implemented, in coordination with the Department of Energy (DOE), the President's November 2001 directive to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Gulf of Mexico Federal RIK Oil. Oil royalty in kind deliveries to DOE commenced on April 1, 2002, at a rate of 60,000 barrels per day. DOI and DOE plan to increase this volume to 100,000 barrels per day by October 1, 2002 and to 130,000 barrels per day by April 1, 2003. The initiative will take about three years to complete and will involve some 120 million barrels of royalty crude oil.
- As a result of the court-ordered Internet connection shutdown from December 2001 to March 2002, mineral revenue reporting and distribution of revenues was disrupted. During that time, MMS made estimated payments to the states and continued to provide distribution information to Office of Trust Funds Management for Indian revenues. To date, MMS has reconciled 96 percent of the estimated payments made to the States from December 2001 to July 2002 and plans to resume regular State distribution with the October cycle. In addition, MRM has provided data to the Bureau of Indian Affairs to disburse almost all of the revenues for individual Indian mineral owners collected during the shutdown.

- Continued outreach and communication efforts.

FY 2003 Planned Activities

- Complete the processing of backlogged royalty and production reports that resulted from the Internet shutdown.
- Test and implement remaining segments of new MRM financial system (production reporting and exception processing) and MRM compliance system.
- Bring the system to steady state environment by resolving startup problems, fine-tuning system performance, and improving timeliness of throughput.
- Complete implementation of the RIK gas automated infrastructure. Timing for the implementation of the oil system depends on available funding through the FY 2003 budget process.

FY 2004 and Beyond Planned Actions

- Develop and implement upgrades and enhancements to the financial system and the data warehouse to improve efficiency and effectiveness.
- Plan and implement additional process improvements for streamlining and enhancing compliance.
- Establish ongoing continuous improvement cycle for compliance processes and systems. As new techniques and approaches are developed in the workplace, implement new tools and applications to support them.
- Continue outreach and communications effort, which includes training activities as needed, for both internal and external stakeholders.

Improving the American Indian Trust Funds Systems

The American Indian Trust Fund Management Reform Act of 1994 affirmed the Secretary's trust responsibilities and established the Office of Special Trustee for American Indians (OST). The Act identified actions required for the Secretary's proper discharge of trust responsibilities including: providing adequate systems for accounting for and reporting trust fund balances; providing adequate controls over receipts and disbursements; providing periodic, timely account reconciliations; determining accurate cash balances; and preparing periodic statements of account performance and balances. The Act also addressed the need for developing systems for accounting and investing funds, for reporting to account holders, and for maintaining accurate data on ownership and lease of Indian lands.

The OST, headed by the Special Trustee, oversees and coordinates trust fund management reforms for the Department and reports directly to the Secretary. The OST's responsibilities include the Office of Trust Funds Management (OTFM), the Office of Trust Records, the Office of Trust Risk Management, and the Office of Appraisal Services. Various financial trust services functions were transferred from the Bureau of Indian Affairs (BIA). OST's

Trust Systems and Projects group is working on business process modeling and development of Indian trust systems, the probate project, and Indian trust data cleanup. Reviews by the General Accounting Office (GAO), the Department's Inspector General, and independent accounting firms have identified serious financial management problems in the management of Indian Trust Funds. Reports based on these reviews indicated, among other things, that trust fund data was unreliable, inaccurate, and inconsistent, and trust systems have been inadequate to comprehensively process trust data and support investment activities. Inadequate internal controls and lack of consistent, written policies and procedures were also cited in the reports.

Efforts have been made to bring about long-term constructive improvement in trust funds management. For example, the Department issued a June 1994 draft report, *Indian Trust Funds and Trust Asset Management Reform Plan*, which resulted in implementing an interim service bureau system for managing tribal investments and accounting services. BIA has performed most collection activities. The Plan also called for correcting problems with Individual Indian Money (IIM) accounts, including correcting IIM data, and improving IIM-related systems.

In April 1997, the Special Trustee submitted a proposed comprehensive strategic plan to the Secretary and the Congress, and it was agreed that the trust system improvements and data cleanup efforts in the plan would proceed. The plan included initiatives to clean up IIM records; eliminate data backlogs; improve policies, procedures, and controls; enhance training; and improve computer systems. Acquisitions were planned for: (1) Trust Funds Accounting System (TFAS), (2) Trust Asset and Accounting Management System (TAAMS), and (3) Land Records Information System (LRIS) enhancements.

These initiatives were also included in the High Level Implementation Plan (HLIP) of the Trust Management Improvement Project (TMIP). The July 1998 HLIP, as revised in February 2000, addressed the following 11 subprojects and identified responsible officials, progress made, action plans, and resource requirements:

- Administrative Data Cleanup (OST)
- Resources Data Cleanup (BIA)
- Probate Backlog (BIA and Office of Hearings and Appeals)
- Appraisal Backlog (BIA)
- Trust Funds Accounting System Deployment (OST)
- Trust Asset and Accounting Management System Deployment (BIA)
- Systems Re-engineering (MMS)
- Records Management Improvement (OST)
- Policy and Procedures (BIA)
- Training (OST)
- Internal Controls (OST)

Although many HLIP tasks have been completed, the Department has not yet achieved effective trust reform and management. Accordingly, the Department is now developing a new plan—a comprehensive *Indian Trust Business Plan*. It will articulate the strategy for managing and reforming trust responsibilities and guide the implementation of the strategy.

FY 2002 Accomplishments

- Achieved progress in various areas including probate backlog elimination and activities for improved systems.
- Improved computer system security after potential weaknesses were identified. The Department awarded a comprehensive information technology security contract.
- Reconnected about 94 percent of the information technology systems to the Internet. The systems were disconnected as a result of a December 2001 Temporary Restraining Order which required the Department to disconnect from the Internet all information technology systems that house or access individual Indian trust data and disconnect Department computers
- Implemented records management improvements in OST and BIA.
- Completed implementation of the major elements of the re-engineered system and continues to phase in the less time critical modules by MMS Minerals Revenue Management, which collects, accounts for, and distributes mineral revenues from Federal and Indian mineral leases and evaluates industry compliance with laws, regulation, and lease terms,

FY 2003 Planned Activities

- Prepare for implementation after Comprehensive Indian Trust Business Plan with strategy for managing and reforming trust responsibilities is finalized.
- Continue risk management activities to prevent internal control weaknesses relapses.

FY 2004 and Beyond Planned Activities

- Prepare re-engineered trust business processes for implementation. The following functions will help ensure that remaining and re-engineered processes are operationally integrated: risk assessment, automated system requirements (compare existing automated system capabilities with requirements, survey commercial-off-the-shelf systems, etc.), records, internal controls and fiduciary security, policies and procedures, workforce planning, training, and future system user technical assistance center (to be defined).
- Implement re-engineered trust business processes.

Facilities Management System

Interior's public buildings, structures, and other facilities represent a major investment of tax dollars. Ensuring that maintenance and repair of such facilities is funded and implemented efficiently and effectively is an important element in protecting that investment and reducing potential Department and bureau liability. Inadequately funded maintenance due to reduced budgets, diversion of maintenance funds for emergency responses, and competition for resources from other program needs has led to accelerated facility deterioration. Deterioration can affect public health and safety, reduce morale and productivity of employees,

compromise bureau missions, reduce revenues, and increase the need for costly major repair or early replacement of constructed assets.

In FY 1997, the Interior Planning, Design, Construction and Maintenance Council (PDCMC) initiated a departmentwide study of maintenance and repair issues with the goal of reducing financial and safety liability to Interior, increasing the effectiveness and awareness of facilities maintenance, controlling the increasing backlog of deferred maintenance, and ultimately, improving the stewardship of Interior's constructed assets. In February 1998, the final report from the study was issued. It is entitled, "Facilities Maintenance Assessment and Recommendations", and offers ten major recommendations to improving the bureaus' and the Department's facilities maintenance programs. Three of these recommendations directly relate to facilities management systems:

1. Ensure Appropriate Use of Maintenance Allocations

- Initiate policies and procedures such that maintenance funds are separately identified, allocated, and tracked to ensure that all maintenance funds are used for facilities maintenance.
- Establish policies and procedures to effectively account for the expenditure of facilities maintenance funds.

2. Establish Common Definitions for Key Maintenance Terms

- Interior should establish:
 - a common subset of facilities data elements;
 - a more standardized definitions of terms;
 - procedures for documenting inventory and backlogs;
 - procedures for determining estimated replacement costs; and
 - budget categories for the bureaus to adopt into their facilities program processes.
- The bureaus' real property and facilities data and systems should be consistent to achieve compatibility of data.
- Program and budget information should be linked with the Federal Financial System.

3. Ensure Integrity of Maintenance Deficiency Databases

- Initiate a uniform methodology and core data set for facility condition surveys to assess the maintenance and repair needs of all existing Interior facilities. Validate inventory of existing facilities.
- Develop automated backlog documentation that accurately communicates the facilities' needs and that can easily be reviewed and updated by field staff. Include standard need descriptions and associated cost estimating procedures.

The Department is currently implementing these recommendations.

FY 2002 Accomplishments

- Implemented MAXIMO in 125 National Park Service park units. MAXIMO, a commercial-off-the-shelf package, has been adopted by the Department of the Interior as the core management enterprise software system to manage its facilities inventory, condition assessments, work management and reporting.
- Continued to work on a facilities condition assessments process and which is on schedule to meet a FY 2005 completion date for the first cycle of assessments.
- Issued common definitions of facilities-related terms for use by all facilities managing bureaus. Through the use of common definitions, data gathered through a comprehensive condition assessment process, and continued use of the Five-Year Plan, Interior will be able to present a more consistent and credible view of budgeted resources and capital investments, goals, needs, and priorities to the Administration and the Congress.

FY 2003 Planned Activities

- In support of the Maintaining America's Heritage initiative, the Department will implement the fifth year of the "Five-Year Facilities Deferred Maintenance and Capital Improvement Plan" to address critical health and safety needs and critical resource protection needs across the bureaus. The long-term improvement of facilities management is dependent upon the ability to collect current and accurate facilities data, utilize standard database definitions for those data elements that are required at the Department level, implement a formal program of facilities condition assessments, and have consistent facilities management systems to effectively and efficiently process facilities data.
- The NPS will deploy the MAXIMO facilities management software in their remaining park units. The USGS will initiate the software in the first 3 of the 14 installations for which it is to be used. The BLM and the FWS are to begin a phased deployment of the system.
- In order to manage future consistency within the facilities management data and reduce life-cycle systems costs, the Department is planning to acquire a departmental site license of MAXIMO and increase the intensity of Department level management of the system.

FY 2004 and Beyond Planned Actions

- Continue implementation and improvement of the Five-Year Facilities Deferred Maintenance and Capital Improvement Plan.
- Improve accuracy of the deferred maintenance backlog through cyclic facilities condition assessments.
- Complete development and deployment of consistent facilities management systems throughout the bureaus.

CHAPTER 5. GRANTS MANAGEMENT

GOAL: *Administer the Department's grant programs to ensure compliance with federal regulations and good management practices.*

The Department awards over \$3 billion each year in funding for grants, cooperative agreements, and Indian self-governance compacts to state and local governments, Indian tribes, colleges and universities, and other non-profit organizations. The administrative standards, cost principles for determining allowable and unallowable expenditures of federal dollars, and the requirements for auditing non-federal parties' management of federal dollars for these awards are based on OMB Circulars, implementing regulations, Departmental Manual issuances, and specific statutory provisions.

The Department implements these requirements through a broad regulation at 43 CFR Part 12, Subpart A. This regulation states the applicability of the OMB Circulars to all financial assistance awards and subawards in the form of grants and cooperative agreements made by the Department. In addition, the regulation provides that the circulars published in the Federal Register are made a part of the regulation including changes published in the Federal Register by OMB. By adopting the policies included in these Circulars, the Department ensures that the awards are administered in accordance with governmentwide standards in a consistent manner. The Department continues to implement any policy changes in the administration of awards made as required by revisions made to OMB Circulars as well as statutory provisions.

The Department joined in the publication of the governmentwide grants management common rule that specifies uniform administrative requirements for state and local grantees, published a regulation implementing the administrative requirements for non-governmental entities (OMB Circular A-110), and joined in the publication of an implementing regulation for OMB Circular A-133. The Departmental Manual includes corresponding departmental issuances implementing OMB Circulars A-102 and A-110.

As part of governmentwide rulemaking, the Department joined in the publication of regulations implementing lobbying restrictions, drug-free workplace requirements, and non-procurement debarment and suspension. In addition, the Department has published regulations implementing Buy American requirements for financial assistance. These requirements have been included in the Department's appropriations acts.

The Department participates in several governmentwide Federal Financial Assistance Management Improvement Act of 1999 (Public Law 106-107) interagency workgroups, such as the Inter-Agency Electronic Grants Committee (IAEGC) and several of its subcommittees, including the State, Local, Non-profit and Other Subcommittee, and the Pre-Award Workgroup. Public Law 106-107 requires federal agencies to work with OMB toward:

- Improving the effectiveness and performance of federal financial assistance programs;
- Simplifying federal financial assistance application and reporting requirements;
- Improving the delivery of services to the public; and
- Facilitating greater coordination among those responsible for delivering such services.

The interagency workgroups contribute to, and often make, policy recommendations to OMB.

Active participation in several inter-agency forums, such as the E-Grants stakeholder meetings, Grants Network meetings (an informal group of grants managers from several grant-making agencies), and the National Grants Management Association (NGMA), allows Interior to stay informed and find additional opportunities to ensure policy consistency across grant programs.

The Department is currently working on a grants management training program with the Department of the Interior University. Presently, the bureaus and offices that administer grants determine training needs. Standardized training will provide an additional forum to distribute policy, aiding in policy consistency.

A departmental Communications/Best Practices Team has been created. By improving communication and sharing best practices, Interior will improve the consistent use of policy with its federal financial assistance programs. The decentralized organization of Interior makes this a very important and challenging task.

Review of Program-Specific Requirements to Ensure Consistent Treatment of Grantees

To provide consistent treatment of grantees with program-specific requirements (e.g., application forms, financial reports, and award conditions), the Interior Federal Assistance Working Group (IFAWG), has reorganized to ensure appropriate representation throughout the Department, and established a Streamlining/Standardizing Team. This team will review program requirements and explore ways to unify and simplify similar programs. Governmentwide streamlining efforts will be incorporated into the team's products in order to ensure consistent treatment of grantees.

Agency Efforts to Coordinate Policies and Practices with Other Agencies

As indicated above, the Department of the Interior is represented and actively participates in several governmentwide Public Law 106-107 interagency workgroups.

Also, active participation in inter-agency forums, e.g., E-grants stakeholder, Grants Network meetings, and NGMA meetings, allows Interior to stay informed and find additional opportunities to ensure policy consistency across grant programs.

The Department is exploring best practices within Interior and with other agencies to improve coordination of policies and practices. For example, Interior has been given the responsibility of managing the effects of wildland fire on our Nation's communities. Four bureaus within DOI, the Bureau of Land Management, Bureau of Indian Affairs, Fish and Wildlife Service, and National Park Service, formed the Interagency DOI Rural Fire Assistance Coordination Group and meet to discuss issues regarding the Rural Fire Assistance Program. The group has completed a model cooperative agreement, with the input of the U.S. Forest Service, so that recipients will be asked similar questions, regardless of the bureau. The group, with the assistance of the Office of the Secretary, is developing intra-agency handbooks for Rural Fire Assistance and Community Assistance, updating the program announcements, and streamlining the application process. The group is currently working with the Federal Emergency Management Agency (FEMA) to improve coordination and delivery of services to recipients. The knowledge gained from this group will be used departmentwide to learn new ways to improve coordination among those responsible for administering federal financial assistance.

Recommendations for Changes in Law to Improve the Effectiveness, Performance, Coordination, and Accountability of Grant Programs, including Program-Specific Statutes

After the Streamlining Team reviews various grant programs in detail, departmental recommendations will be made for changes in law to improve the effectiveness, performance, coordination, and accountability of grant programs. The Department will continue to address governmentwide issues through applicable interagency workgroups.

Ensure the Quality of Audits Performed by Non-Federal Auditors in Accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133

During FY 2002, the Office of Inspector General (OIG) completed desk reviews on more than 400 single audit reports. The reviews are performed to ensure that the reports meet the reporting requirements of the Single Audit Act of 1984 and OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations."

To ensure compliance with OMB Circular A-11, the OIG performed quality control reviews on six non-federal audits during the fiscal year. The six audits reviewed covered fiscal years 1999 and 2000 and federal funds totaling about \$226 million. In conducting these reviews, the OIG applied guidance established by the President's Council on Integrity and Efficiency (PCIE) to (1) ensure that 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, to perform follow-up audit work; and (3) identify issues that might require management attention. The OIG also applied PCIE guidance in evaluating working papers. Overall, the OIG concluded that all of the audits reviewed complied with the Single Audit Act requirements. In future years, the OIG plans to complete 12 quality control reviews each fiscal year.

Participation and Efforts in the E-Grants Area

Interior is active in several E-Grants initiatives, including the Inter-Agency Electronic Grants Committee (IAEGC) and the E-Grants Technology Demonstration Review Team, which is identifying the functions needed in a standard electronic grants system. The results of the E-grants Technology Demonstration Review Team will assist the E-grants project office to complete the statement of work for the E-grants portal, scheduled for issuance in 2002. Participating on the E-Grants Technology Demonstration Review Team also provides a venue for the Department to learn best practices from vendors and other agencies, which assists in preparing to make decisions about a technology solution for Interior. Participation in inter-agency meetings also allows Interior to stay informed and find additional opportunities to participate in E-grants initiatives.

The Financial Management System Migration Project (FMSMP) is a proposed departmentwide electronic system. The FMSMP proposes to reduce current stovepipe systems by providing a central financial management system with other business components, including a grants management system. Because the E-Grants management system will interface with a central system, the information will only be entered once, reducing errors and burdens for both the recipient and the agency. Comments from recipients have indicated they want to provide information to an agency once, and this system will provide a means for Interior to honor that request. The information and time made available from this system will allow the Department to provide more resources toward managing its grants, which will assist in improving the effectiveness and performance of federal financial assistance programs.

The Department of the Interior has also been reviewing available electronic systems, including internal systems, other agency systems, and commercial-off-the-shelf (COTS) systems. Interior representatives have met with several vendors and agencies to learn best practices and develop requirements.

FY 2002 Accomplishments

- Continued to participate in governmentwide streamlining/standardizing initiatives;
- Continued development of an Intra-Agency electronic grants management system through the FMSMP;
- Established an IFAWG Streamlining/Standardizing Team;
- Established an IFAWG Staff Development Team;
- Established an IFAWG Communication/Best Practices Team;
- Reviewed COTS financial assistance application and management products;
- Reviewed options to connect to the E-Grants Portal (ongoing); and
- Gained best practices from vendors and other agencies.

FY 2003 Planned Activities

- Continue to participate in governmentwide streamlining/standardizing initiatives;
- Continue to participate on the E-Grants Demonstration Evaluation Team;
- Establish a baseline of current practices;
- Establish performance measures for the P.L. 106-107 initiative;
- Determine and implement methods to connect to the E-Grants Portal; and
- Share best practices at DOI Assistance Conference tentatively scheduled for April 2003.

CHAPTER 6. HUMAN CAPITAL

GOAL: *Build and maintain a highly qualified financial management workforce in the Department to support program managers' financial management needs.*

The Department of the Interior is facing a number of critical human resource issues related to the human capital needs. The decade of the 1990s brought significant legislation and organizational rightsizing to the federal community. Both rightsizing and the legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, and the Government Management Reform Act increased the demands on financial management personnel. It is imperative that personnel responsible for the administration of the Department's financial resources continuously develop and upgrade skills to meet the challenges imposed by internal and external forces.

As part of the Lessons Learned Process in the spring of 2002, the Department identified a number of critical issues and has developed action plans to address these issues. Below is a list of those critical issues.

- **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. These staffing needs include:
 - Recruit and retain qualified entry-level staff.
 - Develop incentives to recruit and retain mid/senior level staff (some bureau finance offices have the highest turnover rates within their bureaus)
 - Develop succession plans to ensure that leadership and other critical skills are available when retirements or separations occur (some bureaus expect Finance Officers or other key staff to retire within next year).
- **Training:** Personnel involved in Interior's financial management matters need additional training to effectively and efficiently perform their financial management responsibilities and to be more accountable for the financial resources devoted to programs. These training needs include:
 - *Financial Staff:* Additional training is needed for bureau/office and departmental financial management staff on the financial statement preparation and audit process.
 - *Program Managers:* Additional training is needed for bureau program managers on the financial statement preparation and audit process.
 - *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. FY 2001 was the first year of the KPMG departmental audit, and as expected, there was a steep learning curve.

To assist the Department financial management personnel in achieving the skills needed to operate in a changing environment, the Department is committed to developing and maintaining a cadre of highly skilled financial management personnel. To that end and to ensure a strong and effective financial management program, the Interior CFO Council provides guidance to the Office of Financial Management in developing an overall training and development plan for the Department.

To facilitate the development and implementation of a training and development plan, the Department has designated a Training Coordinator within the Office of Financial Management (PFM) to work with the Department of the Interior University (DOIU) to implement the plan. The DOIU delivers services through:

- Learning Centers located in Washington, D.C.; Anchorage, Alaska; Denver, Colorado; and Albuquerque, New Mexico.
- On-line Learning Center which provides new delivery methods (e.g., distance learning, Internet training) to enable the Department to reach more employees - any time, any place and at any pace.
- Leadership Institute manages the Department's formal career development programs, the Team Leadership Program (TLP), the Senior Executive Service Career Development Program (SESCDP), and the Acquisition Intern Programs (AIP). The Institute manages the AIP on a governmentwide and departmentwide basis.

The Training Coordinator directs the Department's Financial Management Training and Development Program (FMTDP), schedules financial management training, locates and reserves training sites, identifies instructors and on-the-job training experiences, tracks and records participants' training, reviews and maintains participant's Individual Development Plans (IDPs), prepares and distributes training certificates, and monitors and responds to program evaluation and feedback. The Training Coordinator also serves as the Department's liaison to the governmentwide CFO Council for Human Resources, the Joint Financial Management Improvement Program (JFMIP), the Association of Government Accountants, Training Officers Conference, the American Association for Training and Development, and professional organizations related to financial management.

The focus of the FMTDP Training Coordinator is to improve the skill levels and increase the availability of personnel throughout the Department to support financial management functions and to better serve the financial management needs of program managers and others responsible for carrying out the mission of the Department. Improvement will be made in two areas:

- Increasing the availability and diversity of qualified accounting, financial systems, and other financial personnel to ensure adequate human resources are available to carry out financial management responsibilities; and
- Sponsoring comprehensive training programs in financial management that deliver effective training to financial managers and their staff throughout the Department to improve the skills and knowledge and to enable financial management personnel to perform their jobs in an excellent manner.

Increase the Availability and Diversity of Qualified Accounting, Financial Systems, and Other Financial Personnel

Critical to the Financial Management Human Capital Program is the enhancement of the Department's ability to support the need for additional qualified accounting, financial systems, and other financial personnel to fill critical vacancies anticipated over the next few years. Currently, the Department has or expects to have over 50 vacant positions as a result of projected retirements and other attrition factors in financial management personnel over the next several years. The plan will be to build and increase the quality, availability, and diversity of entry-level personnel and to improve the recruitment of mid- and senior-level staff. This support includes the establishment of a Financial Management Career Intern Program to recruit and train entry-level individuals for professional careers in accounting and financial management in the Department and bureaus. This is a new program for the Department and will take advantage of the knowledge of the DOIU in developing and managing such programs and those programs being established on a governmentwide basis such as those sponsored by the CFO Human Resources Committee.

As a result of the Lessons Learned Process in the spring of 2002, the Department developed a plan to address the Department's Human Capital needs. *Exhibit 6-1* shows the elements of the plan and the current status of the plan's implementation:

Exhibit 6-1

Needs	Action Items	Target Timeframe	Status
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.	Work with the Financial Officers Partnership, update information on staffing needs within the bureau and Department finance offices.	May 2002	Completed June 2002
	Identify current plans for filling existing vacancies and for addressing any additional staffing needs.	June 2002 Revised Date August 2002	Project begun- Finance Officers providing information to be analyzed.
	Identify those areas where department-wide hiring would assist bureaus in filling positions using a process similar to the Financial Management Intern Program.	June 2002 Revised Date September 2002	Will be based on information provided by Finance Officers
	Develop standardized position descriptions and standard vacancy announcements.	July 2002 Revised Date September 2002	Project underway with Department HR and Bureaus

Exhibit 6-1 Continued

Needs	Action Items	Target Timeframe	Status
Recruit and retain qualified entry-level staff.	Establish a Financial Management Career Intern Program (FMCIP) and recruit the first class.	July 2002	FMCIP established and first class of 15 professionals started July 2002
	Identify long-term recruitment and retention incentives and authorities of particular interest to entry-level employees.	September 2002	Analysis underway
Incentives to recruit and retain mid/senior-level staff (<i>some bureau finance offices have the highest turnover rates within their bureau offices</i>)	Work with HR to identify incentives and authorities for recruiting and retaining mid- and senior-level staff.	July 2002 Revised Date September 2002	Analysis underway
	Work with bureaus/offices to educate managers on available recruiting and retention incentives and identify barriers to their use (i.e., lack of understanding and/or experience with their use, funding, etc.). Identify any additional incentives that are needed beyond those currently available.	July 2002 Revised Date September 2002	Initial planning stage
	Work with HR and Financial Officers Partnership to develop a strategy for overcoming barriers to the use of recruiting and retention incentives and rotational assignments.	July 2002 Revised Date September 2002	Research on effective strategies begun
	Review and reissue departmental guidance on bureau CFO and DCFO responsibilities	June 2002 Revised Date August 2002	In process – draft completed and being reviewed for comments
	Work with FOP to develop description of Finance Officer responsibilities.	July 2002 Revised Date September 2002	Project begun

Exhibit 6-1 Continued

Needs	Action Items	Target Timeframe	Status
	Work with CFO Human Capital Subcommittee on governmentwide recruiting and retention initiatives.	September 2002 Revised Date - Ongoing	Ongoing
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>	With Financial Officers' Partnership, work with HR on current workforce planning efforts.	July 2002 Revised Date September 2002	FOP developed plans for mid- and senior-level career development. Additional resources are needed to implement the plans.
	Identify leadership and other critical skills needed for successful financial statement preparation. Assess skill levels in current workforce and develop strategies for filling any gaps that exist.	July 2002 Revised Date September 2002	Skills assessment tool being evaluated
	Work with FOP, HR and National Business Center/DOI University to develop leadership training opportunities for mid- and senior-level financial staff.	July 2002 Revised Date September 2002	Research begun

FY 2002 Accomplishments

- Continued to partner with the CFO Human Resources Committee in governmentwide recruitment and retention efforts.
- Continued efforts to effectively coordinate a departmental financial management recruitment effort to fill current vacancies in the Washington, D.C., and Denver, Colorado areas.
- Developed and used recruitment materials for the FMCIP at various multi-school career fairs on the east coast and in Colorado.

- Researched and used multiple methods for effectively and efficiently advertising the new intern program.
- Recruited for and implemented the Financial Management Career Intern Program (FMCIP). Coordinated this recruitment effort across all bureaus and finance offices within the Department. The FMCIP is designed as a two-year program of professional development for accountants and financial analysts through academic and on-the-job training. Emphasis is placed on practical work experience and rotational assignments with supplemental academic training, and cross-training for a broad perspective of Interior's financial management process.
- Developed and implemented entry-level IDP requirements based on the JFMIP core competencies.
- Welcomed 15 FMCIP interns in July 2002 for Orientation Week in Washington, D.C.
- Developed and held orientation, IDP review and revision, and formal mentor training.

FY 2003 Planned Activities

- Update brochures to market the FMCIP.
- Recruit for the second class of Financial Management Career Interns
- Continue formal training and on-the-job training and career development for the first class of financial management interns.
- Hold orientation, develop IDPs, assign mentors, and begin training and rotational assignments for the second class.
- Design and implement a financial management mentoring program at all levels.
- Improve the management of the vacancy announcement and selection process through a more coordinated recruiting program within the Department.
- Develop standardized position descriptions and standard vacancy announcements.
- Identify long-term recruitment and retention incentives and authorities of particular interest to entry- and mid-level employees.
- Review and reissue departmental guidance on bureau CFO and DCFO responsibilities as well as develop a description of Finance Officer responsibilities.
- Explore with the Department's financial management community ways to increase the knowledge and skills of the current workforce or retrain the current workforce where trends show specific jobs will disappear or be transformed.

- Continue to improve/expand an ongoing relationship with local colleges and universities in the Washington, D.C., and Denver, Colorado areas to provide a continuous vehicle for qualified financial management personnel to join the Department and/or the federal workforce.
- Continue to work with local universities, nonprofit student placement agencies, the Department's Human Resource Division, and budget offices to recruit junior persons to student internship positions in financial management.
- Continue to partner with the CFO Human Resources Committee to develop new strategies for recruiting top quality personnel for the Department's financial management community.

FY 2004 and Beyond Planned Activities

- Continue efforts to develop and implement Interior-specific training modules in financial management education using subject matter expertise.
- Implement mid- and senior-level recruitment/retention programs with phased-in approach to provide sources for filling mid- and senior-level positions as they open up due to retirements or departures.
- Graduate the first class of Financial Management Interns.
- Implement additional phases of the mid- and senior-level recruitment program.

Sponsoring Comprehensive Training Programs in Financial Management

The primary objective of the Financial Management Training and Development Program is to provide appropriate training and professional development opportunities to financial management personnel so that they are adequately prepared to competently carry out their growing responsibilities. The Department's training program provides information on external training courses, provides cost effective training to Interior bureau personnel through the use of internal instructors or external instructors, and develops special training programs to address individual bureau needs.

The Department will expand the training and development program over the next five years by developing a comprehensive training program built on the JFMIP core competencies, aggressively publicizing financial management and related training opportunities and encouraging employees to avail themselves of personal and professional development opportunities. The Department, through the program, will prepare new financial management employees for current and future challenges in financial management and enhance the financial management skills of senior financial managers. To assist in that effort, the Department will offer an array of training in accounting, governmental accounting, budgeting, financial analysis, project management, team building, and problem solving techniques. The program continually analyzes training results and makes appropriate curriculum revisions and reports periodically on the results of the financial management training and development program to bureau CFOs, DCFOs, and Finance Officers.

Exhibit 6-2

Issue	Action Item	Target Timeframe	Status
<p><i>Training - Financial Staff:</i> Additional training is needed for bureau/office and departmental financial management staff on the financial statement preparation and audit process.</p>	Develop a long-range training plan for entry, mid, and senior level financial management staff based on the core competencies published by the Joint Financial Management Improvement Program (JFMIP).		Completed Plan; additional resources needed to implement; will take three years to complete each level.
	In conjunction with the long-range training plan, develop and implement Individual Development Plans. <ul style="list-style-type: none"> • Intern Program • Bureau Finance Offices 	July 2002 March 2003	In process
	With FOP, continue to sponsor/conduct annual financial forums to address immediate training needs. Provide just-in-time training in key areas.	Ongoing	
	Hold Finance Seminar with two concurrent tracks, one will provide hands-on PC problem solving for issues from the FY 2001 financial statement and audit process, and the other will provide Interior-specific training in Standard General Ledger, Eliminations, Audit Management, and other areas.	April 2002	90 finance professionals completed this training.
	Hold Budget/Finance Seminar to address issues that are common to both the budget and finance communities.	June 2002	160 finance and budget professionals participated in this training.

Exhibit 6-2 Continued

Issue	Action Item	Target Timeframe	Status
<p>Training - Program Mangers: Additional training is needed for bureau program managers on the financial statement preparation and audit process.</p>	<p>Work with FOP and bureaus/offices to identify training needs for bureau managers and develop a strategy to address training needs.</p> <ul style="list-style-type: none"> • Determine which training should be bureau-specific and which training should be have a department-wide perspective. • Determine media and location for training (i.e., web-based, classroom, regional/location based for multiple bureaus, etc.) • Develop training strategy with a training schedule. 	September 2002	Begun
	Implement training strategy.	October 2002	
	Evaluate effectiveness of training and revise training plans as appropriate.	March 2003	

FY 2002 Accomplishments

- *Budget/Finance Seminar:* The Finance Officers' Partnership, in conjunction with the newly established Budget Execution Working Group, sponsored the Department's second joint Budget/Finance Seminar. Approximately 160 Department personnel participated in the June 2002 seminar that was designed to provide a training forum for budget and finance to share the key components and common problems of budget reporting and financial reporting, and to increase the understanding of their critical interrelationships. The Office of Management and Budget, the Congressional Budget Office, and Treasury's Financial Management Service also participated in this effort. Evaluations from participants were very positive.
- *Finance Seminar:* The PFM held a Finance Seminar with two concurrent tracks, one for hands-on PC problem-solving for issues from the FY 2001 financial statement and audit process and the other for Interior-specific training in Standard General Ledger, Eliminations, Audit Management, and other areas. Approximately 90 individuals from the various bureaus/offices participated in the April 2002 seminar.

- *Web Site for Course Offerings:* The Office of Financial Management Web site (<http://www.doi.gov/pfm/training.html>) was used to disseminate course offerings throughout the Department and to other agencies.
- Implemented a long-range training plan with IDP format for entry-level financial management staff based on the JFMIP core competencies to be used with the first Financial Management Career Intern class of 2002 and for all entry-level employees.
- Worked with the Financial Officer's Partnership (FOP) on Human Resources workforce planning efforts (see Lessons Learned chart for specific details). Additional resources are required to implement these plans.
- Sponsored training in the following subject areas:
 - Appropriations Law
 - Standard General Ledger
 - Dollars and Sense
 - IDP and Career Development
 - Formal Mentoring
- Promoted the use of more seminars and workshops sessions lead by the Department's financial management personnel to facilitate working group training, new idea development, and sharing of best practices.

FY 2003 Planned Activities

- Implement the FOP long-term training program for mid- and senior-level financial management personnel.
- Implement a formal process for using the IDPs to ensure that mid- and senior-level financial management personnel receive cross-training.
- Use the certification component of the Financial Management Training and Development Program to ensure that Interior bureau finance and budget officers cross-train and cross-utilize financial management managers and staff. IDPs will be developed for the Bureau Finance Offices.
- Work with FOP to sponsor formal training for finance officers to include change management, leadership skills, etc.
- Conduct a skills assessment of the financial management community.
- Continue annual budget/finance training effort—specific format to be determined on a yearly basis.
- Initiate and support an effort for a large scale conference on Interior financial management, budget, acquisition, and performance measurement topics

- Expand the use of the Office of Financial Management Web site (<http://www.doi.gov/pfm/training.html>) for disseminating course offerings and career development links throughout the Department and to other agencies.
- Sponsor courses to include:
 - Standard General Ledger
 - Dollars and Sense
 - Appropriations Law
 - Budget Execution
 - Certified Government Financial Manager series
 - Hyperion
 - Leadership
- Continue to evaluate and refine a training program for bureau program managers.
- Begin development/consolidation of Interior Financial Management training materials to include modules on such topics as accounting, reporting, budget formulation, budget execution, etc.
- Research and implement linking the Department's financial management community to other sites providing information on training and career development in federal financial management through the Department's Office of Financial Management Web site.

FY 2004 and Beyond Planned Activities

- Continue to encourage the use of nontraditional approaches to provide additional training and career development opportunities for the Department's financial management community. Opportunities should be available for entry-level, mid-level, and senior-level personnel.
- Continue to work with Office of Personnel Management and the Department's Office of Personnel Policy to establish the CFO Council's core competencies for financial management as the criteria for job selection, promotion, and training.
- Expand the mid-level and senior-level training program.
- Encourage participation in any governmentwide CFO training programs.
- Support participation in the Department's Team Leadership Program (TLP) and Senior Executive Leadership Program (SESCDP).
- Expand the use of the Web site as a source of links to financial management career development tools.
- Continue working with the FOP to sponsor/conduct annual financial forums to address immediate training needs, including “just-in-time” training in key areas.
- Continue working with the FOP to update information on staffing needs within the bureau and Department finance offices.

**President's Management Agenda
Financial Management Improvement**

**U.S. Department of the Interior
Scorecard**

For Measurements and Scoring in April 2002

DEPARTMENTAL INDIVIDUAL ACTIVITY SCORING CRITERIA:

Red = 1-3

Yellow = 4-6

Green = 7-9

Best Practice = 10

CRITERIA	DESCRIPTION	METRIC
<p>1) Financial management systems meet Federal financial management system requirements and applicable Federal accounting and transaction standards</p>	<p>Financial systems meet Joint Financial Management Improvement Program (JFMIP) Core requirements, comply with the Standard General Ledger, and are in material compliance with Federal accounting standards.</p>	<p style="text-align: center;"><i>Levels 1-3 (Red)</i></p> <p>Bureau financial systems comply under Federal Financial Management Improvement Act (FFMIA) in the following areas: a) JFMIP systems requirements, b) Federal accounting standards, and/or c) Standard General Ledger (SGL) at the transaction level.</p> <p>Level 1 = non-compliance in all 3 areas. Level 2 = non-compliance in 2 of the 3 areas. Level 3 = non-compliance in 1 of the 3 areas all areas are in compliance under FFMIA.</p> <p style="text-align: center;"><i>Levels 4-6 (Yellow)</i></p> <p>Bureau in compliance with FFMIA and has effective and efficient systems interfaces (automated or manual) to move information between systems with appropriate controls.</p> <p>Level 4 = Bureau in compliance with FFMIA but needs to establish effective systems' interfaces that move information timely and ensure data integrity. Level 5 = Bureau in compliance with FFMIA and has established effective system interfaces with supporting processes that move data between the bureau's core financial system and critical systems such as Procurement, Payroll, Property, and Travel Systems in a timely fashion ensuring data integrity. Level 6 = Bureau in compliance with FFMIA and has established effective critical systems interfaces with supporting processes for those systems listed for Level 5 plus other systems critical operating systems such as Revenue, Cost, and Grants systems.</p> <p style="text-align: center;"><i>Levels 7-9 (Green)</i></p> <p>Bureau is in compliance with FFMIA, maintains effective and efficient system interfaces (automated or manual) and operates systems that provide timely information to management.</p> <p>Level 7 = Bureau performs at Level 6 and has a management information system that provides timely basic financial management information to program managers within 24 hours. Level 8 = Bureau performs at Level 7 plus the management information system supports activity based costing. Level 9 = Bureau performs at Level 8 and the management information system includes appropriate linkages to performance information.</p> <p style="text-align: center;"><i>Level 10 (Best Practice)</i></p> <p>Bureaus financial management systems meet the needs of the program managers and management can demonstrate that the information from the systems are being used in the bureau's decision-making process.</p> <p>Level 10 - Bureau performs at Level 9 plus can demonstrate that the management information system can provide timely cost and performance information used in the bureaus management decision-making process.</p>

CRITERIA	DESCRIPTION	METRIC
2) Accurate and timely financial information	Provide internal management reports on a monthly basis and produce interim quarterly financial statements.	<p style="text-align: center;">Levels 1-3 (Red)</p> <p>Bureau reporting process supports financial management on a monthly basis. Level 1 - Bureau produces internal financial management reports to bureau management on a monthly basis. Level 2 - Bureau produces accurate internal financial management reports within 15 business days after the close of the month to bureau management. Level 3 - Bureau produces accurate internal financial management reports within 15 business days after the close of the month to bureau management and program managers.</p> <p style="text-align: center;">Level 4-6 (Yellow)</p> <p>Bureau reporting processes supports financial management as needed throughout a month. Level 4 - Bureau produces accurate internal financial status and transaction reports to bureau management and program managers at least twice a month. Level 5 - Bureau produces accurate internal financial status and transaction reports to bureau management and program managers at least weekly. Level 6 - Bureau meets Level 5 and makes available to bureau management and program managers accurate financial status and transaction information within 24 hours of processing a financial event.</p> <p style="text-align: center;">Level 7- 9 (Green)</p> <p>Bureau reporting process supports preparation of interim financial statements. Level 7 - Bureau meets Level 6 and produces financial statements <i>in compliance with OMB guidance</i> on a quarterly basis without complete accruals. Level 8 - Bureau meets Level 6 and produces financial statements <i>in compliance with OMB guidance</i> on a quarterly basis without complete accruals within 21 days of the end of the quarter. Level 9 - Bureau meets Level 6 and produces financial statements <i>in compliance with OMB guidance</i> on a quarterly basis with complete accruals within 21 days of the end of the quarter.</p> <p style="text-align: center;">Level 10 (Best Practice)</p> <p>Bureau produces financial information for program managers and uses analysis of information supporting financial statements to keep senior managers informed of financial performance. Bureau produces <i>accurate</i> internal management reports within 2 business days after the close of the month, prepares interim financial statements within 21 calendar days after the close of the quarter with comparative data <i>and annual financial statements within 45 day of the end of the fiscal year.</i></p>

CRITERIA	DESCRIPTION	METRIC
3) Integrated financial and performance management systems supporting day-to-day operations	Integrate performance, budget and cost accounting processes for management purposes.	<p style="text-align: center;"><i>Levels 1-3 (Red)</i></p> <p>Bureau processes manage costs for budget control. Level 1 = Bureau reports costs/obligations for basic administrative control of funds. Level 2 = Bureau performs at Level 1 and in addition annually reports costs at the responsibility segment level. Level 3 = Bureau performs at Level 2 and in addition annually relates costs to the 5 (or current # of) Departmental mission goals.</p> <p style="text-align: center;"><i>Levels 4-6 (Yellow)</i></p> <p>Bureau tracking of financial activity supports providing cost information necessary for reporting at the GPRA Activity Level. Level 4 = Bureau performs at Level 2 and quarterly reports costs at the responsibility segment level on a quarterly basis. Level 5 = Bureau performs at Level 3 and relates costs to the 5 (or current # of) Departmental mission goals on a quarterly basis. Level 6 = Bureau performs Level 5 on a quarterly basis and makes available to Budget Offices and program managers financial information to support the development of annual budgets.</p> <p style="text-align: center;"><i>Levels 7-9 (Green)</i></p> <p>Bureau tracking of financial activity supports providing cost information at a level or levels to relate costs to meaningful activity levels of the bureau linked to performance. Level 7 = Bureau reports costs using Activity Based Costing methods at least one level below the responsibility segment level and relates costs to the 5 Departmental mission goals on a quarterly basis with some limited management access to data for analysis. Level 8 = Bureau has a complete ABC system in place fully linked with performance measurement with limited management access to data for analysis. Level 9 = Bureau has a complete ABC system in place fully linked with performance measurement with management access to data for analysis on at least a biweekly basis matching the payroll cycle.</p> <p style="text-align: center;">Level 10 (Best Practice)</p> <p>Bureau financial reporting process are linked to performance management process at senior levels within the bureau. Bureau reports costs using Activity Based Costing to the appropriate sub-responsibility segment level necessary to link with performance measurement; relates costs to 5 Departmental mission goals; and links data with budget allocations in a reporting system allowing virtually “real-time” management access and analytics.</p>

CRITERIA	DESCRIPTION	METRIC
<p>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.</p>	<p>Obtain an unqualified opinion on Bureau financial statements; an unqualified report on internal control systems; and an unqualified report on compliance with laws and regulations by independent auditors in accordance with OMB time schedules.</p>	<p style="text-align: center;"><i>Levels 1-3 (Red)</i></p> <p>Bureau financial statements are fairly presented. Level 1 = Bureau receives an “adverse” opinion on its financial statements. Level 2 = Bureau receives a “disclaimer” of opinion on its financial statements. Level 3 = Bureau receives a “qualified” opinion on its financial statements.</p> <p style="text-align: center;"><i>Levels 4-6 (Yellow)</i></p> <p>Bureau financial statements are fairly presented and the external auditors do not report any exception in their report on compliance with law and regulations and report on internal controls. Level 4 = Bureau receives an “unqualified” opinion on its financial statements, but has 1 or more non-compliance or reportable condition that has resulted in a material weakness for the Department and does not have an approved corrective action plan by the Department. Level 5 = Bureau receives an “unqualified” opinion on its financial statements, but has 1 or more non-compliance or reportable conditions that have resulted in a material weakness for the Department and interim corrective actions are being completed by established due dates. Level 6 = Bureau receives an “unqualified” opinion on its financial statements and has completed all corrective actions for non-compliance or reportable conditions that have resulted in a material weakness for the Department.</p> <p style="text-align: center;"><i>Levels 7-9 (Green)</i></p> <p>Bureau financial statements are fairly presented and the bureau has no reported non compliance issues with law and regulations or reportable condition that raise to a material weaknesses Level 7 = Bureau meets Level 6, but has 1 or more reportable conditions that are considered a material weakness at the bureau Level but not reported as a material weakness at the Department-level. Level 8 = Bureau meets Level 7 and has no reportable conditions that are considered a material weakness at the bureau level. Level 9 = Bureau meets Level 8 and has no reportable condition that are reported at the bureau level for in the most recent bureau Report on Internal Controls.</p> <p style="text-align: center;"><i>Level 10 (Best Practice)</i></p> <p>Bureau financial statements are fairly presented and the bureau has no reported non-compliance issues with law and regulations and no reportable conditions. Level 10 - Bureau meets Level 9 and has no reportable conditions or non-compliance issues with laws and regulations for 2 years or more.</p>

CRITERIA	DESCRIPTION	METRIC
<p>5) Administrative Control of Funds</p>	<p>Maintain administrative control of funds to prevent Anti-deficiency Act violations.</p>	<p style="text-align: center;"><i>Level 1-3 (Red)</i></p> <p>Chronic issues in Administrative Control of Funds or Anti-deficiency Act Violation(s) Level 1 - Bureau had Anti-deficiency Act Violation(s). Level 2 - Bureau had potential Anti-deficiency Act Violation(s) after initial fiscal year close that had to be cured. Level 3 – Bureau had Administrative Control of Funds issues that caused a potential Anti-Deficiency Act Violation that had to be resolved during the year.</p> <p style="text-align: center;"><i>Level 4-6 (Yellow)</i></p> <p>Bureau has processes that result in inconsistent Administrative Control of Funds in the bureau. Level 4 - Bureau has a system for Administrative Control of Funds but procedures are applied inconsistently which could cause OMB to place special requirements on the bureau to monitor the use of funds. Level 5 - Bureau has a system for Administrative Control of Funds but procedures are applied inconsistently, which could cause an issue with Administrative Control of Funds. Level 6 - Bureau has an effective Administrative Control of Funds within the bureau budget office and finance offices but does not use systems controls consistently to assist in controlling fund usage.</p> <p style="text-align: center;"><i>Level 6-9 (Green)</i></p> <p>Bureau has an effective Administrative Control of Funds process that permits effective monitoring of budget information to support budget and finance requirements. Level 7 - Bureau has an effective Administrative Control of Funds based on access to information in the bureau’s financial systems and same data are used to report budget execution FACTS II information to the Department of the Treasury through a manual data submission process. Level 8 - Bureau has an effective Administrative Control of Funds relying on access to information in the bureau’s financial systems and budget execution FACTSII data is sent electronically to the Department of the Treasury through a bulk file upload. Level 9 - Bureau has an effective Administrative Control of Funds at Level 8 and analysis of budget execution projections are provided to senior management on a monthly basis.</p> <p style="text-align: center;"><i>Level 10 (Best Practice)</i></p> <p>Bureau has an outstanding Administrative Control of Funds processed in place monitored continually. Level 10 - Bureau has an effective Administrative Control of Funds that supports management needs at all times and can be demonstrated to support all management levels, OMB and Congressional information needs for expenditure and budgetary resource information through direct access to data in the finance systems.</p> <p><i>Note: A bureau would be rated at the lowest level that a metric applied.</i></p>

CRITERIA	DESCRIPTION	METRIC
6) Bureau head able to provide unqualified assurance statement as to systems of management, accounting, and administrative controls.	Maintain adequate internal control processes to reasonably assure compliance with laws and regulations.	<p style="text-align: center;">Levels 1-3 (Red)</p> <p>Bureau management control program needs improvement to ensure material weaknesses and non-compliance with laws and regulations issues are corrected in a timely manner.</p> <p>Level 1 = Bureau management control review program is functioning, but <u>all</u> material weaknesses and non-compliance issues are identified by <u>external</u> sources. Corrective action progress is inconsistent and most actions are not completed by planned target dates.</p> <p>Level 2 = Bureau management control review program is functioning, and <u>some</u> material weaknesses and non-compliance issues are identified <u>internally</u>. Corrective action progress is inconsistent and most actions are not completed by planned target dates.</p> <p>Level 3 = Bureau management control review program is functioning, and the <u>majority</u> of material weaknesses and non-compliance issues are identified <u>internally</u>. Corrective action progress is inconsistent and most actions are not completed by planned target dates.</p> <p style="text-align: center;">Levels 4-6 (Yellow)</p> <p>Bureau management control program is effective; consistent progress in correcting FMFIA material weaknesses and material non-conformances has been achieved; but mission critical FMFIA material weaknesses or multiple material weaknesses are pending.</p> <p>Level 4 = Bureau has an effective management control program and has FMFIA material weaknesses or material non-conformance with at least one designated as "mission critical" under the Department's Management Control Program.</p> <p>Level 5 = Bureau has an effective management control program and has FMFIA material weaknesses or material non-conformances but <i>none of which are designated as "mission critical"</i>.</p> <p>Level 6 = Bureau has an effective management control and any uncorrected FMFIA material weakness or non-conformance reported under the Department's Management Control Program requires regulatory or legislative changes to resolve.</p> <p style="text-align: center;">Levels 7-9 (Green)</p> <p>Bureau management control program is effective and good progress in correcting material weaknesses and non-compliance with laws and regulations issues has been achieved.</p> <p>Level 7 = Bureau has two FMFIA material weaknesses or non-conformance(s) reported under the Department's Management Control Program require regulatory or legislative changes to resolve.</p> <p>Level 8 = Bureau has one FMFIA material weakness or non-conformance reported under the Department's Management Control Program require regulatory or legislative changes to resolve</p> <p>Level 9 = Bureau has no FMFIA material weaknesses or non-conformance under the Department's Management Control Program for the current reporting period.</p> <p style="text-align: center;">Level 10 (Best Practice)</p> <p>Bureau management control program is effective and FMFIA material weaknesses and non-conformance issues are corrected prior to the end of the fiscal year in which they are identified.</p> <p>Level 10 - Bureau has had no FMFIA material weaknesses or non-compliance issues under the Department's Management Control Program, for 2 or more consecutive years.</p>

For additional copies of this report, please contact:

U.S. Department of the Interior
Office of Financial Management
1849 C Street, N.W.
Washington, D.C. 20240
202.208.4701 (Phone)
202.208.6940 (Fax)

This report is also available on the Internet at:
www.doi.gov/pfm

U.S. Department of the Interior
Office of Financial Management
<http://www.doi.gov/pfm>