

MD&A

Legal and Administrative Obligations



The whooping crane and piping plover are listed as threatened under the Endangered Species Act.

As populations grow in the West, water demands for agriculture, hydropower, municipal and industrial uses, recreation, and the environment continue to increase and cause conflict. By incorporating the varied water needs into our water and power operations, we can help avoid water use conflicts. We take a comprehensive approach to

decisionmaking as part of our ongoing water and power operation. As part of this overall approach, protecting water resources, such as preventing the spread of invasive species, is vital to our mission to “manage, develop, and protect water and related resources in an environmentally and economically sound manner.”

Meeting Natural Resources Legal Requirements

Reclamation continues to mitigate project impacts on wildlife habitat and implement conservation activities by:

- Addressing project impacts on fish and wildlife to ensure reliable water deliveries.

Protecting habitats and fish at our facilities complies with environmental regulations.



- Meeting Endangered Species Act requirements to protect and restore habitats and populations.
- Helping to avoid future listings of endangered species.

Reclamation is preparing a compliance handbook and promoting extensive training for our endangered species staff. This new guidance and training will lead to quicker, more efficient compliance with the Endangered Species Act.

Protecting habitats and fish at our facilities complies with environmental regulations. For example, we developed fish pump and fish screening technologies on the Tracy Fish Salvage Facilities and the Red Bluff Pumping Plant in California. These technologies were used in the newly constructed A Canal fish screen on the Klamath Project in southern Oregon in FY 2003. The fish screen facility is a key requirement of the U.S. Fish and Wildlife Service's biological opinion to recover endangered shortnose and Lost River suckers in Upper Klamath Lake. During a typical irrigation season, the A Canal transports nearly 250,000 acre-feet of irrigation water used on Klamath Project farms. If we had not developed these fish screens, water deliveries could be susceptible to cutbacks to prevent fish losses.

Reclamation continues to work with our partners through habitat joint ventures conducted under programs

such as the North American Waterfowl Management Plan, including the following examples:

- Working with the Yakama Nation to restore wetlands on the Yakama Reservation.
- Partnering with Ducks Unlimited, the Washington State Department of Fish and Wildlife, and the Intermountain West Joint Venture to create and enhance wetlands along the Winchester Wasteway in the Columbia Basin.
- Participating in a joint venture with the U.S. Fish and Wildlife Service and Ducks Unlimited to create a brood marsh at the Hansen Waterfowl Management Area as part of the Prairie Potholes Joint Venture in North Dakota.

We completed several ongoing FY 2002 projects with the National Fish and Wildlife Foundation in FY 2003. These projects help to improve habitat for Pacific salmon in California and also benefit steelhead trout.

The biggest challenges facing Reclamation's habitat preservation efforts are leveraging funding and attracting and sustaining partnerships.

Controlling Invasive Species to Preserve Water Quantity and Quality

Aquatic invasive species clog canals and waterways, causing widespread water delivery problems. Invasive plant species also consume large quantities of already limited water supplies—an average size salt cedar (tamarisk) consumes 300 gallons per day. Reclamation collaborates with other Federal agencies, State and local governments, and stakeholders and leads in developing integrated pest management procedures to control some of these species. Integrated pest management includes biological, chemical, and physical (mechanical and manual) controls; fire; and prevention through public awareness campaigns. Specific

In collaboration with the U.S. Department of Agriculture, State agencies, and other Federal agencies, Reclamation is working to eradicate salt cedar, which clogs waterways and results in irrigation water losses and power generation losses.



efforts to control invasive species in FY 2003 included:

- *Giant salvinia control.* Reclamation is working with partners in the lower Colorado River Giant Salvinia Task Force to use mechanical, biological, and chemical methods and a public education program to control the introduction and spread of giant salvinia in the Palo Verde Drainage of the Colorado River in California, and all of the lower Colorado River
- *Salt cedar control.* Control projects include pilot projects along the lower Colorado River corridor and below Pueblo Reservoir in Colorado. In addition, Reclamation started an aggressive salt cedar control program, the largest and most successful eradication program in New Mexico, along the Pecos River. Reclamation is planning two large-scale demonstration projects within New Mexico to control salt cedar. The Pecos River's McMillan Delta project will employ various methods to eradicate or control this invasive species over 3,600 acres. The second project, along the Rio Grande, will treat between 1,330 and 2,220 acres with herbicides or mechanical methods.
- *Herbicide research.* The Elephant Butte Field Division and a variety of State agencies, universities, and other Federal agencies are testing the effects of various concentrations of

herbicide on regrowth on salt cedar and tornillo.

- *Invasive plant species control.* Reclamation completed several projects to control hydrilla and water hyacinth in the Rio Grande River.

We will continue these types of research efforts and partnerships aimed at controlling invasive species and share the results with other appropriate entities. We are also studying ways to re-introduce naturally occurring plant species.

Controlling Salinity to Help Meet Water Quality Requirements

Under the authority of Public Law 93-320, Colorado River Basin Salinity Control Act, June 24, 1974, as amended, Reclamation's Colorado River Basin Salinity Control Program (CRBSP) reduces salt loading and maintains or improves water quality in the Colorado River. As salinity levels rise in the river, crop yields diminish, infrastructure becomes damaged, and water treatment costs increase. In response to the Clean Water Act, the seven Basin States established the Colorado River Basin Salinity Control Forum. The Forum developed salinity standards for the Colorado River. To meet these standards, Reclamation and our partners will need to prevent a total of 1.8 million tons of salt per year from entering the river system by 2020. Many Reclamation studies

have identified salinity control measures that help keep salt from entering the system. Determining which measures to use first is based on cost effectiveness (the cost to reduce salinity by 1 ton).

Reducing the amount of water applied to saline soils is the single most effective salinity control measure. Reclamation integrates the U.S. Department of Agriculture's (USDA) on-farm irrigation improvements with Reclamation's off-farm improvements. These efforts are extremely efficient at reducing salinity and improving water quality. Past projects averaged \$70 per ton of salt removed, but newer projects range from \$20 to \$35 for each ton of salt removed:

- The Hammond Project in New Mexico prevented more than 48,000 tons of salt per year (at \$21 per ton) from entering the river system.
- The Price-San Rafael Unit in Utah prevents more than 100,000 tons of salt per year (at a cost ranging from \$20 to \$32 per ton for individual projects) from entering the river system.

Each project Reclamation implements decreases the amount of salt that enters the river system. Reclamation projects now prevent about 800,000 tons of salt from entering the river system each year. The program needs to add enough new salinity control projects to



Irrigation improvements, such as this one at the Hammond Project in New Mexico, reduce salinity and improve water quality.

prevent more than 1 million additional tons from entering the river system.

The CRBSP has effectively reduced peak salinities. However, average salinities are still more than double natural historic levels from agricultural activity and climatic variation in rainfall and snowmelt runoff. Since 1996, the program has been made available to the general public through annual competitive

procurement techniques and established Federal regulations. Reclamation and USDA's Natural Resources Conservation Service continue to investigate various methods to reduce average salinities, including:

- Improving both on-farm and off-farm delivery system improvements such as lining canals, laterals, and ditches.
- Examining and treating seep springs contaminated with high salt concentrations with evaporation ponds.
- Using collected saline water in industry processes to prevent it from entering the river system.

Reclamation has started salt routing studies to estimate future salinity trends at Hoover, Parker, and Imperial Dams. Reclamation will continue to partner with the Colorado Basin States and the associated forum to meet target salinity removal objectives.

Serving Native American Communities

Indian reservations continue to lag behind the rest of rural America in terms of water resources development, with many reservations lacking an adequate water supply infrastructure to ensure the health and safety of reservation populations and provide a base for economic development. Many Indian reservations have high poverty rates and other associated problems. Without adequate basic reservation infrastructure, the goals of tribal sovereignty and self-determination cannot be fully realized. While Reclamation cannot

GPRA Goal for Removing Colorado River Salt

Annual Goal/Performance Measure: In FY 2003, improve water quality in the Colorado River Basin by adding new projects to control additional tons of salt at a cost not to exceed \$50 per ton.

Performance Indicator: Tons of salt removed at a cost less than \$50 per ton.

Annual Target	Results	Goal Status
25,000 tons	30,393 tons	Exceeds target

Data Source: Contract agreements, reports, and monitoring results.

Goal Notes: In FY 2003, 30,393 tons of salt were removed at a cost of approximately \$33 per ton. The target was exceeded due to more continued advancements in removal technologies. The target of 25,000 tons of salt removed at a cost of no more than \$50 per ton was established in cooperation with the seven Basin States with the terms and conditions of the program established in a report to the Congress as required by Public Law 104-20. The program now exceeds the established annual target because it has focused on the most cost-effective projects, which are being awarded first. A time will come when the program will have to concentrate on more expensive projects, which will bring actual accomplishment into alignment with the long-term target of 25,000 tons of salt removed at no more than \$50 per ton.

Interior has developed a new strategic plan for FY 2003-FY 2008 that contains this measure in a slightly revised form.

alone solve the problem of inadequate tribal water supply infrastructure, it can help tribes within Reclamation States with the development, protection, and management of their water resources.

Reclamation's Native American Program provides technical assistance to Indian tribes to develop and manage their water resources through direct participation, training, and partnering. More information is available at our Native American Program Web site (<<http://www.usbr.gov/native>>). During FY 2003, Reclamation provided tribes with:

- *Technical Assistance.* Assistance to Native Americans included about \$160 million to plan, construct, and operate a variety of water resources projects. This amount includes the Native American Affairs Program's technical assistance to tribes for water resource development and management through direct participation, training, and partnering.
- *Water Rights.* Settlement assistance was provided in support of Secretary Norton's Indian water rights program goal of attempting to settle Indian water rights issues through negotiations rather than litigation, providing about

GPRA Goal for Assisting Tribes

Annual Goal/Performance Measure: In FY 2003, complete technical assistance activities that will increase tribal opportunities to develop, manage, and protect their water resources.

Performance Indicator: Number of technical assistance activities completed.

Annual Target	Results	Goal Status
47	50	Exceeds target

Data Source: Agreements.

Goal Notes: Assistance activities mainly include water measurement and irrigation planning.

Interior has developed a new strategic plan for FY 2003-FY 2008 that does not contain this measure in its present form. This measure will be discontinued in FY 2004.

\$1 million in funding, technical assistance, and other assistance.

- *Education.* Efforts to assist Indian college students included providing about \$700,000 in funding for scholarships, technical training, and graduate degree assistance to college students in areas such as natural resources, law, and technical disciplines.

Commissioner John Keys joins Teresa Showa, Water Users Association President, at Ganado Irrigation Water Conservation Project.

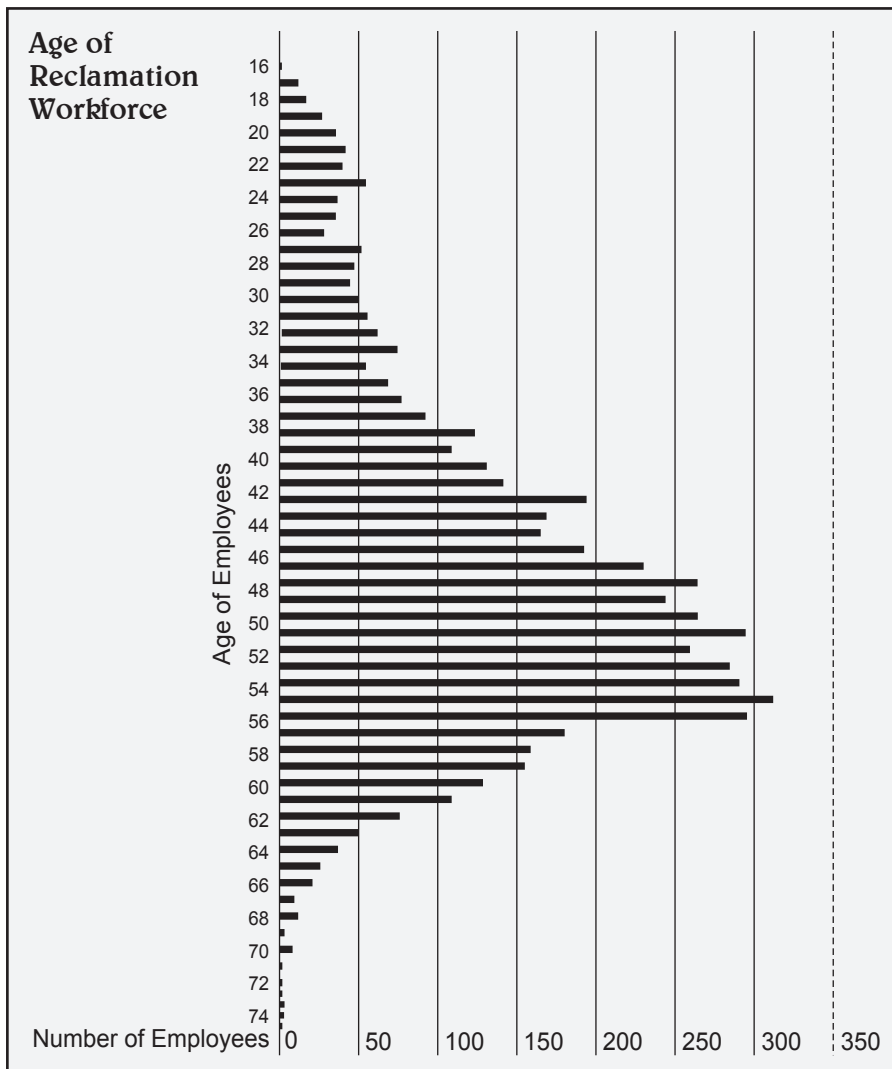


Signing of Memorandum of Understanding by Peterson Zah, Arizona State University, and Commissioner Keys to fund Native American students attending Arizona State University College of Law.

Managing to Perform Our Mission More Effectively

Reclamation is improving management and performance and ensuring financial accountability. *The President's Management Agenda* outlines the vision for Government reform. Three principles guide the President's vision for Government reform. Government should be citizen centered rather than bureaucracy centered, results oriented, and market based. The agenda presents a plan for improving the following five key management areas.

This graph further illustrates the challenges of our aging workforce.



Managing Human Capital to Maintain a Quality Workforce

As a world leader in developing and managing water resources, we need a world-class workforce. Reclamation's highly competent and skilled staff of about 6,000 employees operate and maintain our vast water and power infrastructure, manage and support our technical programs, and address financial, acquisition, IT, and business management challenges.

However, many of these highly skilled employees are becoming eligible for retirement in increasing numbers. About 37 percent of Reclamation's workforce will be eligible for retirement in the next 5 years. Reclamation is planning ahead to help ensure we have the workforce needed for the many challenges of the 21st century.

Planning for tomorrow's workforce

Reclamation is formulating a plan for the next 5 years to supply the workforce we need. Our goal is to continue to meet our recruitment, diversity, and retention needs with increased efforts where we are experiencing difficulty recruiting and retaining people. Reclamation's management will review this plan each year to address changes in the workforce, demographics, and work priorities when planning work and budgets.

The following are some of the many challenges that face our workforce.

- Increasing levels of retirement eligibility and anticipated increases in attrition due to retirement plan portability may lead to a significant loss of knowledge.
- Shrinking numbers of entry-level professionals from United States universities and increased job market competition mean a smaller labor pool. Obtaining the appropriate balance of skills and needed expertise in critical areas such as civil engineering, mechanical engineering, biological sciences, project management, and financial management will be more difficult.
- Reclamation's mission to deliver water and hydroelectric power is concentrated in the 17 Western States. Census demographics indicate the future workforce will encompass a more diverse population. These demographics also indicate the fastest growth in population took place in the West, which includes the largest and fastest growing minority population. Accordingly, recruitment strategies will include a focus on this changing and growing labor force.
- Competitive sourcing efforts may impact employee morale. (See our section on competitive sourcing.)
- Retention of employees, especially retention of women, continues to be an issue warranting continued monitoring and further attention by management officials.

Meeting tomorrow's workforce needs

A variety of recruitment and retention techniques have been utilized to attract and retain highly qualified and diverse candidates. In FY 2003, many steps were taken to meet our future workforce needs.

- One of our most successful programs is the Student Career Employment Program (SCEP) and companion Student Temporary Employment Program (STEP), which will continue to help Reclamation meet future workforce needs by bringing college students to the worksite in a training capacity. Reclamation currently has 83 SCEP students and 203 STEP students. Of the 83 SCEP students, 41 percent are studying engineering, 8 percent are studying the biological sciences, and 6 percent are studying information technology.
- Greater use of high school, vocational, and 2-year school SCEP appointments will attract, develop, and promote a diverse



Reclamation employees tackle a wide variety of jobs including diving and water safety.

workforce for meeting both short and long-term blue-collar, clerical, technical, and administrative workforce succession needs. Historically and presently, SCEP appointments have represented 4-year institutions.

- Collaborative approaches with diverse groups and minority-serving institutions were developed to increase effective recruitment sources.
- An agency-wide Outreach and Recruitment Team will continue to assist Reclamation in hiring qualified diverse candidates. The team uses up-to-date tools, including a recruitment brochure, an exit interview survey, a recruitment Web site, partnership agreements with minority-serving educational institutions, an annual outreach/recruitment calendar, and coordinated recruitment efforts.
- To improve our workforce, individual development plans (IDP) align employee skills, needs, and individual professional goals with Reclamation's mission and vision. An IDP helps the employee and supervisor work together to form a personal action plan that incorporates goals for Reclamation, the supervisor, and the employee. IDPs improve employee retention and morale, increase an employee's level of commitment to the organization, and help supervisors and managers forecast training costs and needs.
- Strategies were developed to train management on procedures

for creating knowledge, skills, and abilities, and guidance was provided on the availability of appointing authorities and other hiring flexibilities.

These and other actions will help ensure that our employees have the knowledge, skills, and abilities to be able to create solutions to meet water demands, facilitate collaboration and cooperation, and develop new technologies. Through aggressive outreach and recruitment efforts, the 21st century workforce Reclamation attracts will be highly skilled, diverse in its composition, and committed to long-term public service.

Diversity accomplishments

In addition to meeting its GPRA goal to improve workforce diversity, the data indicates the population change of women and minorities increased from the 1999 baseline by approximately 10 percent and that Reclamation's cadre of Senior Executive Service employees is one of Interior's most diverse executive teams. FY 2003 marks the fourth consecutive year that Diversity Awards were presented by the Commissioner at the annual Managers Conference, recognizing accomplishments in the advancement of diversity.

Expanding E-Government to Facilitate Access to Information and Services

More and more citizens reach for their computers to access

GPRA Goal for Workforce Representation

Annual Goal/Performance Measure: By the end of FY 2003, Reclamation showed an improvement in the workforce population as compared with the diversity of these occupations in the relevant civilian labor workforce from a September 30, 1999, baseline.

Performance Indicator: Percent increase in diverse employees.

Annual Target	Annual Results	Goal Status
10.00 percent	9.98 percent	On target

Data Source: Equal Employment Opportunity Reports.

Goal Notes: By the end of FY 2003, the population percentage change in the diversity of the permanent workforce was +9.98 percent. Minorities were +6.84 percent; White women were +3.14 percent, resulting in an overall change of +9.98 percent. This percentage change covers all occupations. Reclamation had a net gain of 160 permanent employees (started with 5,447 as of September 30, 1999, and ended with 5,607 as of October 1, 2003). A retention study is an action item in Reclamation's 2002-2004 Affirmative Employment Plan. Other strategies include a Reclamation-wide "corporate approach" to outreach and recruitment; a recruitment Web site; a recruitment brochure; partnership agreements with minority-serving institutions; advertisements in minority publications; an annual outreach and recruitment calendar; increased usage of human resource tools like recruitment, retention, and relocation bonuses; and various other efforts improve diversity.

information. We provide information in many areas, from reservoir water levels and instream flows to crop use data and water conservation. Reclamation is expanding E-Government to make it easier and more efficient for citizens, customers, stakeholders, and partners to access Government information and services.

Easy information access is only part of the story, as Reclamation facilities and staff depend on efficient information technology. Having an overall integrated approach to information technology across the Federal Government improves IT performance by avoiding piecemeal, redundant processes and providing more effective solutions. Planning for future needs and new technological advances allows Reclamation to strategically invest in infrastructure, automated procedures, and technology.

Reclamation is on schedule to achieve the E-Government goals in *The President's Management Agenda*. We are complying with E-Government and the Government Paper Elimination Act requirements to facilitate access to services and information; some highlights follow.

Providing one-stop recreation information to serve the public

Reclamation is helping update the Recreation One-Stop Web site to support the President's E-Government initiative (see <<http://www.recreation.gov>>). Our facilities are fully represented and continuously updated with new information. Reclamation is updating our Recreation Areas Map, which shows 300-plus recreation areas on our projects with information on available recreation facilities and contacts.

A new look provides easy access to our information and services.



Enhancing public access

Reclamation has revamped our web presence to present a common look and feel, increase the information and services online, and improve the quality of the information presented. For example, we have posted a variety of forms, such as Reclamation Reform Act forms and Right-of-Use Data applications. You can find the latest news releases and search older releases in our new Reclamation-wide newsroom (<<http://www.usbr.gov/main/news/>>).

Government-wide sites help serve the public by providing one easy-to-access place. We add and maintain information and help fund and improve procedures for uploading and accessing information. Sites include:

- FirstGov.gov (<<http://www.firstgov.gov/>>). This

official United States gateway can search all Government information.

- Recreation.gov (<<http://www.recreation.gov/>>). This site provides recreation information, including maps, facility descriptions, and activities offered at most Federal facilities.
- Volunteer.gov (<<http://www.usafreedomcorps.gov/>>). This site lists volunteer opportunities at Federal agencies.
- Geospatial One-Stop (<<http://www.Geo-One-Stop.gov/>>). This site makes it easier, faster, and less expensive for all levels of government and the public to access geospatial information.



Find information about our facilities on Project Dataweb at <http://intranet.usbr.gov/dataweb>.

Improving performance and efficiency

Reclamation is also cooperating with Interior to develop and implement the Interior Enterprise Architecture. This will provide an overall approach to identify and address technology needs.

Secure electronic data exchange between Reclamation and some water and power customers helps provide time-sensitive information to facilitate more efficient operations. For example, we work with irrigation districts to precisely schedule water deliveries.

Reclamation uses Fed Biz Ops/Commerce Business Daily online ([http:// fedbizopps.cos.com](http://fedbizopps.cos.com)) for our procurements and contracts. Vendors can now go to one

consolidated location for all Government business opportunities.

Enhancing strategic value

Reclamation uses information technology to communicate between our offices, other Government agencies, our partners, and our constituents. Reclamation uses E-Government processes and technology to support mission goals and facilitate cooperation and communication with partners and stakeholders. In FY 2003, Reclamation:

- Developed business cases for all of Reclamation's information technology systems in an electronic format. Business cases for major systems (Exhibit 300s) include information on how the system contributes to mission accomplishment, how it

operates, how it is funded, what risks are involved, and how the system fits into Reclamation's overall business architecture. Major system business cases were also submitted electronically to the Office of Management and Budget (OMB) as part of the FY 2005 budget process.

- Performed an internal assessment of information technology capital planning business processes using the General Accounting Office's IT Investment Management self-assessment tool. We will use this tool to continue improving IT capital planning processes within Reclamation.

providing commercial activities. Competitive sourcing evaluates work requirements to determine whether it is a better value to have the Government or private sector perform the work. The administration has committed to:

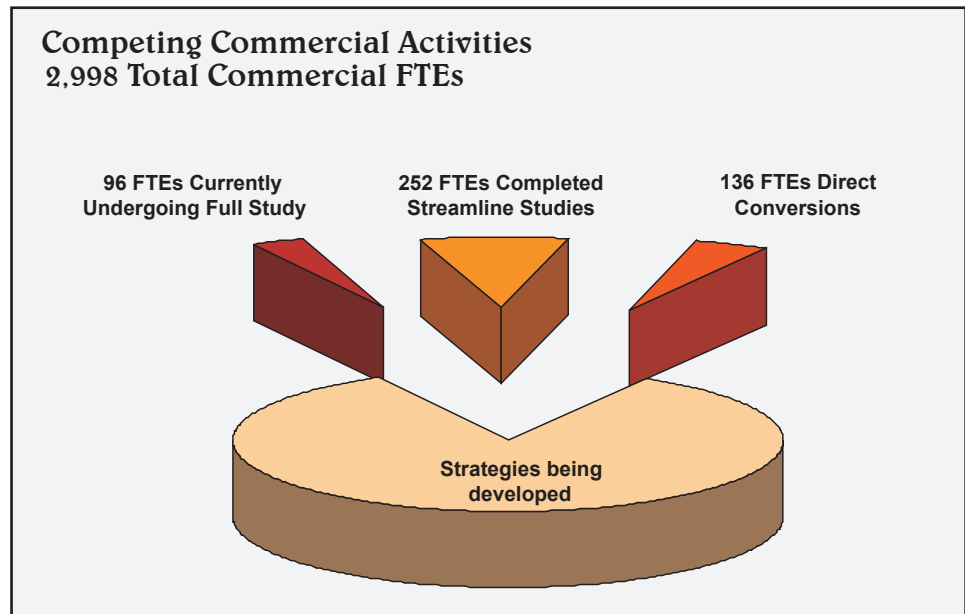
- Simplifying and improving the procedures for evaluating public and private sources.
- Better publicizing the activities subject to competition.
- Ensuring senior level agency attention to the promotion of competition.

The Office of Management and Budget Circular A-76 provides policy and guidance for identifying commercial activities and determining whether these activities should be provided by the private sector. The Federal Activities Inventory Reform (FAIR) Act directs Federal agencies to submit an inventory each year of all their activities that are performed by Federal employees.

Using Competitive Sourcing to Obtain the Best Value

The President's Management Agenda focuses on competitive sourcing to make the Government more efficient and obtain the best value in

Reclamation is continuing to meet *The President's Management Agenda* initiative for competitive sourcing goals.



We submitted our 2003 FAIR Act inventory on time. Interior used our inventory as an example for other bureaus. To ensure inventory consistency, we used established guidelines for commercial (work readily available from the private sector), commercial core (mission critical work), and inherently governmental functions with examples that are specific to Reclamation's workforce.

We developed our competitive sourcing plans to determine which functions to compete for fiscal years 2002-2004 to meet the Administration's goals. We kept our mission at the forefront as the primary decision factor.

We have competed 25 percent of commercial activities to date. The Administration's goal is to compete 50 percent of all commercial activities with private sources, with 15 percent being completed by the end of FY 2003. Not only did we meet this FY 2003 goal, we exceeded the 2004 goal.

We use OMB Circular A-76, *Performance of Commercial Activities*, cost comparison processes to:

- Develop a performance work statement, which identifies the technical, functional, and performance requirements.
- Structure a staffing plan that represents the most efficient organization (MEO) of the in-house Government workforce.
- Compare the Government's estimate (bid) with any qualified commercial provider's bid.

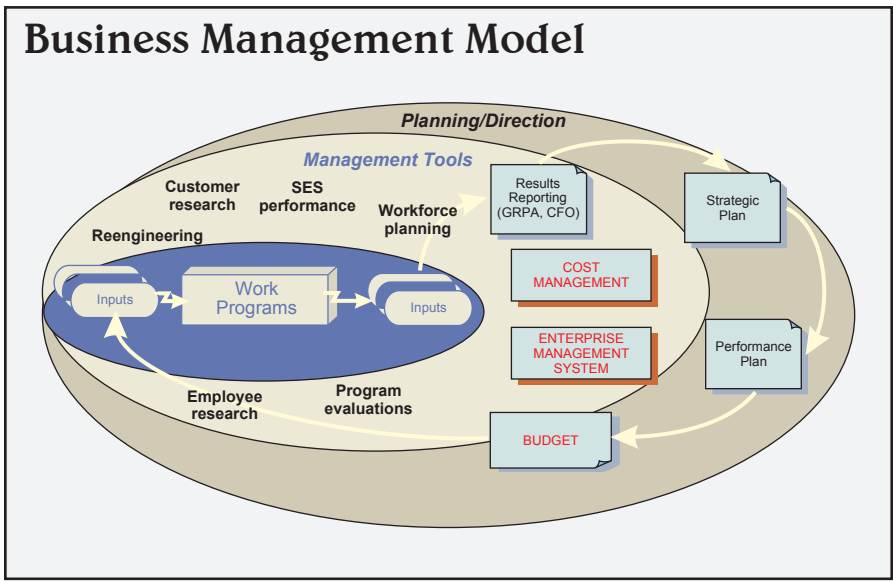
To accomplish *The President's Management Agenda*, we:

- Are currently conducting a full study of 96 positions with a tentative decision scheduled for December 2003.
- Completed four streamlined studies comprising 252 positions. Because the Government's estimates were within the range of commercial sources, the final decision for all four studies was to retain the work in-house.
- Directly converted 136 positions to contract with an estimated annual savings of \$800,000.

Reclamation is developing a strategy for determining functions to be competed in FY 2005-2008 and identifying staffing and funding needs. Reclamation has also received a "Best Practice" award from Interior for our actions in the competitive sourcing initiative.

Integrating Budget and Performance Analyses to Quantify Results

Integrating budget and performance analyses and reports is a key initiative in *The President's Management Agenda* as "improvements in the management of human capital, competitive sourcing, improved financial performance, and expanding electronic government will matter little if they are not



Interrelated elements provide the complete picture of organization performance to improve management decision.

linked to better results.” Budget and performance information are vital for overall management.

We develop, track, and report performance and relate that information to budget and cost data to demonstrate what was achieved with the resources provided. This integration links data and systems for budget, cost, and performance to paint a complete picture of what we are achieving, how much it costs to obtain these results, and what performance we expect for the resources provided. Meaningful performance goals form the foundation of budget and performance integration. Evaluating programs to determine their effectiveness is equally important in a budget-performance approach. We use this information to continuously improve our processes and programs.

Managing costs more effectively

Activity Based Costing (ABC) tracks what it costs to produce, rather than merely tracking costs such as staff, materials, and travel. This process quantifies the costs per unit produced (such as costs per facility operated). This provides an objective basis for comparison and analysis so decisionmakers can more effectively allocate resources. To help implement ABC in FY 2003:

- The Yuma Area Office participated in an Interior pilot effort to test ABC and identify issues and lessons learned.
- We developed the Interior ABC activities for water delivery and hydropower generation.
- We developed a training video and online material for our employees.

In preparing cost activities for FY 2004, we developed rules and guidance for coding ABC activities and prepared our systems to provide cost data. This will make cost information on each activity for FY 2004 available to Interior and Reclamation's managers for decisionmaking.

Assessing performance

OMB's Program Assessment Rating Tool (PART) is a systematic process for developing program performance ratings and then using that information to make budget

decisions. PART is comprised of assessment criteria on program performance and management. Each year, programs comprising approximately 20 percent of an agency's budget must be reviewed, using PART, with the goal of reviewing all programs within 5 years.

OMB felt Reclamation's Power Benchmarking Goals for forced outages and cost did not demonstrate improvements in program performance. During FY 2003, Reclamation made significant progress toward developing new long-term goals and re-evaluated the program under PART. We coordinated with the U.S. Army Corps of Engineers and the power marketing administrations to develop these goals to be consistent across agencies. The goals are to:

- Improve Reclamation's generating capacity by increasing the number of major power components that are rated in good or fair condition. The average age of Reclamation's generating units is over 45 years, and many unit components are already beyond their normal service life.
- Increase the already high availability of Reclamation's generating capacity during peak summer demand over the next 10 years by minimizing scheduled outages during these periods. This availability will increase the opportunities for generating additional power and providing system support.

Reclamation's power program (<http://www.usbr.gov/power>) has received an initial score of 92 out of 100, a 19-percent increase over its initial PART score of 77.

In FY 2003, Reclamation continued to assess our programs:

- *Research and development* (<http://www.usbr.gov/research>). The program finished restructuring in FY 2003 by involving our stakeholders and focusing on priority needs. The application of PART helped us recognize these improvements and that, overall, the program is well managed and has new long-term goals to measure the results of science and technology efforts and products. OMB gave Reclamation research programs an initial score of 90 percent. The Research Office also received the 2003 Denver Federal Executive Board's Legacy Award for Exceptional Productivity or Process Improvement.
- *The Power Program*. This program developed new long-term goals to measure results and was re-evaluated under PART. The Power Program scored 92 percent on the second evaluation.
- *The Title XVI Water Reclamation and Reuse Program*. The PART review for this program determined that Reclamation did not have well-established, long-term goals and the annual performance accomplishments were difficult to control because

local non-Federal sponsors implement projects and Reclamation does not control construction schedules. OMB requested that Reclamation develop an action plan to address these shortcomings in FY 2004, when the program will be reassessed under PART to evaluate the planned changes in program management. We are also developing a Web site to make it easier for our clients and the general public to track our progress in constructing projects and developing reclaimed water supplies.

- *The Rural Water Program.* The initial PART review for this program determined that this was not really a formal program; rather, it was driven by the Congress on a project-by-project basis. In FY 2003, Reclamation proposed to Interior that we develop a formal program and seek congressional authorization to make it an integral part of our water resources management strategy. After thorough analysis, Reclamation drafted proposed legislation to establish a formal program. This legislation is currently undergoing review by OMB.

We're using the results of these evaluations for our budget and planning for FY 2005.

Aligning senior staff performance agreements to organizational performance goals

For FY 2003, all senior executives had performance agreements that tie to both Reclamation's GPRA goals and *The President's Management Agenda* Scorecard. Through these performance agreements, senior executives will be evaluated on accomplishing specific performance targets to measure their contribution to organizational goals.

Integrating performance and cost data into future management decisions

In FY 2003, Reclamation further integrated budgeting and planning during our internal budget process for FY 2005 through coordination between the planning, budget, and program staff and managers. For the first time, regional and program offices demonstrated budget impacts on performance in the budget planning documents.

However, more progress is needed to meet the high standards in *The President's Management Agenda* for budget and performance integration. As such, we're working to develop a culture that effectively uses accurate cost and result analyses to promote effective water management. To do this, we will:

- Make goal development and performance review the first step in planning and integrating

goal development in budget and cost activities.

- Ensure performance information is useful and relevant to managers in their day-to-day work activities.
- Provide the necessary training to managers to help them realize the benefits of using performance information in their everyday processes.
- Continue to work with Interior to implement ABC and other budget and performance integration efforts, complete the strategic plan, and implement the Management Information System.

Improving Financial Performance to Provide Access to Cost Information

To support *The President's Management Agenda* on improving financial performance, Reclamation's financial goals include:

- Providing management with accurate and timely financial information to support operating, budget, and policy decisions.
- Improving financial and performance information integration (see our section on integrating budget and performance analyses to quantify results).
- Ensuring our audit information is fairly stated to achieve “unqualified” opinions from

auditors. (“Unqualified” opinions mean that Reclamation fairly stated our financial information with no exceptions.)

Developing Interior's financial management system

Reclamation works closely with Interior to improve financial processes and help consolidate information. Interior's integrated business management plan, *Transformation of Interior Financial Management*, will improve financial policy, processes, and systems and ensure proper workforce planning. This consistent approach will provide managers and employees with financial, performance, budget, and cost data that is timely and reliable. Decisionmakers, managers, and employees will be able to use this information to better serve our publics and perform our mission. This plan has many facets, including:

- *Financial and Business Management System.* This system will combine various data management systems into one overall system to link planning and budget data with information about performance and results (see our section on integrating budget and performance analyses to quantify results).
- *Reporting procedures.* New processes and procedures will allow monthly, quarterly, and annual reporting, analysis, and auditing to meet the November 15 report and audit date.

- *Policies.* Improving the process for issuing financial policies and procedures will help ensure consistency throughout Interior.
- *Performance measures.* These measures and quality control procedures will provide objective standards for evaluating our procedures.
- ▶ Provide reliable and timely financial data throughout the fiscal year.
- ▶ Achieve an “unqualified” opinion on annual financial statements.

Improving financial management in Reclamation

We are constantly improving the accountability, efficiency, and effectiveness of our financial information. For example, Reclamation has developed plans for our finance and accounting offices to better serve our customers and achieve the Administration's and Interior's objectives.

- Regional and central financial management offices use the *Financial Management Plan* to ensure a corporate perspective in addressing our financial responsibilities. This integrated approach helps us:
 - ▶ Determine Reclamation's financial management priorities.
 - ▶ Plan workloads and allocate limited funds and personnel.
 - ▶ Ensure financial policy is developed, implemented, and applied consistently.
 - ▶ Ensure corrective actions are taken to resolve outstanding issues identified in audits.

- The *Audit Management Plan* outlines our annual financial statement processes to facilitate communication and coordination between Reclamation's management, financial staff, the OIG, and the contractor audit.
- The *Financial Oversight Plan* establishes the process to evaluate the effectiveness of internal controls for financial management and the reliability and validity of Reclamation's financial information.

Reclamation successfully implemented these plans in FY 2003 and made significant progress addressing financial management issues, including:

- Developed and implemented new processes and procedures for quarterly and annual reporting to meet Interior's accelerated November 15 deadline for completing annual reports and audits.
- Contributed to developing and implementing a new Interior policy for accruals and a policy for property, plant, and equipment.

- Established priorities for Reclamation's financial management by working with all levels of management.

Since 1995, Reclamation has received an “unqualified” opinion on all reports issued, which demonstrates our strong commitment to accurate and timely reporting. To continue to achieve the President's and Interior's objectives for increased accountability, we will enhance our financial policies and procedures and work closely with Interior to develop the *Transformation of Interior Financial Management*. We will keep providing timely and useful information for management, the Administration, and the Congress for effective decisionmaking, and reliable and accurate information for the public and our partners to forge effective relationships.

Ensuring Management Integrity and Accountability

Maintaining management and financial integrity and accountability in all programs and operations:

- Is critical for good Government.
- Demonstrates responsible stewardship over assets and resources in our care.
- Ensures high-quality, responsible leadership.
- Ensures quality service to customers.

- Maximizes desired program outcomes.

Reclamation 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 Reclamation's mission and stated priorities.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decisionmaking at all levels.

Timely implementation of Inspector General and General Accounting Office audit recommendations is essential to improve efficiency and effectiveness in our programs and operations and to achieve integrity and accountability goals. We have instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset.

ASSURANCE STATEMENT

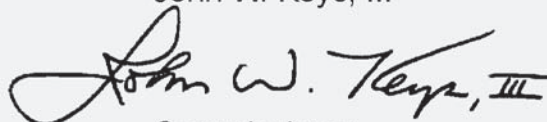
The Bureau of Reclamation has completed an assessment of its systems of management, administration, and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act and the Office of Management and Budget (OMB).

In performing this assessment, Reclamation relied on the knowledge and experience management has gained from the daily operation of its programs and systems of management, administration, and financial controls and information obtained from sources such as management control assessments, Office of Inspector General (OIG) and General Accounting Office (GAO) audits, program evaluations/studies, audits of financial statements, and performance plans and reports.

Based on the preliminary results of Reclamation's independent financial statement audit for fiscal year 2003, Reclamation can conclude that it is in substantial compliance with the U.S. Government Standard General Ledger at the transaction level as required by the Federal Financial Management Improvement Act (FFMIA). However, the auditors have concluded that Reclamation's financial management systems did not substantially comply with Federal financial management systems requirements and with Federal accounting standards. Reclamation does not concur with the auditors' conclusion. Reclamation asserts that its financial management systems are substantially in compliance with system requirements and accounting standards as required by FFMIA. Specifically, Reclamation meets the FFMIA compliance requirements as provided in the Office of Management and Budget OMB Memorandum, "Revised Implementation Guidance for the Federal Financial Management Improvement Act," dated January 4, 2001. Taken as a whole, Reclamation's financial management systems provide financial information which is complete, accurate, reliable, and consistently in accordance with Federal accounting standards.

Reclamation can provide reasonable assurance that it is in substantial compliance with OMB Circular A-130, *Management of Federal Information Resources*; OMB Circular A-127, *Financial Management Systems*; and Federal accounting standards. Reclamation is on track to correct, by FY 2005, the lands reconciliation material weakness on which the auditors have based their assessment that Reclamation is not in substantial compliance with accounting standards. Reclamation will develop and implement corrective action plans to resolve any reportable conditions, on which we concur, relating to information system security controls and applications and accounting and reporting standards identified in the fiscal year 2003 audit. Corrective actions will be targeted for implementation during fiscal year 2004 or as soon as feasible.

John W. Keys, III

A handwritten signature in black ink that reads "John W. Keys, III". The signature is written in a cursive, flowing style.

Commissioner

CFO Act Requirements

Reclamation's management is responsible for the integrity and objectivity of the financial information presented in the financial statements. The financial statements and supplemental schedules in this report reflect the financial position and results of operation of Reclamation pursuant to the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. While these statements have been prepared from the books and records of Reclamation, in accordance with generally accepted accounting principles, the statements differ from financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

To ensure the integrity of financial operations and ensure the accuracy of financial data, Reclamation's financial statements are audited by an independent, certified public accounting firm under contract with the Office of Inspector General. Reclamation's principal financial statements include:

- Consolidated Balance Sheet presents assets, liabilities, and net position.
- Consolidated Statement of Net Cost presents the gross costs or expenses incurred less exchange revenue earned.

- Consolidated Statement of Changes in Net Position presents the change in net position resulting from net cost of operations and changes in financing sources.
- Combined Statement of Budgetary Resources presents the budgetary resources available and the status of the budget resources.
- Consolidated Statement of Financing presents the reconciliation between the Consolidated Statement of Net Cost and the Combined Statement of Budgetary Resources.

Additional financial information is presented in the Required Supplementary Information, Required Supplemental Stewardship Information, and Other Supplementary Information sections of the report.

Reclamation's goal is to achieve an unqualified audit opinion on financial statements and to establish internal controls that comply with Federal Financial Management Improvement Act requirements. Unqualified audit opinions provide independent assurance to the public and other external users of our financial statements that the information being provided is reliable and accurate. Conducting financial statement audits and obtaining unqualified opinions:

- Ensures that quality data are provided to external parties and the public.

- Ensures that financial documents and records used by management can withstand the rigors of the audit process.

Moreover, the discipline required to produce audited financial statements demands that appropriate management attention be directed to improving financial management and complying with applicable laws and regulations. It also shows external parties and the public how Reclamation uses the resources provided by the Congress.

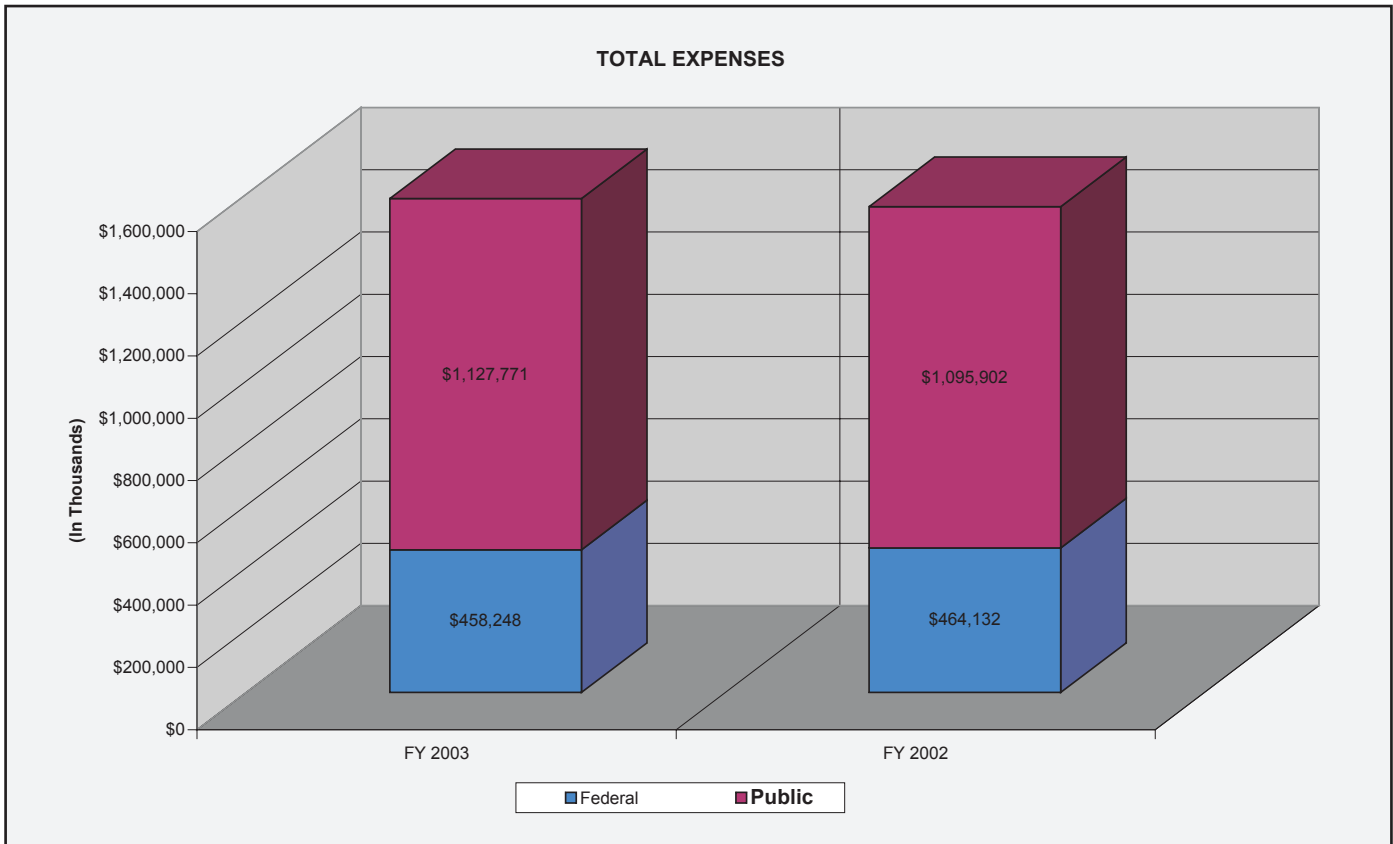
Analysis of the Financial Statements

Following is an analysis of the detailed financial statements found in the Financial Section.

Net cost of operations

Reclamation's Consolidated Statement of Net Cost reports the net cost of operations for our core mission, which is delivering water and power. Additionally, it reports the net cost of operating and maintaining Reclamation facilities and the support costs associated with all these activities.

Reclamation's total FY 2003 net cost of operations was \$797 million—an increase of \$7 million from the FY 2002 net cost of operations of \$790 million. For financial reporting purposes, the Consolidated Statement of Net Cost presents the costs of operations for seven major program segments. The graph showing Reclamation's total expenses portrays the proportions of Federal and public expenses: Federal portions represent monies



paid to other Federal agencies. The totals in the table are after intrabureau eliminations.

Reclamation's Consolidated Statement of Net Cost is divided into seven major program segments:

- The Water and Energy Management and Development program segment covers all aspects of managing water and energy resources, using and developing water supplies and energy resources, water conservation, and applied science and technology development.
- The Facilities Operations program segment includes operation of Reclamation projects.
- The Facilities Maintenance and Rehabilitation program segment ensures the reliability and operational readiness of Reclamation's storage reservoirs, distribution systems, powerplants, recreation facilities, and other federally funded investments.
- The Land Management and Development program segment involves work related to land resource administration, recreation management, and legal compliance.
- The Fish and Wildlife Management and Development program segment includes activities as required by Reclamation project law or other laws or regulations for conservation, enhancement, and

restoration of fish and wildlife populations and their habitats.

- The Policy and Administration program segment consists of activities for developing Reclamation policy and directing daily operations.
- The Centralized Program Support segment consists primarily of the Working Capital Fund (WCF), along with other incidental activities. The WCF provides centralized support and services for other segments within Reclamation. The Required Supplemental Information section contains further information on the WCF.

Water and Energy Management and Development, Facilities Operations, and Facilities Maintenance and Rehabilitation accounted for \$1.3 billion (81 percent) of the total FY 2003 expenses, adjusted for intrabureau activity, of \$1.6 billion.

Revenues

Exchange revenues (providing goods or services in exchange for money) earned by Reclamation are classified according to their appropriate program segments and are presented on the Statement of Net Cost to match these revenues with the associated costs. Primary examples of exchange revenues are those received from water and power sales, as well as revenue from services provided on a reimbursable basis to governmental and public entities. Exchange revenues are

recognized at the time goods or services are provided. The graph of revenues from the public and other Federal agencies' totals are after intrabureau eliminations.

The following bar graph shows revenues from the public and other Federal agencies.

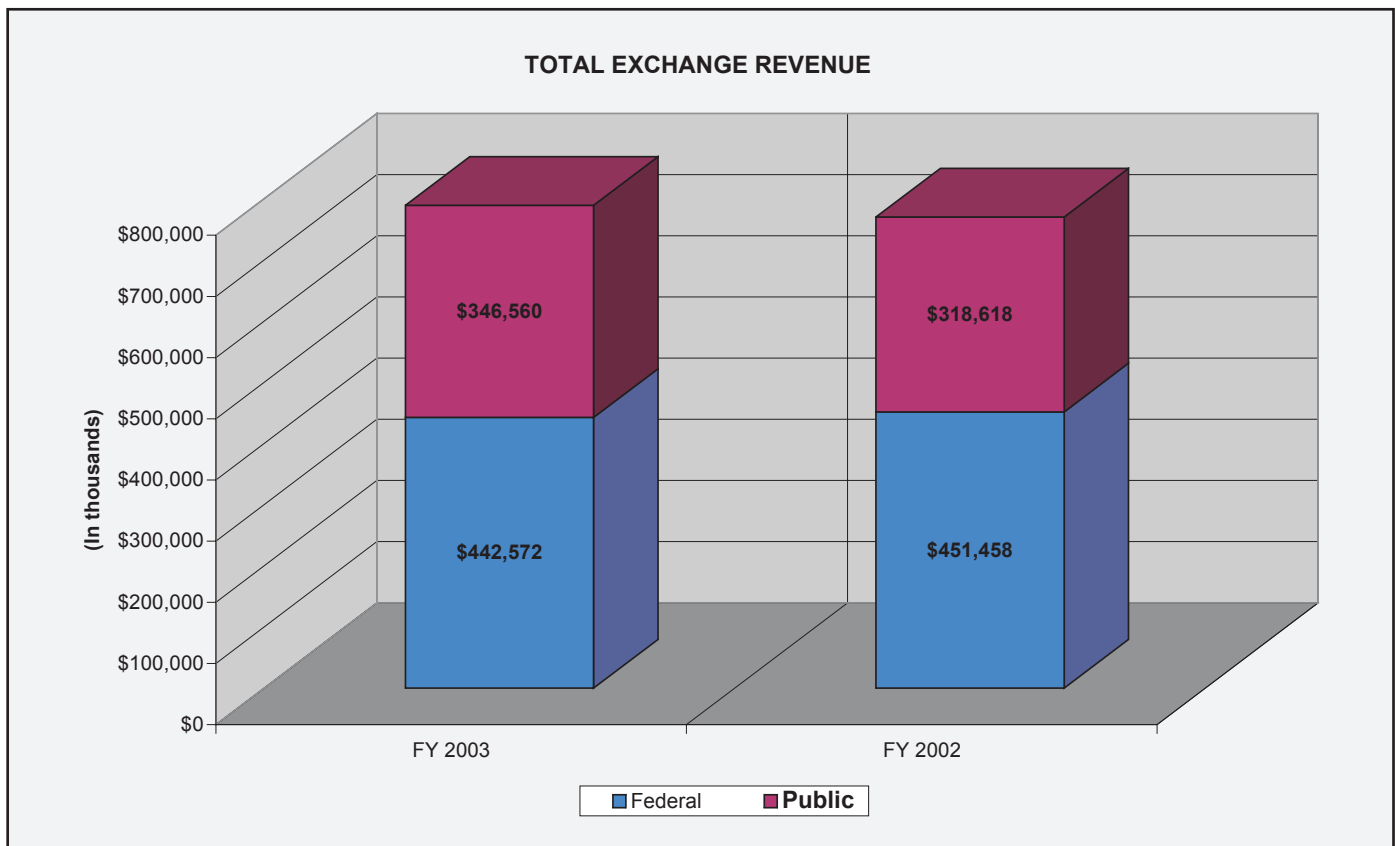
Budgetary resources

The Combined Statement of Budgetary Resources is included in this report as a principal financial statement. In FY 2003, Reclamation's total budgetary resources were \$2.3 billion, including carryforward of unused, prior year funding, as well as spending authority created by reimbursements from other Federal agencies and non-Federal entities.

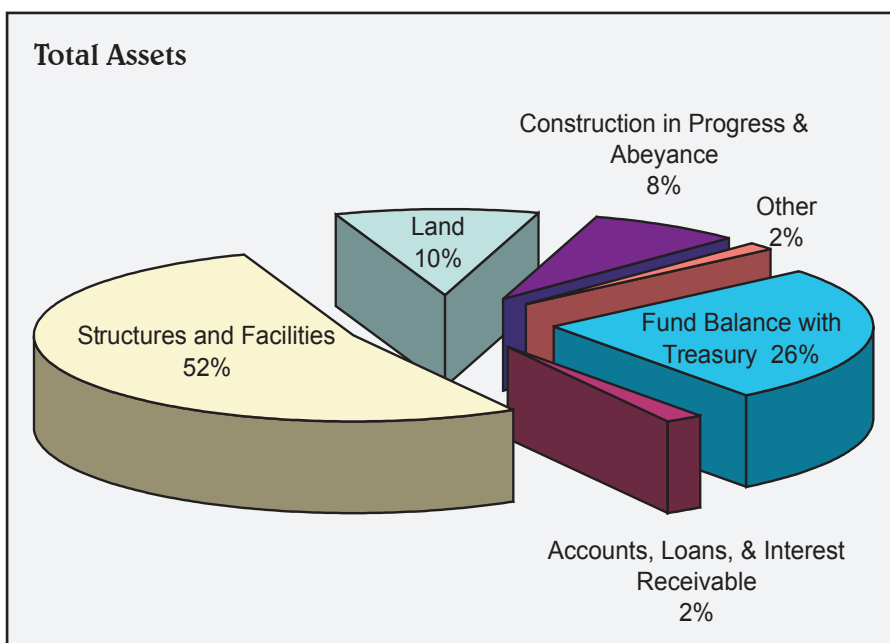
The more extensive report, the Combining Statement of Budgetary Resources, and more detailed budgetary information by major budget account is provided in the Supplemental Section of this report.

Assets

In the Consolidated Balance Sheet, Reclamation reported FY 2003 total assets of \$18.4 billion, a \$400-million increase from the \$18 billion reported in FY 2002. Reclamation accounts for approximately 80 percent of Interior's General Property, Plant, and Equipment (PP&E). The Fund Balance with Treasury of \$4.7 billion and the PP&E net value of \$13.1 billion comprise 97 percent of Reclamation's assets:



- The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. Also included in this balance is the Reclamation Fund (\$3.5 billion) and other unavailable (restricted) receipt funds.
- Reclamation's Property, Plant, and Equipment is reported as General PP&E in accordance with Federal accounting standards, as it is used in Reclamation's operations. The major General PP&E categories include Structures and Facilities, Land, Construction in Progress in Abeyance, Construction in Progress—General, Equipment, Vehicles and Aircraft, Buildings, and Internal Use Software. The General PP&E categories consist of diversion and storage dams; hydroelectric



powerplants; water conveyance facilities (canals, pipelines, siphons, tunnels, and pumps); recreational facilities; and associated buildings, bridges, and roads, as well as an inventory of related construction, maintenance, laboratory, and scientific equipment.

Type of Asset	FY 2003	FY 2002	Net Change
Fund Balance with Treasury	\$4,719,708	\$4,307,839	\$411,869
Property, Plant, and Equipment	13,055,281	12,977,850	77,431
Loans Receivable, Net	166,621	150,630	15,991
Accounts and Interest Receivable, Net	229,430	352,631	(123,201)
Other	192,533	223,334	(30,801)
Total	\$18,363,573	\$18,012,284	\$351,289

Liabilities

Reclamation is an agency of the executive branch of the United States Government, a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subjected to the enactment of appropriations.

Reclamation's Funded Liabilities are paid out of funds currently available

to Reclamation. Unfunded Liabilities consist primarily of environmental and legal liabilities that will be paid out of funds made available to Reclamation in future years. Funded and unfunded liabilities are listed in the notes to the financial statement.

Total liabilities of \$950 million are reported in Reclamation's FY 2003 Consolidated Balance Sheet, which is an increase of \$20 million from \$930 million in FY 2002. The table of net changes in liabilities shows the major categories for total liabilities.

Net Change in Liabilities (In Thousands)			
Type of Liabilities	FY 2003	FY 2002	Net Change
Debt	\$ 114,826	\$ 96,674	\$ 18,152
Advances and Deferred Revenue/Credits	295,562	266,044	29,518
Accounts Payable	239,604	226,224	13,380
Accrued Payroll and Benefits	60,471	69,310	(8,839)
Federal Employees Compensation Act Liability	93,468	83,377	10,091
Environmental and Contingent Liabilities	74,904	115,856	(40,952)
Judgment Fund Liability to Treasury	48,798	48,797	1
Other	22,319	23,568	(1,249)
Total	\$ 949,952	\$ 929,850	\$ 20,102